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What is ESG, and what does it mean for employers?

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ESG is now a commonly used term growing in relevance for businesses.

ESG refers to a range of environmental, social, and governance factors that were once traditionally used by investors to assess the sustainability credentials of companies they were considering for investment.

It is now typical for a company's customers, workforce and regulators to scrutinise its ESG profile closely. Indeed, an ESG profile communicates the company's principles, culture and commitment to integrating ethical and sustainable values across its business.

How does ESG impact employers?

Demonstrating a solid commitment to ESG can help employers recruit and retain top talent. It can also positively affect its productivity, reputation, and standing against competitors.

Environmental

The environmental factor measures a company's environmental impact. It takes account of the company's carbon footprint. Insofar as it is relevant to employment, this factor might look at incentives for employees to travel greener, encouraging recycling or volunteering days for climate change charities or organisations.

Social

The social element has gained much more prominence since the COVID-19 pandemic and the # MeToo and Black Lives Matter movements; it is at the forefront of public scrutiny.

There is, rightfully, a demand for employers to do more than point to a dusty workplace policy. An employer's approach to equality and human rights and how it engages with its workforce are crucial.

Key areas for focus are Diversity, Equity and Inclusion, employee mental and physical well-being, flexible working practices, pay and pay gaps, and employee engagement.

What is Diversity, Equity and Inclusion?

DEI are often terms used independently but interchangeably. Each term, though, has a different meaning, as follows:

- **Diversity**: the characteristics that differentiate people. It goes further than the protected characteristics identified in the Equality Act 2010. It includes social, demographic and cultural background and cognitive and personal strengths, such as neurodiversity.
- **Equity**: whether people are treated fairly based on their individual needs. It identifies that people may need different resources and opportunities to excel. Equality, often confused with equity, is the same treatment to all, regardless of individual needs.
- **Inclusion**: the actions taken to ensure people feel a sense of belonging and value in the workplace.

Governance

Governance measures how a company operates its leadership, executive pay, audits, internal controls and shareholder rights. It covers risk, compliance and regulation, such as anti-bribery, corruption and tax evasion matters, and overlaps and incorporates some of the social elements of ESG, such as pay and pay gap reporting.

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Conclusion

The principles of ESG continue to gather momentum, forcing businesses to look beyond their profit line and address their impact on society and the world at large, which can only be good. Putting in place an ESG policy that documents the business' approach to ESG concepts will only stand an organisation in good stead. It will help to protect a business' reputation and give transparency to its commitment to its ethical conduct.

An ESG policy should be high on any employer's agenda.

Contact Karen Cole for assistance with your ESG strategy and policies or for advice on supporting your employees.

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Note: This article is not legal advice; it provides information of general interest about current legal issues.