

Environment, social & governance (ESG): A new world for Work and Organizational Psychologists

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About the author

Sakshi has an MSc in Work and Organisational Psychology from University of Nottingham, UK and is the recipient of the Diana Award – the highest civilian award for humanitarian work across the globe. She is also the world's first UNESCO Kindness Leader. As the founder of Project LEAP, a social service project committed to the United Nations Sustainable Development Goal 4 (Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all) and an Occupational Psychologist Sakshi spends her time consulting on a variety of topics including people and talent, sustainability and ESG. Currently living in the UK, she is originally from India and often uses concepts from Indian Psychology to facilitate change management sessions. She also advises multiple AI-Based start-ups after three years of her own start-up experience and is a passionate solo-traveller.

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Introduction

Environment, Social & Governance (ESG) are three words that most of us are familiar with, which when put together in an acronym have made a very powerful impact in business in recent times. First, it is important to understand what is ESG?

What is ESG?

In 2009, Johan Rockström led a group of 28 internationally renowned scientists to identify nine key processes that regulate the stability and resilience of our planet. They proposed quantitative 'planetary boundaries' within which humanity can continue to develop and thrive for generations to come. So far, four of the nine planetary boundaries have been crossed (Steffen et al., 2015). These four are climate change, loss of biosphere integrity, land-system change, altered biogeochemical cycles (phosphorus and nitrogen).

As such, many researchers, scholars and leaders are invested in restoring these boundaries; or at best preventing them from worsening. One way in which the investment world hopes to restore balance, is by using ESG risk analysis. Environment,

Social & Governance started as an investing principle and in many ways it still is. It is a framework by which investors decide which companies they want to invest in, and in fact which socially responsible companies they should invest in. Environment, Social & Governance has so far taken many shapes and forms: like risk assessment for organizations; impact standards for industries; consulting on navigation of ESG related adverse impact issues and many others. Although ESG investing practice started in the 1960's (Morgan Stanley Capital International, 2022), the new-found interest in the topic can be attributed to the growing interest in sustainability, conscious consumer behaviour and zoning in on unhelpful practices that worsen the state of our planet (Bronstein, 2022).

Why be interested in ESG?

Why should work and organizational psychologists be reading a paper on ESG? Well, the question perhaps is why not.

Environment, Social & Governance seems to be the hot topic of conversation in every room, train, bathroom and kitchen I enter. Yes, the topic has reached far and wide – almost like a Chinese whisper – majorly because the understanding of ESG that comes out on the other side is very different from what the experts in the field understand. This whisper has gone so far that many ESG experts have to spend time cleaning up the various definitions, understandings and applications of ESG that are going around in nooks and corners of organizations. Interestingly, this wildfire-like spread of the term 'ESG' and the various questions it has raised has prompted experts to begin to question the purpose of ESG. What indeed does ESG stand for? Why was it developed and what contribution does it promise for organizations around the world?

What is the opportunity?

While I do not have all the answers to the questions above, I appreciate that this is exactly where our biggest opportunity lies. In all the conversations about ESG I have found the input of psychologists to be missing. In fact, so far, I have not seen any psychologist talk about ESG or actively offer to research the concept. This is not necessarily our fault but perhaps it is a missed opportunity.

What opportunity does ESG present to our field? ESG risk analysis is an attempt to understand what environment, social and governance related risks human beings, and by extension organizations, will continue to pose on the planet. Consulting in this

area involves helping organizations understand how human behaviour can be changed or addressed to minimise issues in these areas. The very central concept in all these areas are human beings! More specifically, human beings who are plugged into any organization or consumers who have decision-making power. These are the very people psychologists have vowed to understand, advise, help and support. Can we then continue to explore human behaviour and present our findings with an ESG angle?

A huge opportunity ESG offers us is to be *strategic*. By its very nature, ESG analysis is a preventative strategy (Henisz et al., 2019). It warns investors off from a bad investment before taking that risk (Amel-Zadeh & Serafeim, 2018). The attention that ESG has received from stakeholders, senior leaders and investors (Eccles & Klimenko, 2019) shows that this area has the ability to change, transform and lead the market changes that many of us are waiting for to ensure a healthy future for our planet. And isn't this what we have always wanted for work and organizational psychology; to sit on the strategic side of the business so we need to repair less damage and prevent more issues from happening?

Finally, ESG also offers us the opportunity to expand the world of work and organizational psychology and to find out what more about how businesses actually work. We allow ourselves as a field, and not just a few informed individuals, to find out more about supply chains, logistics, operations and economics and what forces make people behave the way they do at work. This offers tremendous expansion from the traditional work characteristics model (Taylor, 2015) to explore a multitude of market forces that influence business success or failure.

What impact can WOP make on ESG?

So far, we have captured what ESG can do for work and organizational psychologists. To paraphrase a famous saying by John F. Kennedy (Kennedy, 1961), instead of asking what ESG can do for us, we must ask what we can do for ESG? There are two ways in which I see our contribution to the field of ESG: a) find links with our work and ESG; and b) combine our work with finance / risk management. I will outline my thoughts in these areas.

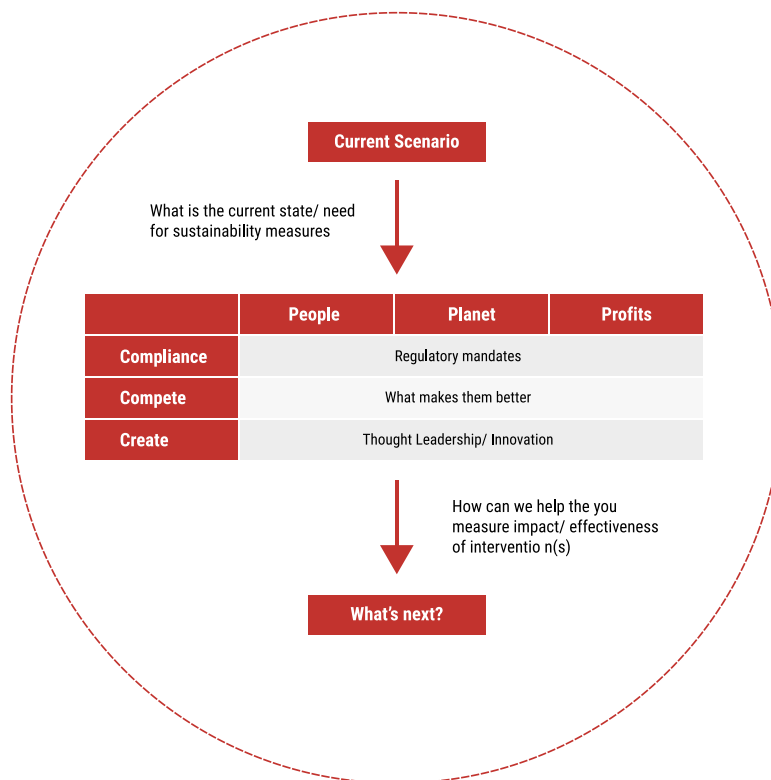
Find links with our work and ESG

One way to make an impact is to keep doing with what we are doing and find links in our work with the requirements of ESG. This is a seemingly easy task but with the width

and the depth of what work and organizational psychologists cover, it can be hard to visualise, explain and clearly assess how we could help. I have come up a framework (you may refer to this as a guide, a starting point or a visualisation tool) to map out where and how we can begin the conversations on ESG and what our ‘offering’ to the field can look like.

In Figure 1 I use a three-by-three matrix to categorise the three components of ESG: Environment, Social and Governance. These are the three areas that an organization needs to work on across three levels within the organization. The levels include Compliance, Compete and Create. Compliance is what must be done and is a regulatory mandate. Compete is what gives the organization a standing in the market and, Create is when the organization becomes the industry leader and sets the benchmark for everyone else. The dotted boundary are the communication channels, the sponsorship level and the organizational context within which we operate to support the organization.

Figure 1
Applying ESG to organizational practice



As experts of human behaviour in organizational settings, we are in a unique position to offer research and insight in all these nine categories. For example, an organization is compliant from a pay policy perspective but is struggling with employee retention

they may seek help in the ‘Social’ category. Your solution could involve a range of offerings like employee upskilling and development programmes; employee well-being interventions; or changes to talent attraction and assessment strategies.

The percentage of attrition (people leaving organizational roles) has a direct bearing on costs for an organization thus making your contribution relevant and essential. But there are further connected issues. A high attrition rate also hampers the public image of an organization. Both of these things will impact the ESG ratings and colour the investor perspective and thus your work will directly help the organization to improve its ESG rating.

While the jury is out on whether or not ESG ratings will provide an efficient long-term solution (Walter, 2019), organizations are paying close attention to their ESG ratings and spending a lot of money to improve them (Perez et al. 2022). There are various methodologies of providing an ESG rating in the market. Some are score-based on a range of 0-100 with a threshold of 70 or above being considered a good score. Other forms use a letter-based notation where C is the worst and A is the best scoring (Infogrid, 2022)

Similarly, an organization with big plans to improve their energy efficiency will value your expertise on initiating organization-wide behavioural changes on how much electricity and plastic employees use. You may also support the organization to build an effective communication strategy to help achieve their goals. Since Environment practices and transparency are a big investor concerns (Petraki, 2021), again your work will play a direct role in improving the ESG rating. You may be doing this sort of work already and had never thought about it in ESG terms.

A word of caution is to learn from our colleagues in the risk and investment field. We must conduct analyses on which ESG area poses the greatest risk to the organization. This will guide us to enable an organization to prioritise its actions; showing them where to begin.

But we don’t always know the best approach. Sometimes, the organization has a better view on where they need help; they have seen the warning signs (e.g., increased number of people leaving, difficulty in recruiting staff). So, this is where our listening practices and ability to provide evidence to support organizational decision-making comes in.

Combine our work with finance / risk management

The second way to contribute to the field of ESG is to combine our work with the finance/ risk management field. While this may seem a tough call this strategy fits well with current educational and business expansion. For example, in education there is now a greater emphasis on inter-disciplinary degrees and supporting people establishing their own businesses. Personally, I have had the privilege (and a bit of naivety) to start my own business at the age of 17 years. At this age, it was easy to learn the 'ins and outs of business', including finance, commercials, supply chain and marketing. After selling my own business, I stayed close to the world of start-ups, as an advisor, where I work with individuals from all age-groups, backgrounds and education level, who have a sound understanding of all these areas of the business as well. This is critical to keep your business afloat and to make sure you know who to hire, where to invest and how to grow the business from all parts. Therefore, anybody in our field who has set up their own business or aspires to truly to grow the company/organization they work for, finance and risk management should not be alien fields to them, at all. There are fellow psychologists who have done this well. For example, some of their work combines the requirement of sound waste management practices and sustainable supply chain for manufacturing plants to efficient organizational design and pro-environmental behaviour (McGuire, et al., 2019).

For this option, I have taken the route of Humanitarian Psychology where we can combine our expertise from the study of psychology for the purposes of greater social good (e.g., Olson-Buchanan et al., 2013). This could be any cause, specifically one that organizations are struggling with. For example, fair pay for all organizations in a product supply chain is currently a big issue. Humanitarian psychologists around the world are engaged in work to find out if there a Global Living Wage that enables people, organizations and communities to prosper and thrive (Carr et al., 2016).

Conclusions

I am sure people might argue that ESG is just another fashionable label or a greenwashing mechanism (Edwards, 2022), but it is a very current concept. It might also be that due to excellent marketing and a bandwagon effect, the word ESG in the coming years loses its credibility. But the fundamental idea that ESG seeks to achieve, that is putting Environment, Social and Governance in the centre of money-related decision-making is here to stay. I am sure of this for two reasons.

One, because ESG ratings will impact where investment money goes and how it helps grow certain markets. And when actions are tied to money, people will always seem to care about it.

Two, because we are urging all psychologists to get involved. While many think that goal of work and organizational psychology is to put people in the middle of all organizations, I challenge this notion strongly because putting people in the middle also means putting people's greed, desires and adversity in the middle of our planetary boundaries.

Currently, very few ESG scoring indexes provide a holistic list of 'Social factors'. While I have personally witnessed an increasing demand from organizations to understand what these factors are, work still needs to be done on how to score them and link them to organizational outcomes of profit, loss and risk. With this article, the hope is that more of us get involved in the conversation on ESG. That with our involvement, we together figure out a way to put 'Social' indicators and risk factors firmly in place.

From a planetary perspective, I urge psychologists to put our mother earth into the middle of their professions and to reflect on how our work impacts the planetary boundaries. We don't need to become experts in sustainability, ESG or activism to do so, but we can contribute by becoming humanitarian psychologists and using our field of psychology for the greater social good and not just the good of human beings. This will allow us to ensure ESG doesn't become just another fad or loses sight of what it set out to achieve.

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