

## **ESG is a talent issue, and HR has an increasing role to play**

*Top companies apply specific practices to drive better results in environmental, social, and governance (ESG) initiatives. Leaders at technology firm Cisco illustrate how cross-functional teamwork, organizational purpose, and strategy design contribute to stronger ESG outcomes.*

The COVID-19 pandemic elevated the public's [favorable perception of employers](#) to the extent that they became the most trusted institutions in the world. But with that heightened status comes additional expectations.

More than half (60%) of workers polled in the [2022 Edelman Trust Barometer survey](#) want their CEOs to speak out on controversial issues. This is in line with [earlier research](#) conducted by the Institute for Corporate Productivity (i4cp), which found that corporate leaders speaking out on controversial issues is important: 62% of more than 500 people surveyed by i4cp said they would not work for an organization if they disagreed with its public stance on an issue.

The global Edelman survey also found that 76% of employees expect CEOs to shape conversation and policy on jobs and the economy, 76% on wage inequity, and 68% on global climate change.

However, some critics have questioned whether corporate social responsibility happens at shareholders' expense.

Soon-to-be-published data from i4cp shows that companies' environmental, social, and governance (ESG) commitments have positive impact on business outcomes; but only when progress is being made on those goals. To ensure progress on ESG goals, organizations need the right structure and oversight of sustainability agendas, and human resources (HR) should be strongly involved to help embed ESG into talent practices.

"We are living in a world of false choices," said Francine Katsoudas, EVP and chief people, policy & purpose officer at technology firm Cisco. "You can thrive in the purpose space and profit space—you don't have to pick one or the other."

Katsoudas recently spoke about the power of purpose in executing on ESG strategies at Duke Corporate Education's the [Davos of Human Capital 2022](#) global annual summit. Her division includes human resources, sustainability, and government affairs among other functions that drive enterprisewide practices that further Cisco's sustainability goals.

"While the people, policy, and purpose [of the organization] might be the driver of communications and the creation of policies, when it comes to embedding it across the company, we have partners in every function, in every corner of the organization, because we know if it's not done holistically, it's not authentic," she said.

### **Where does ESG reside?**

Data from i4cp's research shows that, similarly to Cisco, other organizations that have made progress on ESG goals have dedicated cross-functional teams or a single office to drive strategy—beyond the board of directors' role.

Those that assign ESG strategy to a single office or function overwhelmingly house ESG strategy within a sustainability specific function. Those that assign ESG strategy to a cross-functional team are statistically more likely to have higher market performance compared to other structures.

In fact, high-performance organizations are nearly 7X more likely to rely on cross-functional teams dedicated to ESG strategy compared to lower-performing organizations. While 100% of high-performance organizations house ESG strategy in either a specific office / function or a cross-functional team, nearly half (47%) of low-performance organizations do neither.

## High-performance Organizations are More Likely to have a Dedicated Team Charged with ESG Strategy



Data represents survey responses from large (those employing >1,000 people) organizations.  
Source: *HR's Role in ESG* (September, 2022), Institute for Corporate Productivity (i4cp).

Among just those organizations that have made major progress on ESG commitments in the past two years, the following functions are represented on the majority of cross-functional teams:

- 80% included HR as part of that team
- 70% included sustainability
- 60% included legal and public / corporate affairs

### What is HR's role?

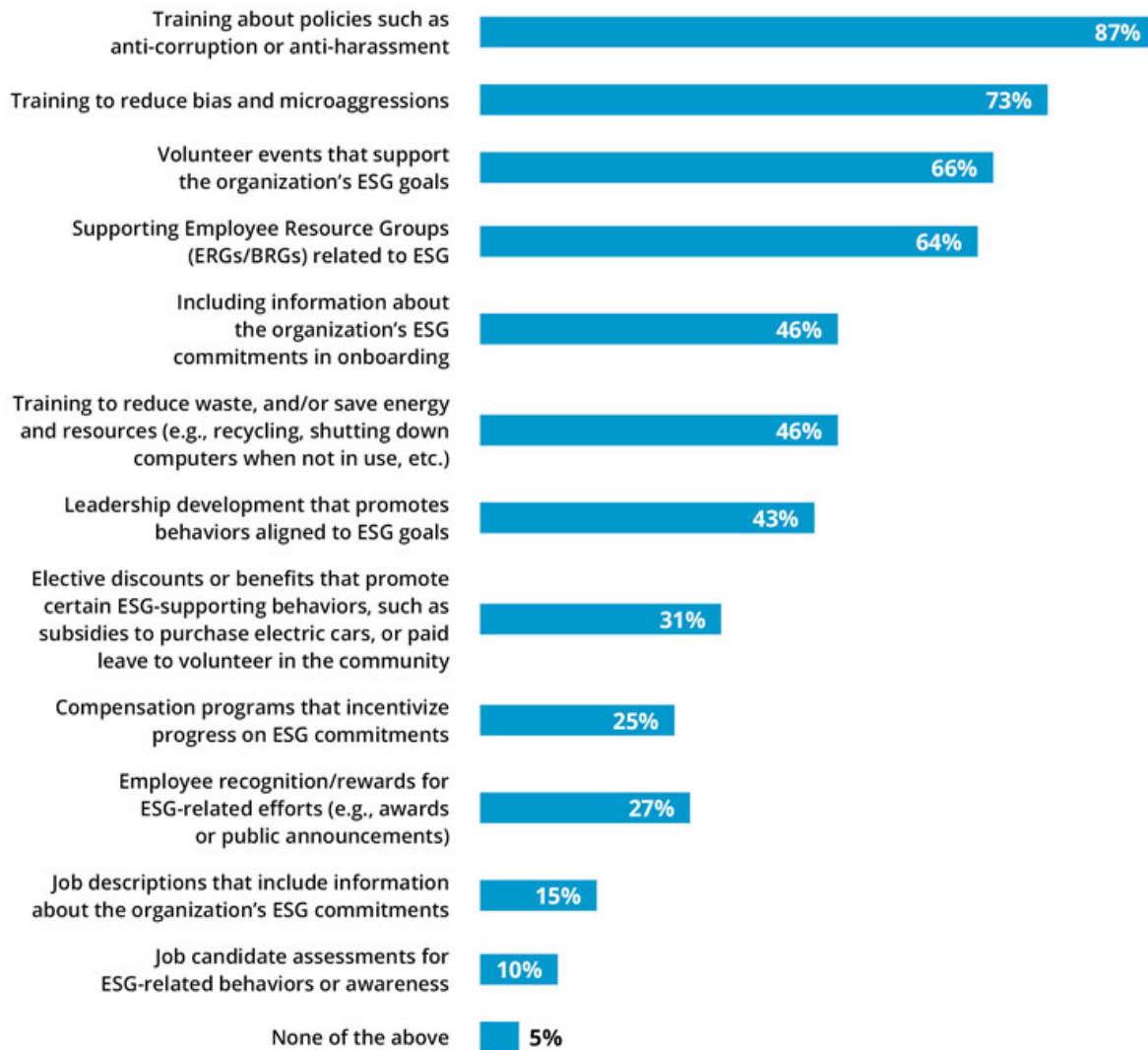
i4cp's data shows that the more involved HR is in designing strategy in environmental, social, and governance areas, the more likely organizations also made progress on their ESG commitments. Among organizations that are making progress on ESG goals, 79% said HR is highly involved in designing strategy for social goals and programs, 29% reported HR is highly involved in governance goals and programs, and 18% said HR is highly involved in environmental goals and programs.

### ESG and workforce strategy

Because it is uniquely positioned to embed ESG programs into talent practices HR plays an important role in ESG progress. Survey respondents from organizations that purposefully factor ESG goals into their workforce strategies are statistically more likely to report making recent progress than those that didn't.

Among those firms that do consider ESG goals in strategy, the majority (87%) do so through training on policies. About three-quarters of organizations do so through training to reduce bias and microaggressions, 66% through volunteer events that support ESG goals, and 64% through support of employee resource groups (e.g., ERGs/BRGs) related to ESG.

## How Organizations Reinforce ESG Goals Enterprisewide



Data represents survey responses from large (those employing >1,000 people) organizations.  
Source: *HR's Role in ESG* (September, 2022), Institute for Corporate Productivity (i4cp).

Analysis of the i4cp data shows that the following actions connecting employees to ESG are more likely to occur at organizations that are successfully making a difference when it comes to sustainability:

- Including information about ESG commitments in onboarding materials
- Providing compensation programs that incentivize progress on ESG commitments
- Offering trainings to reduce waste and /or save energy and resources
- Providing training about policies such as anti-corruption or anti-harassment
- Providing training to reduce bias and microaggressions
- Supporting employee resource groups related to ESG
- Offering elective discounts or benefits that promote certain ESG-supporting behaviors, such as subsidies to purchase electric cars, or paid leave to volunteer in the community

- Organizing volunteer events that support ESG goals
- Providing leadership development that promotes behaviors aligned to ESG goals

Aligning the organization's purpose and values to ESG goals and then constructing supporting strategies is a critical part of the journey toward progress. Those actions help make environmental and social goals tangible and top of mind for employees.

Says Katsoudas about the work at Cisco, "Operationalizing Cisco's purpose makes it real for our employees and customers. Purpose has to be both top down and bottom up. If an employee sees that we are working on the efficiency of our products, they're going to think about how they can design tech differently, and if a customer realizes our products are more energy efficient, they'll leverage our technology to reach their own sustainability goals. That's the cycle we're looking for as a company."

### **ESG is an emerging priority**

ESG agendas represent both an opportunity and an emerging and increasing priority for companies.

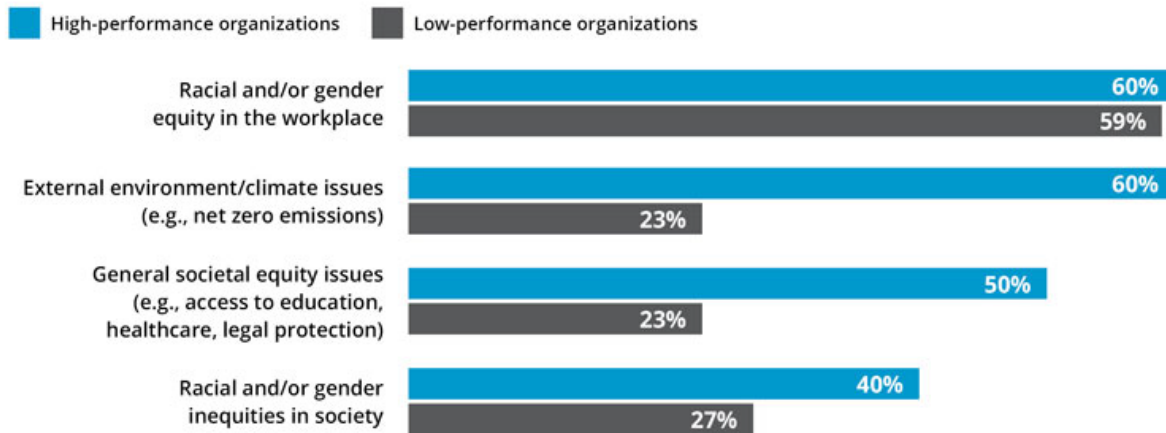
Says Paul Wendel, director, executive communications, office of the chief people, policy & purpose officer at Cisco, "We see it from our existing talent, who are asking us tough questions around when we speak out on different social issues, what we're doing around sustainability within our current practices. And then we have prospective talent that's showing up to interviews and saying 'Hey, I've read your Purpose report. I want to know more about what you're doing in that.' We recognize it's something that the workforce cares about more and more."

But organizations approach the *E*, the *S*, and the *G* of ESG, differently. While more than half (62%) of large organizations currently place a high priority on racial and / or gender equity in the workplace, only 45% place a high priority on their efforts to address external environment / climate issues, according to i4cp data. Nearly half of surveyed business leaders think racial and / or gender equity in the workplace is going to increase somewhat in priority in the coming year, 39% think it will do so for external environment issues. The differences in participants' beliefs about the future of human capital and environmental goals may be due to [recent political pushback](#) from conservatives against corporate and investor influence on environmental policies.

That gap also shows up in corporate compensation practices. A [recent report](#) noted that 28% of S&P 500 companies use diversity and inclusion (D&I) metrics as part of their non-financial metrics for incentives compared with 14% who use environmental goals. The number of companies using D&I metrics to determine incentives increased by 19% between 2020 and 2021.

That said, high-performance companies were nearly three times more likely to place a high priority on environment and climate issues and nearly twice as likely to highly prioritize general societal equity issues compared to low-performance organizations.

## High Priority ESG Issues for Large Organizations



Data represents survey responses from large (those employing >1,000 people) organizations indicating high priority.  
Source: *HR's Role in ESG* (September, 2022), Institute for Corporate Productivity (i4cp).

The increased use of ESG-related metrics in executive compensation speaks to the growing impact of sustainability on business outcomes. It is likely that this will further heighten opportunities for HR's involvement.

"Should a CEO have a voice around social issues? If you go back 20 years, I think many CEOs would say, 'No,'" Wendel said. "Now, you can't be a global CEO without taking a stand on some of these issues. Your people expect it. The market expects it."

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