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Applying ESG Framework in Human Capital

BY EDUKARIR

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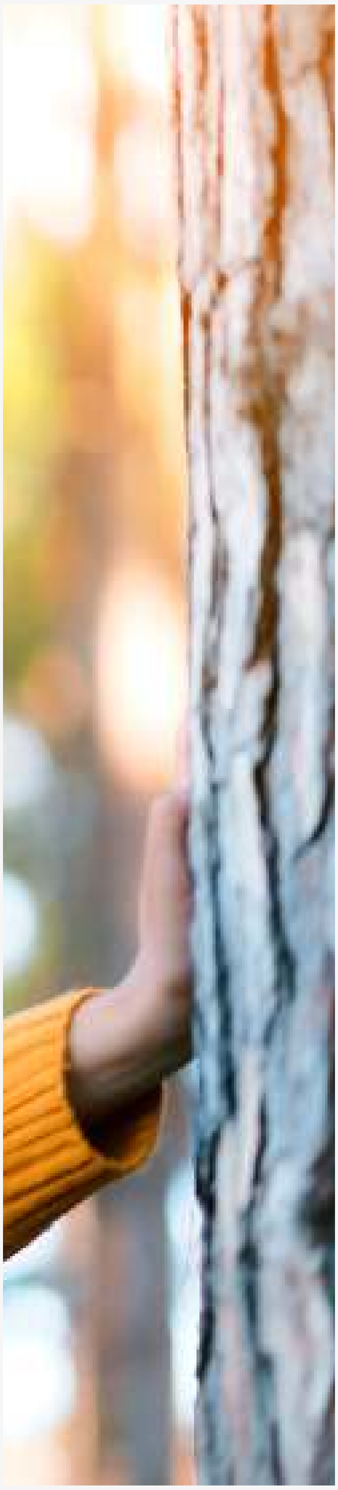
Foreword



The connection between human capital and ESG is getting more relevant now compared to decades ago. Generally, businesses view ESG as a compliance and regulatory necessity compared to human capital transformation. Whilst compliance is deemed necessary, the connection between ESG and Human Capital is no longer disputed.

For internal business operations, ESG has a strategic role. The link between ESG and HR links ethical principles, Corporate Social Responsibility (CSR) Good Corporate Governance (GCG), and HR functions, creating a map to sustainability. HR personnel might use daily tools to support and embed sustainability, such as engagement techniques, which is focused on an open and transparent communication style, while promoting ESG-friendly change of mindset and behavior.

Tracking the “S” isn’t as quantitatively cut and dry as monitoring carbon emissions, so setting goals right from the start is essential. For example, measuring employee engagement does not only entail quantifying the number of results or revenue, but also the need for employers to project expected result, in terms of increased employee engagement, better financial and mental outputs, and greater loyalty or increased productivity. It is a way of proving what we all know to be true: Doing good is good for business.

Similarly, improving HR leaders’ knowledge about the connection between ESG and businesses is also paramount. It is the human capital that can mainstream ESG into the overall business process. Thus, developing sensitivity towards ESG risk indicators for the human capital to anticipate it in the business continuity, investment plan, and due diligence is also a significant determinant. The success of the ESG implementation requires leadership commitment and most importantly, the commitment from the HR leaders to transform not only the product and line of businesses, but also the human capital.

Lenny Hidayat
Edukarir Strategic Advisory

Reference:
Stubbing, H. W. (2022). The ‘S’ in ESG: What HR leaders need to know. Forbes. Retrieved from https://www.forbes.com/sites/forbeshumanresourcescouncil/2022/07/08/the-s-in-esg-what-hr-leaders-need-to-know/?sh=4640419531d2

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ESG At a Glance

“Environmental, Social, and Governance”, or ESG, is an acronym for the three primary sustainability measurement factors. ESG is frequently utilized in business as a crucial criterion for choosing investments and as a point of reference for businesses to report the impacts of their operations. ESG factors have quickly taken center stage as more investors, regulators, and other stakeholders increasingly strive to conduct business in a way that positively contributes to resolving these issues. These challenges include climate change, ethical supply chains, environmental harm, and global welfare. As a result, ESG is now a widely accepted factor to take into account when making investment decisions, and it is progressively taking center stage on business strategic and operational agendas.

Reference:

Indonesia Capital Market. (2022). ESG capital market: What is ESG. Retrieved from https://esg.idx.co.id/what-is-esg

Indonesia Capital Market. (2022). ESG capital market: Rise of ESG investment. Retrieved from https://esg.idx.co.id/rise-of-esg-investments

Indonesia Capital Market. (2022). ESG capital market: Benefits of ESG. Retrieved from https://esg.idx.co.id/benefits-of-esg

ENVIRONMENTAL

Business consider how their operations impact the environment and how they might actively engage as environmental stewards.

SOCIAL

Businesses consider their reputation and relationship with stakeholders, such as local communities, suppliers, customers, employees, and affiliated parties, and how they can create positive impacts on their conditions and welfare.

GOVERNANCE

Businesses adhere to good governance standards to retain their viability.

Following the Government of Indonesia's announcement that it will commit to achieving the 17 UN Sustainable Development Goals by 2030, ESG has quickly gained prominence in Indonesia. The United Nations Sustainable Development Goals (SDGs) aim to achieve sustainable development by 2030 by eradicating poverty, conserving the environment, and guaranteeing that everyone lives in peace and prosperity. The Government of Indonesia has formally reaffirmed its commitment and made achieving the 17 SDGs a national priority involving all layers of Indonesian society, including the business and economic sector, through the publication of "Roadmap of SDGs: Indonesia" by the National Planning Agency (Bappenas).

The UN's latest Agenda states that the action plans to achieve sustainable development by 2030 can be categorized into the following 5Ps:

PEOPLE

Determination to end poverty and hunger to ensure that all human beings can fulfill their potential in dignity and equality and in a healthy environment.

PLANET

Determination to protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources, and taking urgent action on climate change, so that it can support the needs of the present and future generations.

PROSPERITY

Determination to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social, and technological progress occurs in harmony with nature.

PEACE

Determination to foster peaceful, just, and inclusive societies which are free from fear and violence. There can be no sustainable development without peace and no peace without sustainable development.

PARTNERSHIP

Determination to mobilize the means required to implement this Agenda through a revitalized Global Partnership for Sustainable Development, based on a spirit of strengthened global solidarity, which is particularly focused on the needs of the poorest and most vulnerable with the participation of all countries, all stakeholders, and all people.

ESG Importance in Human Capital

The COVID-19 pandemic has made environmental, social, and governance (ESG) issues higher priorities for policymakers, boards, and executives. ESG metrics and a model to not only manage organizations in achieving a positive impact on society and the environment, but also enhance long-term business performance, mitigate risk, and create value are in demand.

ESG factors are often relegated to investor relations, including all stakeholders. Furthermore, ESG performance will become increasingly important when **attracting and retaining employees**. It is a serious consideration when the pandemic situation makes organizations hard to find and keep top talent. Therefore, now is the time for all HR leaders and teams to **take the role in addressing ESG** due to the reasons above.

Reference:
Graves, P. (2022). The important role HR plays in ESG strategy. Retrieved from https://www.forbes.com/sites/forbeshumanresourcescouncil/2022/08/25/the-important-role-hr-plays-in-esg-strategy/?sh=7191fd3f49eb
World Economic Forum, (2021). Human capital is the key to a succesful ESG strategy. Retrieved from https://www.weforum.org/agenda/2021/09/human-capital-is-the-key-to-a-successful-esg-strategy/

Human capital is critical to ESG success because numerous stakeholders demand changes. These stakeholders demand accountability and transparency on financial exposure to risk, opportunities, and governance related to human capital. To date, 51% of 500 companies in the US utilized **ESG metrics** to reward executives in their annual incentives. The ESG metrics include succession planning, talent development, DEI, employee engagement, and culture.

	ENVIRONMENT	SOCIAL				GOVERNANCE
		PURPOSE	WORK	PEOPLE	TOTAL REWARDS	
INTEGRATED THEMES	WELL-BEING					
	DIVERSITY, EQUITY & INCLUSION					
	EMPLOYEE EXPERIENCE (EX)					
	OPERATIONAL EXCELLENCE (OX)					
FOCUS AREAS	ENVIRONMENTAL FOCUS AREAS	PURPOSE FOCUS AREAS	WORK FOCUS AREAS	PEOPLE FOCUS AREAS	TOTAL REWARDS FOCUS AREAS	GOVERNANCE FOCUS AREAS

Organizations must align their effort in defining, developing, and implementing the metrics with their business strategy, company purpose, and work culture while applying the ESG framework within. Organizations must integrate ESG metrics into performance and executive incentive plan to make substantive change. Thriving organizations must put ESG principles in their human capital management strategies. The added emphasis on organization and financial sustainability provides opportunities to perform the market, manage risk, and drive shareholder value.

Environmental Aspect of ESG in Human Capital

MOVING TO A MORE STRATEGIC GREENER APPROACH IN THE HUMAN CAPITAL

PUTTING THE ENVIRONMENTAL ASPECT OF ESG IN HUMAN CAPITAL PRACTICES

Decent jobs and companies are now becoming more environmentally conscious of achieving sustainable impact in the future. Various literature has also linked ecological sustainability with human capital in the long run. Aside from marking the importance of considering the environmental aspects, human capital is also stated to be a determinant of environmental well-being which is shown in its correlational relationship with ecological footprints. Taking into account Indonesia's landscape profile that provides large enough green space to supply the world's oxygen, human capital plays a pivotal role more than ever in preserving nature by implementing green practices in organizations.

A study in Indonesia also concluded that using the ARDL approach in analysis, the long-term human capital and natural resources have a negative relationship with CO_2, while economic growth and infrastructure development have a positive relationship with CO_2. A study in Indonesia also concluded that using the ARDL approach in analysis, the long-term human capital and natural resources have a negative relationship with CO_2, while economic growth and infrastructure development have a positive relationship with CO_2.

Reference:

Ganda, F. (2022). The environmental impacts of human capital in the BRICS economies. Journal of the Knowledge Economy, 13(1), 611-634.

Gnangoin, T. Y., Kassi, D. F., Edjoukou, A. J. R., Kongrong, O., & Yuqing, D. (2022). Renewable energy, non-renewable energy, economic growth and CO2 emissions in the newly emerging market economies: The moderating role of human capital. Frontiers in Environmental Science, 1657.

Harnani, S., Widarni, E. L., & Bawono, S. (2022). The role of human capital in natural sustainability and economic growth in Indonesia A dynamic ARDL approach. Tamansiswa Accounting Jurnal International, 5(1), 28-28.

Kim, D., & Go, S. (2020). Human capital and environmental sustainability. Sustainability, 12(11), 4736.

Lan, J., & Munro, A. (2013). Environmental compliance and human capital: Evidence from Chinese industrial firms. Resource and Energy Economics, 35(4), 534-557.

Porreca, Z. (2020). Environmental sustainability and human capital development. Consilience, (22), 48-57.

Yildiz, T., Arslan, Ü., & Çeliköz, Y. S. (2022). The relationship between human capital and environmental destruction: the case of European countries. Agricultural and Resource Economics: International Scientific E-Journal, 8(1868-2022-402), 187-203.

To help achieve a greener business practice, below are some of our findings and analysis of what human capital can bring into the organization regarding ESG implementation:

- Human capital is an important driver in enforcing environmental management efforts and compliance. Human capital has the capability to adapt to the effects of energy consumption and mitigate the negative impact of consumption. To help push the adoption of environmentally friendly technologies in the companies, the human capital department must start considering taking a more strategic position in the organizations to influence the day-to-day business decisions in raising awareness and putting more emphasis on green investment. The human capital department might, for example, suggest incorporating environmentally-conscious regulation in the company policy or engaging human capital in training and technical extension programs on the environment.

- The human capital department could take its role as an agent of change and employee champion (see the Ulrich HR Model) by working together with other departments to find optimal solutions in adopting new technologies that abate carbon emissions and choose vendors that have better environmental performance.

- Hiring people with higher education was revealed to be more sensitive to surrounding environmental quality, hence are more likely to engage in community activities that promote green business practices and make an effort to persuade manufacturers to alleviate the detrimental effects in the production process.

Reference:
Ganda, F. (2022). The environmental impacts of human capital in the BRICS economies. Journal of the Knowledge Economy, 13(1), 611-634.
Gnangoin, T. Y., Kassi, D. F., Edjoukou, A. J. R., Kongrong, O., & Yuqing, D. (2022). Renewable energy, non-renewable energy, economic growth and CO_2 emissions in the newly emerging market economies: The moderating role of human capital. Frontiers in Environmental Science, 1657.
Harnani, S., Widarni, E. L., & Bawono, S. (2022). The role of human capital in natural sustainability and economic growth in Indonesia A dynamic ARDL approach. Tamansiswa Accounting Jurnal International, 5(1), 28-28.
Kim, D., & Go, S. (2020). Human capital and environmental sustainability. Sustainability, 12(11), 4736.
Lan, J., & Munro, A. (2013). Environmental compliance and human capital: Evidence from Chinese industrial firms. Resource and Energy Economics, 35(4), 534-557.
Porreca, Z. (2020). Environmental sustainability and human capital development. Consilience, (22), 48-57.
Yildiz, T., Arslan, Ü., & Çeliköz, Y. S. (2022). The relationship between human capital and environmental destruction: the case of European countries. Agricultural and Resource Economics: International Scientific E-Journal, 8(1868-2022-402), 187-203.

Social Aspect of ESG in Human Capital Management

The social component of ESG centers on relationships. In particular, in the human resource/human capital context, it addresses how a company manages its relations with its employees, financial stakeholders, the communities in which it operates, and the broader political environment.

Reference:

Gray, L.L., & Giamela, L. (2020). Improving the social element of a company's ESG scores by addressing workforce issues. Retrieved from https://docket.acc.com/improving-social-element-companys-esg-scores-addressing-workforce-issues

Stubbing, H. W. (2022). The 'S' in ESG: What HR leaders need to know. Retrieved from https://www.forbes.com/sites/forbeshumanresourcescouncil/2022/07/08/the-s-in-esg-what-hr-leaders-need-to-know/?sh=3d35cacf31d2

Why is the social aspect of ESG so influential on company performance, related to today's workforce? Because the current job market is driving some of the shift toward the social aspect of ESG. The pandemic has put greater focus on how companies support their employee's well-being, and recent research highlights a profound disconnect between what management thinks their companies provide and the actual experience of their workers. A recent survey from the Achievers Workforce Institute found that while nearly half (47%) of company management said their company supports worker well-being, only 24% of employees believe that to be the case. Another survey from Gallup earlier this year reinforced those findings and put them in striking historical context:

FEWER THAN ONE IN FOUR U.S. EMPLOYEES FEEL STRONGLY THAT THEIR ORGANIZATION CARES ABOUT THEIR WELL-BEING, WHICH IS THE LOWEST PERCENTAGE IN NEARLY A DECADE.

This data point has powerful repercussions for companies across all industries. As Gallup goes on to note, employees who believe their employers care about their well-being are **69% less likely to actively search for a new job, 71% less likely to experience burnout, and three times more likely to be engaged at work.**

69% less likely to actively search for a new job

71% less likely to experience burnout

3X more likely to be engaged at work

How can management strategically benefit from the social aspect of the ESG strategy, so that it can support the company as a whole, even reduce the risks that can occur, so that it can be more effective and efficient? There are four ways that a company can do to improve the social aspect of the ESG:

1
Creating a crisis response and management plan:

Because another crisis can occur at any time, internal advisers must take a leading role in preparing the crisis response and management plans. For example, crises may include natural disasters such as earthquakes, data breaches, employee boycotts or protests, high-profile sexual harassment or race discrimination claims, criminal activities by executives, and workplace fatalities or injuries.

2
Hiring, retaining, and promoting diverse talent:

A diverse team is more likely to relate to a particular audience's wants, needs, and pain points, creating greater opportunities to resonate with customers and reach new demographics in ways that might not have come to light with a homogenous group at the helm. Finally, diverse clients and customers want to work with and support diverse people; therefore, these groups seek out companies that actively and openly champion diversity as a pillar of their philosophy.

3
Mitigating the risk of wage-and-hour litigation:

Employees' wages and hours worked directly affect several social topics, including employee treatment, pay, engagement, turnover, training, and – particularly during the COVID-19 pandemic – safety. For example, companies that fail to comply with proper minimum wage and overtime laws detrimentally affect a worker's ability to earn a living wage, damage the company's internal and external reputation, and impair employee engagement.

4
Addressing high-profile issues like sexual harassment, SARA discrimination issues, nepotism, whistleblowing, and anti-corruption:

Create and regularly update a written crisis-management plan directly related to all these issues.

Successful Case Study - Social Aspect

Human capital influences many of the key systems and business processes supporting the best implementation. Furthermore, human capital is well-positioned to promote CSR ethics. Human capital is a prominent organizational partner to confirm the organizations' consistency in written policy and in how they treat the employees. Human capital is in a strategic position that can provide the tools and framework for the leadership team and CEO to incorporate CSR ethics and culture into the organization's brand and strategic framework. There is emerging evidence that if effectively implemented, CSR could have a significant impact on motivating, developing, and retaining staff. One of top companies that is proven to incorporate good 'S' of ESG in their human capital practices is Estée Lauder.

Estée Lauder Companies believe that an inclusive environment is a catalyst for building a diverse organization. Their commitment to building an inclusive environment is evident:

Reference:
Estee Lauder. (n.d.). Inclusion, diversity & equity. Retrieved from https://www.elcompanies.com/en/our-commitments/inclusion-diversity-equity
Strandberg, C. (2009). The role of human resource management in corporate social responsibility: Issue brief and roadmap. Retrieved from https://corostrandberg.com/wp-content/uploads/2009/12/csr-hr-management.pdf

- Estée Lauder has 30 employee resource groups, with over 4,500 employees participating collectively. Each group was started by its employees, and the list includes groups for women, veterans, families, LGBTQ+ individuals and allies, and many more.

- In 2022, Estée Lauder was also named the No. 1 workplace for women in Forbes' annual list, "America's Best Employers For Women," and landed a spot on Working Mother's Diversity Best Practices Inclusion Index and on the 100 Best Companies list. Estee Lauder's inclusive policies helped land them on those lists, which include 20 weeks of gender-neutral paid parental leave for those who adopt or foster children, six weeks of flexible hours for the back-to-work transition, $10,000 for adoption assistance, and $20,000 a year for fertility treatment.

- Estée Lauder's emphasis on creating an inclusive and supportive work environment not only helps with retaining diverse individuals but is also a standout strategy for recruiting a diverse workforce.

81%	50%	57%
of Global Workforce is Female	of U.S. Workfroce is comprimised by minorities	of Global VP positions and above are held by Women

Governance Aspect of ESG in Human Capital

Governance is a central aspect that warrants the sustainability and continuity of organizations. Governance functions as a corridor for company or organization to create standard to increase its work efficiency. An organization might have difficulty achieving the goals and values if it does not have clear work standards. Therefore, governance is incredibly cogent in shaping structured systems to ensure the organizations run well both internally and externally. Though both are important ideas in governing organizations, it is necessary to differentiate between governance and leadership in terms of governance structures and standards.

Governance functions as a superordinate board that oversees the orders of a corporation or company. Meanwhile, leadership could be a pure instinct that has got to be closely held by stakeholders within the company to form the means workers work and support the running of an organization. Governance and leadership are reticular things in forming a decent system in managing an organization. Leadership that is not in the course of a transparent oversight mechanism does not invariably work well.

In conducting good oversight, a corporation desires an oversee committee that is responsible for establishing the structure and work mechanisms of the organization. In understanding governance problems in an organization, we want to grasp the dynamics of every work department, particularly the disciplinary department, compliance department, risk department, and IT department. These four departments can relate to each other, as well as with the superior committee in forming work mechanisms that support a company.

The disciplinary department is a vital component required by the oversight committee in establishing the operating mechanism of a company/organization. The compliance department is the department that deals with establishing SOPs, for instance, dress attire code policy. The risk department is the department that oversees and prevents work risks. Finally, the IT department is the department that is concerned with digital work systems and also the department that stores vital company data.

The collaboration among the four departments is a key to establishing governance mechanisms to practice the best human resources management. he synergy among the four departments must be established for a company to operate properly.

To support this, there are five attention-grabbing and essential topics that have to be understood by the superior committee in creating choices in conjunction with the four departments. These are topics include:

1. Data Quality, Privacy, & Security
This topic discusses internal data governance related to high-quality and security data. In addition, data quality, privacy, and security also talk about security and comfort between teams, especially IT and HR teams in working. If there is a data breach or leak, how could we be held accountable?

2. Understand Labor Laws in Managing HR
This topic discusses the relationship between the handling of human resources with the application of labor law. Understanding this topic is important to prevent unforeseen and unwanted legal matters in HR governance.

3. Carry Out the Company's Code of Ethics
This topic discusses the code of ethics implemented by the company, such as the attire code, implementation of standard operating procedures, and working environment conditions.

Reference:
Academy to Innovate HR. (n.d.). Corporate governance and stakeholder engagement.
Elliott, O. V. (2002). The tools of government: A guide to the new governance. Oxford University Press.

4. Understanding Incentives

Understanding this topic serves to reduce the existence of incentives that are binding and seem arbitrary. Reckless incentives can be related to bonuses that may be given if they reach certain targets without regard to consumer targets and are only oriented to the company's unilateral benefits.

5. Understanding HR Risks

Understanding the possible risks that arise in handling resources is important. Governance, especially in the HR field, is important, because the change in the way of working from WFH to hybrid increases the risk of companies losing important talent if the company cannot adaptively change its policies. Therefore, having a good understanding of managing human resources will greatly help mitigate these risks. It is essential for the HR team to get expertise in HR management. Getting a comprehension of these important topics, this supervisory committee should also ensure clarity of roles and responsibilities for each division in the organization.

Reference:
Academy to Innovate HR. (n.d.). Corporate governance and stakeholder engagement.
Elliott, O. V. (2002). The tools of government: A guide to the new governance. Oxford University Press.

Implementing "G" aspect

SUCCESSFUL CASE STUDY OF ONE OF PRIVATE BANKS IN INDONESIA - GOVERNANCE ASPECT

There is increasing positive evidence of the link between ESG and financial outperformance. The link showed improvement in data quality, standardized data, data history, and heightened interest in assessing the materiality of ESG that drive continued research. In addition, there is already substantial empirical evidence to suggest that the “G” aspect of ESG ultimately yields better corporate returns.

The following are simple measures that directors and executives should require that their company take to improve its governance rating:

Actively review ratings and correct inaccuracies

Discuss and negotiate issues with rating services

Post committee charters, policies, and codes of conduct on the company website

Monitor current hot topics such as non-audit services, diversity, executive severance, staggered boards

Review the governance rating criteria to fix easy items (independence, committee charters, corporate governance principles, board procedures), and encourage discussion of tough issues (staggered boards, poison pills, executive severance)

One of the successful case studies in implementing the ”G” aspect is done by PT. Bank Danamon Indonesia. PT Bank Danamon Indonesia has the highest level of GCG score. In this section, we will go through the case to see what are the best practices to get a score from a high governance aspect.

Reference:

PT. Bank Danamon Indonesia, Tbk. (2021). Laporan pelaksanaan tata kelola perusahaan PT Bank Danamon Indonesia 2021. Retrieved from https://www.danamon.co.id/-/media/ALL-CONTENT-ABOUT-DANAMON/LAPORAN-KEUANGAN/LAPORAN-TAHUNAN/2021/ID-Ver/Bab-6-Indonesia.pdf

Ramli, R. & Setiany, E. (2021). Comparative analysis of goof corporate governance implementation based on ASEAN corporate governance scorecard from the Indonesian banking industry. Jurnal Keuangan dan Perbankan, 25, 117-131. DOI: 10.26905/jkdp.v25i1.4779

Rosenman, K. M. Z (2004). The ratings game: Corporate governance ratings and why you should care. The Globe White Page: Boardroom Adviser Series. Retrieved from https://katten.com/files/21830_The_Ratings_Game.pdf

Case Study

Bank Danamon implements Governance based on 5 (five) basic principles of Good Governance: Transparency, Accountability, Responsibility, Fairness and Equality, and Independence.

Points to consider:

DANAMON DIVERSITY POLICY COMPOSITION OF THE BOARD OF COMMISSIONERS AND DIRECTORS

In the process of nominating members of the Board of Commissioners and Directors, apart from paying attention to the minimum requirements, the scope and balance of knowledge, expertise, experience, and need for diversity are also taken into consideration in determining the composition of the Board of Commissioners and Directors. The optimal composition of the Board of Commissioners and Directors will increase the effectiveness of delivering the duties and responsibilities of the Board of Commissioners. In this case, Danamon uses a Diversity Policy as a reference in nominating candidates for members of the Board of Commissioners. Danamon appreciates and respects every difference in point of view, knowledge, ability, and experience of each individual, and does not discriminate against race, ethnicity, gender, and religion.

REMUNERATION COMMITTEE FOR BOD AND BOC

The remuneration formulation refers to the internal policies of Danamon, applicable external regulations, industry comparison, and considering Danamon's performance. The Remuneration Committee provides recommendations to the Board of Commissioners and Directors and submitted to the General Meeting Shareholders for approval.

SPECIAL COMMITTEE

In carrying out its duties, the Board of Commissioners has 6 (six) committees to support the effectiveness of tasks and responsibilities, which are:
- Audit Committee;
- Risk Monitoring Committee;
- Nomination Committee;
- Remuneration Committee;
- Governance Committee;
- Integrated Governance Committee.

INTEGRATED COMPLIANCE WORK UNIT

The Danamon Compliance Unit carries out the Integrated Compliance Work Unit functions (SKKT). The Compliance Work Unit was formed independently and under the responsibility of the Director in charge of the Compliance Function (Director of Compliance). Structure and infrastructure are sufficient to support the implementation of the SKKT function to coordinate, monitor, and evaluate the compliance function throughout entities in the MUFG Group Financial Conglomerate.

How ready are we?

Reviewing our position in ESG maturity metrics

ESG issues are undeniably becoming more prominent in the face of business. Many shareholders now demand companies be more focused on ESG efforts. To assess where exactly our organization's position in terms of ESG maturity in human capital is, we might want to first consider the organization's readiness in using ESG metrics before determining the position.

1. Evaluate your company's strategy and purpose

2. Benchmark against your peers

3. Assess your shareholders

4. Determine your ESG maturity

1. Evaluate the company’s strategy and purpose

The incorporation of ESG as a new framework in the business ecosystem is very much intertwined with what is the main purpose of the company’s establishment. For some more mature companies, ESG goals are already reflected clearly in the business plan and even act as the core of the business’s purpose. However, other companies might consider putting ESG into their business plan as a way to mitigate risks or pursue opportunities related to ESG. Different priorities and usage of the ESG framework may provide different needs of maturity levels as well.

2. Benchmark against our peers

As a relatively new governance practice, no company might want to come first as the implementer, albeit with its tremendous popularity in today’s business environment.

However, companies are also not willing to be the last. Thus, it is utterly important to benchmark against our comparative peer companies to keep updated and well-informed.

3. Assess our shareholders’ view

Shareholders’ view on ESG practices is a critical thing to comprehend. For example, questions such as how our shareholders’ perspectives on the inclusion of ESG in human capital practice or how familiar or skeptical is the shareholder with the ESG metrics could help determine how far our organizations are going to position themselves in the ESG maturity level.

4. Determine our company's ESG maturity

The readiness to incorporate ESG in business practices, particularly the human capital role is largely determined by the company's ESG maturity. The deployment of ESG strategies is often set in a longer period of time, a 5-10 years period, which is much longer than the traditional incentive plan periods. This is why it might make sense to strategically refine the ESG indicators with the alignment of the company's vision. Companies can assess their ESG maturity levels using the ESG indicators and metrics below:

Environmental (E)

E.1. GHG Emissions
E.2. Emissions Intensity
E.3. Energy Usage
E.4. Energy Intensity
E.5. Energy Mix
E.6. Water Usage
E.7. Environmental Operations
E.8. Climate Oversight/Board
E.10. Climate Management
E.11. Climate Risk Mitigation

Social (S)

S.1. CEO Pay Ratio
S.2. Gender Pay Ratio
S.3. Employee Turnover
S.4. Gender Diversity
S.5. Temporary Worker Ratio
S.6. Non-Discrimination
S.7. Injury Rate
S.8. Global Health & Safety
S.9. Child & Forced Labor
S.10. Human RIghts

Corporate Governance (G)

G.1. Board Diversity
G.2. Board Independence
G.3. Incentivised Pay
G.4. Collective Bargaining
G.5. Supplier Code of Conduct
G.6. Ethics & Anti-Corruption
G.7. Data Privacy
G.8. ESG Reporting
G.9. Disclosure Practices
G.10. External Assurance

	METRICS	MEASURED
ENVIRONMENTAL (E)	GHG EMISSION	Tracking the actual or estimated atmospheric emissions produced as a direct (or indirect) result of the company's consumption of energy.
	EMISSIONS INTENSITY	Total GhG and non-GhG emissions per output scaling factor by dividing annual consumption (numerator) by various measures of physical scale (denominator).
	ENERGY USAGE	Total amount of energy directly and indirectly consumed, typically measured in megawatt-hours (MWh) or gigajoules (GJ)
	ENERGY INTENSITY	Total direct energy usage per output scaling factor by dividing annual consumption (numerator) by various measures of physical scale (denominator).
	ENERGY MIX	Percentage of energy usage by generation type by quantifying the specific energy sources most directly used by the company.
	WATER USAGE	Total amount of water consumed, recycled, and reclaimed annually, in cubic meters (m3).
	ENVIRONMENTAL OPERATIONS	Companies that create, publish, and periodically update a policy document that covers subjects such as environmental policy-specific waste, water, energy, and/or recycling policies, use a recognized energy management system (E.g ISO 50001).
	CLIMATE OVERSIGHT/BOARD	Companies that cover climate risk in board meetings (as part of the official agenda) or have a board committee dedicated to climate-related issues may affirmatively respond.
	CLIMATE OVERSIGHT/ MANAGEMENT	Companies that cover climate risk in senior management meetings (as part of the official agenda) or have a management committee dedicated to climate-related issues may affirmatively respond.
	CLIMATE RISK MITIGATION	Total amount invested, annually, in climate-related infrastructure, resilience, and product development. Companies measure the total dollar amount (USD) invested in climate-related issues, including R&D spending.

Reference:

Moats, M. C., Malone, L., & Hamilton, C. (2022). The evolving role of ESG metrics in executive compensation plans. Retrieved from https://corpgov.law.harvard.edu/2022/03/19/the-evolving-role-of-esg-metrics-in-executive-compensation-plans/

Nasdaq (2019). ESG reporting guide 2.0: A support resource for companies. Retrieved from https://research.aimultiple.com/esg-metrics/#2-social-metrics

	METRICS	MEASURED
SOCIAL (S)	CEO PAY RATIO	CEO total compensation to median FTE total compensation. As a ratio: The CEO Salary & Bonus (X) to Median FTE Salary, usually expressed as "X:1".
	GENDER PAY RATIO	As a ratio: The median total compensation for men compared to the median total compensation for women.
	EMPLOYEE TURNOVER	Percentage of total annual turnover, broken down by various employment types (full-time, part-time, contractor and/or consultants).
	GENDER DIVERSITY	Percentage of male-to-female metrics, broken down by various organizational levels.
	TEMPORARY WORKER RATIO	Percentage of Full-Time (or FTE-equivalent) positions held by non-traditional workers in the value chain.
	NON-DISCRIMINATION	Companies that create, publish, and periodically update a policy document that covers sexual harassment and/or non-discrimination policy.
	INJURY RATE	Total number of injuries and fatalities, relative to the total workforce.
	GLOBAL HEALTH & SAFETY	Companies that create, publish, and periodically update a policy document that covers occupational health and/or global health & safety policy.
	CHILD & FORCED LABOR	Companies that create, publish, and periodically update a policy document that covers child and/or forced labor policy.
	HUMAN RIGHTS	Companies that create, publish, and periodically update a policy document that covers human rights policy.

	METRICS	MEASURED
GOVERNANCE (G)	BOARD DIVERSITY	The percentage of female directors and committee chairs, relative to male colleagues in the same groups.
	BOARD INDEPENDENCE	Percentage of total board seats occupied by independents.
	INCENTIVISED PAY	Executives financially incentivized to perform on ESG metrics.
	COLLECTIVE BARGAINING	Measuring the number of employees governed by collective bargaining protocols against the total employee population.
	SUPPLIER CODE OF CONDUCT	Percentage of suppliers who have formally certified their compliance with the company Code of Conduct.
	ETHICS & ANTI-CORRUPTION	Percentage of your workforce has formally certified its compliance with Ethics and/or Anti-Corruption policy.
	DATA PRIVACY	Companies that create, publish, and periodically update a Data Privacy policy.
	ESG REPORTING	Publish a sustainability report.
	DISCLOSURE PRACTICES	Publish a GRI, CDP, SASB, IIRC, or UNGC report and the location of relevant public information should be declared for each framework.
	EXTERNAL ASSURANCE	Sustainability disclosures assured or validated by a third party.

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