ESG

Is *S* the blindspot in ESG?

Knowledge Partner

RAMAIAH Institute of Management

Centre for Excellence in Sustainability (CES)

Preface

Believed to be the most neglected middle child in ESG, *S* or social is often overshadowed by the environment and governance aspects. What then makes the emphasis on social issues so important, if social concerns like DEI, equitable opportunities at work, employee welfare, community development, etc. are subsumed under the environment and governance aspects of ESG?

A majority of corporations have dedicated vast resources – both financial as well as human towards their corporate CSR. The outcomes are fantastic, and the impact stories encourage persons in the sustainability space to aim higher.

And yet, there is a disconnect. The disconnect being the corporates are taking the whole of CSR to the *S* factor and neglecting the other elements which require attention like the gender ratio at workforce, opportunities for the persons with disabilities or even what is defined under the social bracket of ESG.

Most CSRs focus on one aspect of the social impact, whereas the trajectory must be drawn towards a holistic approach and overall well-being of not just the employee, and his or her family but the community at large. The progress must not start or stop at quarterly team visits and associated activities planned to involve the target group but must be a part of continued engagement between the benefactor and the one benefitting. Such endeavors never yield instantaneous results. Additionally, there is a chance that the project for which we poured our heart, sweat, time, and resources may suddenly change track, not take the course intended at the time of project planning.

As a result, CSRs are a component of an organization's governance and economic initiatives that are driven by legal and regulatory requirements.

A look at the BRSR reports of the top listed companies on the Bombay Stock Exchange offers insight into the weightage that large organizations place on the social impact of the *S* factor in ESG.

A 2004 report from the United Nations – titled **Who Cares Wins** – which first mentioned ESG, and subsequent upgrades highlighted the context of the social impact was not to undermine an organization, pass judgments, or be critical of a corporate policy, but to build a collective conscious and provide equal opportunities to all, in all walks of life.

The Partnership

Our effort which included thorough discussions during the brainstorming sessions, constructive arguments, and lots of research enabled us to develop a granular questionnaire. Our intent was not to lock all the aspects of *S* under one bracket, but to piece together all the layers that are often disregarded or are undervalued, and yet are a critical element of the Social Impact component.

We received good responses from the MNCs, large corporates as well as the MSME segments. The healthy mix provides an almost realistic picture of the ESG strategies in organizations and the shifting perspective towards the Social component.

ASSOCHAM and **WriteCanvas** take this opportunity to thank **Mr. Ashok Pamidi,** who mentored us throughout the project. We also value the time taken out by each stakeholder who diligently responded to our questions.

We will publish a comprehensive report in September 2024, Meanwhile, here, is a synopsis of our findings.

Introduction

The ESG landscape, no doubt, is catching on in India. While that is good news, the unfortunate thing is that a lot of them approach it from a compliance perspective. Something that has to be tick-boxed instead of an initiative driven by a PURPOSE. Safeguarding the natural resources and making Mother Earth a habitable place for us and future generations has to be the focal point beyond profits.

To achieve the same, we must take a holistic approach and make sure that ESG compliances are being applied. Our survey revealed the largest gap in the field of gender equality. So let us start with gender parity in the workforce.

Gender Representation

o Overall, we noted that men occupy a significantly higher proportion of leadership positions compared to women across functions and industry segments.

o The gender gap in board positions is significant, with men holding 76% of positions and only 24% of female representation, indicating a need for more women to participate in leadership roles.

o Male priorities in BoD roles may influence decision-making, impacting organizational practices, policies, and strategies. Encouraging female leadership parity is crucial for building inclusive and efficient governance frameworks.

o Female representation is lower at 24%, indicating a lack of gender diversity in leadership roles. This could impact organizational strategies, policies, and practices. Research has shown that gender-diverse boards are associated with better decision-making, improved financial performance, and enhanced innovation.

o Studies have indicated that gender-diverse boards are linked to increased creativity, better financial performance, and better decision-making.

The Law and BFSI segments show a major gender imbalance, with more than 80% males in BOD roles, while Consulting Firms and the IT/ITES sector have balanced representation, albeit still favoring males. The gender imbalance in Team Lead positions, with 65% males and 35% females, could significantly affect organizational dynamics, decision-making processes, team culture, and leadership styles. The BFSI and media industries exhibit gender parity in Team Lead positions, while the government sector and IT/ITES show significant gender disparity in leadership roles.

These observations highlight the need for organizations to address gender disparities and promote gender diversity across various roles to create more inclusive work environments.

Conversely, the absence of data for the Government sector warrants further action. Understanding the gender composition within this sector is crucial for addressing potential gender disparities and ensuring equal opportunities for both males and females, especially while constituting policies and for the DEI push.

The S Factor-Prominence

Overall, the prominent **S** Factor types reflect a holistic approach to fostering a positive organizational culture that values fairness, inclusivity, integrity, and respect for all individuals. By prioritizing these aspects, the businesses aim to create an environment where employees feel empowered, valued, and supported, ultimately contributing to enhanced morale, productivity, and overall success.

o **Equal Opportunities:** This aspect stands out as the most prominent in the organization, comprising nearly half (47.1%) of the **S** Factor emphasis. It suggests a strong commitment to providing fair and equal opportunities to all individuals within the organization, regardless of their background, gender, or other factors.

o **Gender Representation:** With a notable emphasis of 23.5%, gender representation underscores the organization's focus on achieving balance and inclusivity in its workforce. This indicates efforts to ensure equal participation and representation of both genders across all levels and roles.

o **Inclusive Infrastructure:** At 11.8%, the organization demonstrates a commitment to fostering inclusivity through infrastructure and facilities accessible to all employees. This may include initiatives to accommodate diverse needs and create an environment where everyone feels valued and included.

o **Pay Parity:** The emphasis on pay parity (11.8%) highlights the organization's commitment to ensuring fairness and equity in compensation practices. It suggests efforts to address and minimize gender pay gaps and promote equal pay for equal work across the organization.

o **Work Conduct & Privacy:** While comparatively lower at 5.9%, the focus on work conduct and privacy underscores the organization's attention to maintaining ethical standards and respecting individuals' privacy rights in the workplace. This may involve implementing policies and practices to uphold integrity, confidentiality, and professionalism.

o **Data custodian:** That individual business units within a corporate are the custodians of ESG data is a cause for concern. Our survey shows that only 6% ESG Heads are the custodians of the environmental, social and governance data vis-a-vis a whopping 94% business unit heads who own responsibility for their organization's vertical data and data security.

DEI

o Diversity encompasses persons with disabilities, rural empowerment, LGBTQ+, mixed, and exclusively women. The BFSI industry predominantly uses the term "Mix" to describe diversity, with "Only women'' ranking second at 29%. Furthermore, 14% of companies define diversity as "All of the above" and "Specially abled" together.

o "Mix" is the most common definition of diversity in the IT/ITES industry, covering 67% of organizations. "All of the above" (11%), "LGBTQ+" (11%), and "Rural background" (11%), among others, are definitions of diversity. Law firms only concentrate on diversity, which is described as "Only women," who make up all of the companies in this industry.

o Strategic Intent of Diversity: In the realm of aspects strategic intent of diversity, organization values and culture stand out as the most prevalent factor, constituting 67% of the intent.

o Leadership vision also plays a significant role, contributing to 19% of the influence.

o Regulatory compliance and considering all the above factors each contribute to a smaller portion of the intent, respectively.

o Aspects Influencing Supplier Diversity/Customer influence: Company policy significantly influences supplier behavior/consumer influence, accounting for 70%. Impact solving, market pressure, and customers have moderate impacts, with market pressure having a lower influence.

Stats

o **HR department exhibits the highest diversity with 36%.**

o **IT department followed by 18% diversity.**

o **Production and Sales departments each contribute 14% and 9% to diversity, respectively.**

o **All the departments collectively contribute 9% to diversity.**

The BFSI reveals a higher diversity level in HR departments, with a focus on inclusion initiatives. Consulting firms and government agencies show complete diversity in IT and Editorial, while IT/ITES shows diversity across multiple departments. Law firms focus on Production, Media showcases complete diversity in Sales, and Skilling prioritizes diversity in HR.

Employee Welfare

Pay parity: Corporate policy and industry benchmarking contribute 35% each to achieving pay parity within organizations, while annual appraisals account for 30% of efforts.

The BFSI sector employs a multifaceted approach to pay parity, with corporate policies playing a significant role. Government agencies rely on industry benchmarking to align their pay practices with industry norms, while the IT/ITES sector focuses on benchmarking, annual performance evaluations, and corporate policies. Law firms prioritize pay parity through internal corporate policies, while media companies rely on performance appraisals for merit-based increases. Skilling businesses rely solely on industry benchmarking to ensure fair compensation practices.
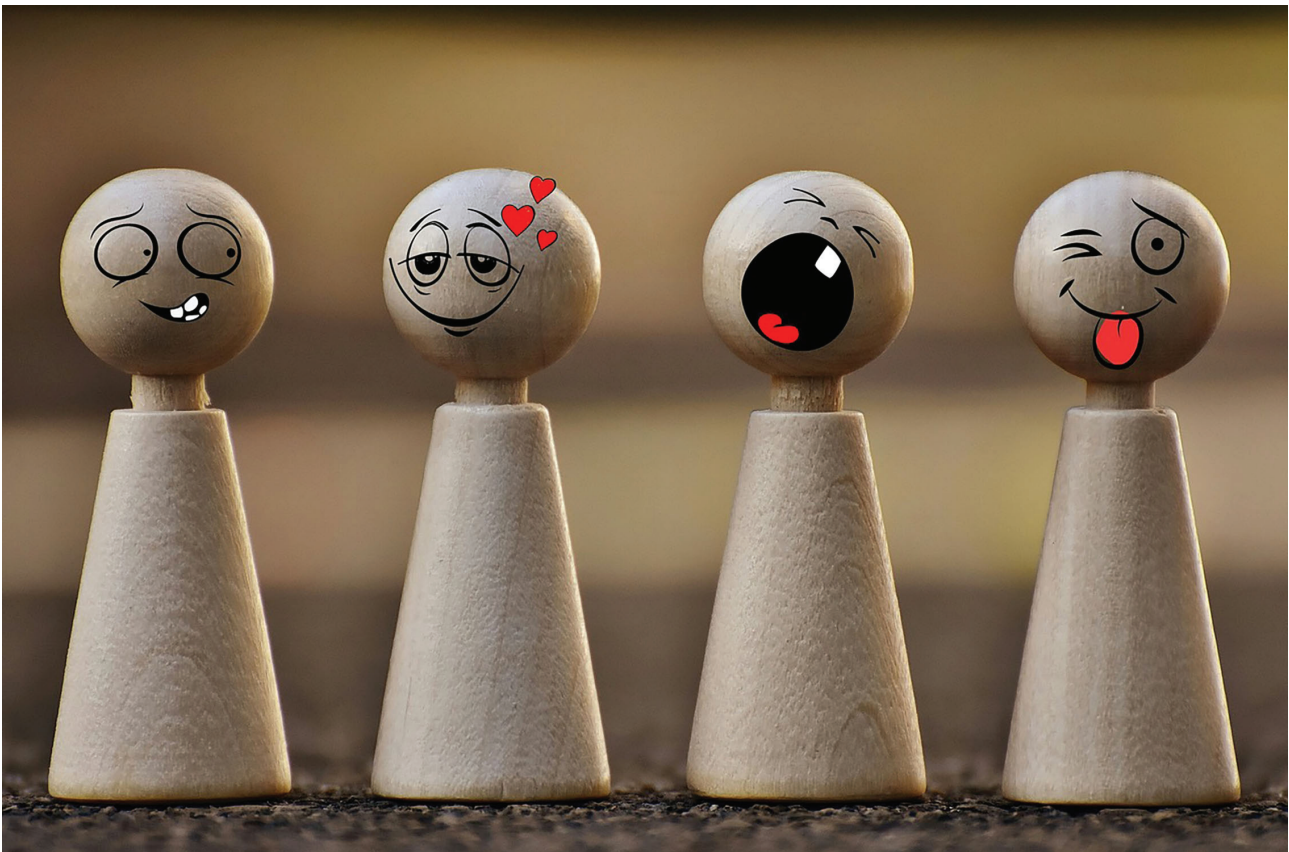
Child Labour and Forced Labour

Our survey reveals that Corporate Policy at 53% leads the organization that has developed internal policies specifically targeting the prevention of child labor and forced labor. By prioritizing corporate policies, the organization demonstrates a commitment to ethical practices beyond legal requirements. Labor Law (47%): While corporate policies are essential, adherence to labor laws is equally emphasized.

Different types of businesses exhibit varying approaches to addressing labor issues, with some prioritizing legal compliance, while others emphasize internal corporate policies. While compliance with labor laws is crucial across all sectors, the degree of emphasis on corporate policies varies, reflecting the diversity of organizational priorities and strategies. Industries such as BFSI and government sectors place a higher emphasis on legal compliance, whereas sectors like IT/ITES, law firms, media, and skilling prioritize internal corporate policies to address labor issues.

The data underscores the importance of considering both legal requirements and internal policies in fostering ethical labor practices across different sectors.

Employee Safety

Organizations prioritize mental health initiatives (26.32%), insurance (21.05%), medical centers (15.79%), periodic safety training (10.53%), and periodic health check-ups (5.26%) and all the listed categories (15.79%), to ensure employee well-being. They also provide on-site or accessible medical centers, provide periodic safety training, conduct periodic health check-ups, and emphasize the importance of promoting physical and mental well-being among employees.

Addressing Exploitation at Workplace

The study identifies three key strategies to prevent workplace exploitation: a dedicated harassment committee (35%), clear guidelines in HR manuals (35%), a comprehensive approach (15%), training and sensitization programs (10%), and a whistleblower policy (5%). These measures demonstrate a proactive approach to addressing exploitation, promoting employee education and reporting.

BFSI businesses prioritize workplace harassment committees, while government entities prioritize whistleblower policies. IT/ITES companies incorporate policies related to workplace exploitation into their HR manuals, but their focus is less comprehensive. Training and sensitization receive minimal emphasis, indicating a potential gap in awareness and education.

Media companies prioritize workplace exploitation policies in their HR manuals, indicating a focus on clear guidelines. This suggests a focus on providing clear guidelines and expectations for employees. This singular focus on HR manuals may indicate that other measures like whistleblower policies or harassment committees might not be explicitly highlighted but could still be implemented.

Skilling organizations also establish workplace harassment committees, demonstrating a commitment to addressing exploitation and harassment.

Conclusion

Though India has been a late entrant into ESG compliances, companies that have international exposure or are export-oriented have already taken many initiatives in accordance with the ESG principles.

While the large companies publish ESG reports regularly, the MSME has a long way to go. All the same, we have seen some encouraging trends in the MSME segment over the last 5-7 years with most companies showing a keen interest in ESG, but also asserting that they are not equipped to go it alone. The respondents admitted that though they have the internal knowledge or ability to implement sustainability measures in their operations, capital and technical expertise pose a challenge.

SAMPLE OF QUESTIONS USED FOR THE SURVEY

Diversity, Equity, and Inclusion

What is the definition of diversity in your organization?

How does DEI align with the overall strategy of your company?

Do you have a special budget allocation for DEI?

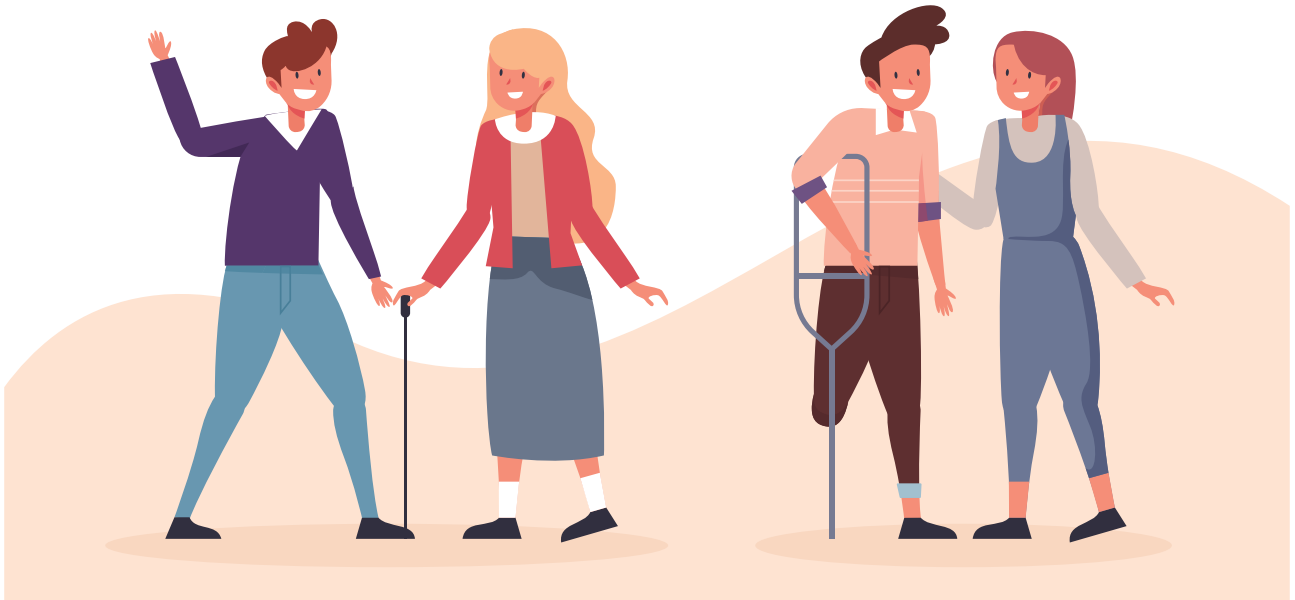## What are the aspects that you bear in mind to influence supplier diversity/ customer influence?

Your strategic intent of diversity includes

Which are the most diverse departments in your organization?

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A firebrand in the field of sustainability, Renjini cuts through greenwashing by helping companies develop authentic climate action communication. She empowers them to craft clear, authentic narratives. Her talents extend far beyond – as she's also a writer, journalist, sustainability trainer, speaker, moderator, and mentor.

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A senior journalist, Sonal forayed into sustainability, ESG and climate change with WriteCanvas. Earlier, she has written impact-driven new stories and analysis in her storied career with the mainstream, as well as niche B-B media. Her last stint was as the National Editor, Valve World India.

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A purpose-driven leader with more than 30 years of cross-functional expertise in the fields of social development, D&I, and IT. He works as a Practice Professor at Bengaluru's Ramaiah Institute of Management. He is also currently serving on the advisory boards of multiple startups and non-profit organizations in the area of diversity, equity, and inclusion.

Disclaimer: The authors have used primary and secondary data as a reference point to analyze and evaluate the trends in the social component of ESG.

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