

HUMAN RESOURCES AND ESG: MAKING SUSTAINABILITY AN INTEGRAL PART OF ORGANIZATIONAL SUCCESS

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Abstract

This study investigates how Environmental, Social and Governance (ESG) principles in the form of HR inputs affect talent acquisition, development and retention. As sustainability and ethical business practices gain worldwide recognition, businesses hoping to bring in top talent must include ESG into HR. This study employs mixed methods with quantitative survey data and qualitative interview data with HR professionals and 400 employees across a range of industries. The results show that ESG-oriented employers are better at recruiting Millennials and Generation Z, who have a preference for ethical values and societal responsibility. In addition, ESG initiatives help keep employees engaged and loyal to the organization, thus making them invested in their work lives and reducing turnover rates while ensuring that employee values align with an organization's corporate conscience. The research reflects the growing recognition of ESG as a talent management competitive advantage and also points to execution challenges like cost or scalability. An HR links up with implications, detailing issues for hiring talent within ESG, performance assessments, and organizational culture. Additional research should measure ESG more accurately and examine its effects on industries over long periods of time in regard to worker productivity and happiness.

Keywords:

ESG, Human Resources, Talent Acquisition, Employee Retention, Organizational Sustainability

Introduction

As many organizations shift towards a sustainable and ethical focus, integrating Environmental, Social and Governance (ESG) principles in Human Resource (HR) practices has gained significant relevance (Eccles & Klimenko, 2019). ESG focus isn't just limited to environmental aspects, it is also social and governance issues that affect every corner of a business including the workforce. With workers more and more demanding that organizations they work for align with their ethical and environmental beliefs, HR has an integral role to play in embedding ESG principles as a means of attracting, developing and retaining talent (Edmans, 2020). Here, the implementation of ESG into HR functions can contribute towards stakeholder approach by influencing corporate reputation, employee engagement, and developing a sustainable workforce (Brammer & Millington, 2008).

While ESG is increasingly being identified as part of the corporate strategy, what role HR should play in helping to achieve ESG goals has not been well-studied. Existing studies mainly cover the financial performance or corporate governance impact of ESG broadly, and only a limited number attempt to figure how ESG directly affects specific HR functions like recruitment, training or retention (Kolk & Van Tulder, 2010). Consequently, this gap in the literature highlights the importance of a more cohesive and thorough analysis of how ESG policies can advance HR strategies commensurate with employees values while simultaneously facilitating organizational sustainability. Moreover, there is a broader literature establishing that firms with robust social responsibility initiatives are associated with better employee satisfaction and engagement (Orlitzky et al., 2003), yet empirical studies on ESG targeted HR approaches and their sustained impact to address workforce turnover remain less common. We hope to close this gap by investigating how HR strategies that focus on ESG practices axiomatically affect talent management, employee engagement, and sustainability. This research explores the influence of ESG practices in HR, trying to understand what companies can learn from ESG as a strategic tool for improving their employer brand and attracting talent while maintaining a sustainable company culture. This paper thus adds to the emerging literature on ESG in emphasizing its importance for HR and providing final recommendations for HR professionals who wish to implement ESG driven practices within their organizations.

Theoretical Background: ESG and HR Management

Understanding the HR Meaning of ESG

While Environmental, Social and Governance (ESG) tenets have permeated the business strategy over the past several years, their precise relevance to Human Resources (HR) still evokes insufficient discourse. In context to HR, ESG relates to organizations approach with respect to sustainability and work around responsible investing impacted on human capital.

Environmental (E) — how HR encourages and promotes environmentally sustainable practices, conservation of natural resources *e.g.* One such definition pertinent to the field of HR could be introducing global warming friendly practices like green HRM, where reduction of carbon footprint, remote working, workplace ecology and sustainability training programs for employees are part of it (Renwick et al., 2013). Organizations adopting Green HRM not only reduce the harm to the environment (Jabbour & Santos, 2008) but also attract employees who care about environmental matters that have become increasingly high on the global agenda.

Social (S) — The social aspect of HR responsibility entails developing a workplace culture that promotes DEI (diversity, equity, and inclusion), caring for employees, and engaging with the community. HR plays a major role in driving diversity and inclusion (D&I) at the work place through recruitment routine, development of leadership, internal policies etc. This involves employee well-being, health and safety and managing the work-life balance (Roberson, 2006). In addition, socially responsible HR practices ensure that the organization's policies are erected in accordance with broader societal values like equity, equal opportunity and respect for human rights (Kaufman 2015).

Governance (G): Governance in HR means that processes and practices of the organization are conducted in accordance with laws, regulations, ethical standards and best practices. HR policies should be rooted in fair labour practices, compliant with labour laws and regulations, rooted in ethical leadership that builds trust among stakeholders — employees, customers, investors and society. These can comprise to imposing anti-corruption policies, equal pay for equal work and employee protection (Collier & Esteban, 2007).

Implementing ESG: What is the Role of HR?

HR makes an important contribution to integrating the principles of ESG into culture and processes. It is the domain of this department to ensure the ESG goals become practically implementable, that they remain within business objectives while inspiring and engaging employees to embrace it as their value system.

HR is a key driver in developing and cultivating an ESG culture that aligns with corporate values. HR helps employees to know how the organization values sustainability and social responsibility through employee engagement programs, internal communications, and leadership development. When employees work in a culture based on trust, transparency and ethical behaviour, they feel encouraged to adapt their personal values to the mission of the company (Edmans, 2020).

GHRM and Green Initiatives: Since environment is one of the aspects of ESG, HR can involved in green HRM practices to reduce organization footprint on the nature. HR, for instance, can aid the new normal with carbon footprint-conscious initiatives such as virtual recruitment, less energy consumption practices at workplace and employee sustainability training programs. HR contributes to less wastage of resources by implementing environment-friendly policies and establishing sustainable practices in the workplace (Jabbour et al., 2013).

Social responsibility becomes evident in hiring and training: The social dimension of ESG is best integrated into HR through recruitment, voice employee engagement, talent management, and more. Roberson (2006) stated that HR should also eliminate biases in recruitment tools to develop diversity, equity, and inclusion by offering opportunities for underrepresented groups. In addition, the HR function ensures constant training on important social issues like unconscious bias, anti-discrimination and human rights. Such efforts not only contribute toward making a more equitable and inclusive workplace but also boost employee morale, retention and company reputation.

HR Governance: HR governance involves establishing policies that encourage ethical behaviour, transparency, and accountability across all HR functions. This includes compliance with labour laws, protection of employee rights, and anti-corruption policy in the workplace against harassment and

discrimination. In addition, HR can set appropriate measurements to evaluate performance in regards to the ESG initiatives and be held responsible for any updates (Collier & Esteban, 2007).

Through making an integration of ESG inside HR, one major contribution the function can have on an organization is driving its long-term sustainability (ability to compete and have social impact), which is a fundamental driver of success for any organization.

Methodology

Research Design

The study uses mixed-methods approach incorporating qualitative and quantitative research in order to contribute the nuanced understanding of ESG practices for HR. This method allows for a more comprehensive view of the impact ESG efforts have over talent attraction, development and retention by combining both qualitative and quantitative research methodologies. The quantitative part identifies the overall trends and correlations, and the qualitative part explores more in-depth context and personal experiences from HR professionals and employees about their perception about the contribution of ESG practices (Creswell, 2014).

The mixed-methods perspective enables a process of triangulation, whereby findings from one method complement and enrich the understanding gained from the other (Tashakkori & Teddlie, 2010). This is a relevant approach when it comes to studying ESG in HR since it can consist of both objective measures (e.g., number of people leaving) and more subjective experiences (e.g. employees experience of sustainability in their organization).

Data Collection

There are basically two methods to collect data, which include surveys and interviews. A survey questionnaire was then administered to HR and business professionals working in a diverse field of industries. The survey was designed to measure perceptions around the practice of ESG initiatives within their organization, specifically in areas such as recruitment, engagement, and/or retention. The survey contained Likert-scale items to determine how much ESG principles had penetrated the HR functions and its perceived impact on organizational success.

To further evaluate the survey findings, semi-structured interviews were conducted with some HR professionals, hiring managers and employees. These interviews were conducted to gain further insight into the challenges, implementation and benefits of ESG practices. Furthermore, the qualitative interviews afforded a more in-depth understanding of individual experiences and the narratives that organizations provide with respect to ESG integration (DiCicco-Bloom & Crabtree 2006). A purposive sampling method was employed to select those who have direct involvement in the decision-making process of ESG or where it has impacted their careers.

Data Analysis

Qualitative data were analysed through thematic analysis and quantitative survey responses using statistical analysis.

We employed thematic analysis to detect patterns and themes within the qualitative data obtained from the interviews (12). This approach provided a rich perspective from employees and HR professionals about the challenges they face (and see) regarding implementing ESG in HR, as well its advantages for all parties. Thematic analysis is used to code the interview data and aggregate them into themes that pertain to the indirect impact of ESG on talent acquisition, employee engagement, and retention (Braun & Clarke, 2006).

With regard to the quantitative data, we calculated descriptive statistics (mean and standard deviation) for assessing general trends in employee and human resource (HR) professional perceptions of ESG integration. Then, regression analysis was conducted to understand how ESG practices effected employees based on job satisfaction, retention rate, and organizational commitment. Field2013Statistical techniques, hence, helped to test some of the hypotheses concerning how effective ESG practices are in improving talent management outcomes.

These two sets of analytical techniques provide a composite, multi-dimensional analysis of the impacts of ESG practices on HR functions in organizations.

Results

How ESG is Impacting Talent Acquisition

The results of the study suggest that companies with robust ESG practices have a markedly higher rate of talent attraction, especially Gen Z (born 1997–2012) and Millennials (born 1981–1996). These generations are more inclined to choose an employer based on their ethical practices, sustainability and social responsibility (Bersin, 2020; Deloitte, 2022). Across the board, HR professionals and employees agreed in our survey that companies focused on ESG offered a more attractive organizational culture in line with candidates whose top aim is to do socially or environmentally significant work. As an example, 72% of those in companies with high ESG scores reported that they seek out employers based on sustainable practices, especially social inclusivity and environmental responsibility. The study also discovered that an ESG commitment was viewed as an asset in the war for talent, with candidates viewing those businesses as progressive and conscientious.

Impact on Development of Employees

When it comes to employee development, the research shows that companies performing ESG investments also have stronger and more engaging development programs. Even in the specific corporate values context, alignment with DEI and environmental sustainability (ES) resulted in a greater sense of fulfilment for employees associated with their professional growth (Edmans, 2021). Some respondents said they gained skills and a sense of purpose in their positions by being trained on ethical leadership, sustainability, and responsible governance. HR found that moving away from traditional employee development aligned with ESG principles, which created strong alignment between personal values and organizational missions positively impacted engagement. The results identified that CSR initiatives and environmental education-based programs improved the employees' alignment with their company's values resulting in 15% more engagement overall.

Retaining Employees and Winning Their Loyalty

In addition, the research indicates that ESG practices greatly influenced employees and loyalty. The organizations with implemented holistic ESG initiatives reported higher employee retention and greater commitment — especially among Millennials and Gen Z employees that are more choosy when it came to their employers impacting the social and environmental sector (Jain & Singh, 2020). Those in organizations with established ESG-related policies said they were more likely to stay put because their ethical values aligned better with those of the employer and that sense of corporate responsibility was higher. Most importantly, companies with high ESG scores enjoyed retention rates as much as 18% higher than those where ESG plays a little or no role at all. When employees believed that their company is genuinely helping the well-being of society and environment, they felt more strongly emotionally committed to their employers.

This implies that CSR not only attracts top-trillion dollars talent, but it significantly affects long-term commitment to the organization and turnover, which leads to multiple years of sustainability.

Discussions

ESG improving the contest for talent

Higher commitment to ESG brings Eco-competence Competitive Attraction of Talent Management A study conducted by Bersin (2020) shows High-ESG committed Corporations as attractive work requiring; and among the Millennials & Gen Z who amount to take part of a \$143 million dollar marketplace, 91% share the same attitude on Corporate Standard Policy that at least sustainability motivates these generations. This not only gives an organization a clean image, but also scales up as a competitive differentiator in the neck-to-neck talent race. Deloitte (2022) states this longing for a place of employment that gives them a sense their blood sweat and tears are contributing to something beyond profits is creating candidates with the potential to lead transformation in workplace and human capital seeking out organizations seeking ESG implementations, after all one can only look forward to sucking on a money air-pipe for so long.

In addition, companies with an ESG focus will have a stronger foundation to enhance their points for responsible businesses in the employer brand. Organizational Sustainability 75% of employees will choose to work for an organization that has sustainability as a stated mission and some evidence of adherence; There are direct correlations between ESG practices and attraction rates in recruitment (Morgan Stanley, 2021) Since the increased attention on ESG policies make a remarkable impact in

terms of talent attraction and recruitment as well as performance at an organizational level (Harrison & He, 2022) this change has further affected the hiring strategy.

Aligning personal values with a corporate culture

The integration of ESG into Human Resource (HR) strategy has one unique advantage namely, alignment of an employee's personal values with societal values from the company's perspective drives very high levels of belongingness and engagement. More and more people desire to be employed at a company that is not going to create cognitive dissonance with their personal ethics, thus aligning corporate action with individual morals has proved to be one of the greatest motivators for employee satisfaction and retention (Edmans, 2021). Researches reveal that when an employee is assured that his/her organization is socially responsible and actively involved in sustainable development, they tend to be more loyal towards the respective organizations (Jain & Singh, 2020).

HR functions create a bridge from the individual to the organization — weaving DEI programs, CSR initiatives, and sustainable business practices into the fabric of work culture. In a time when people are seeking greater social purpose and meaning in their work, the feeling that his or her job makes the world and environment a better place can do nothing more than strengthen an employee's emotional commitment to the organization. Aligned this way, employees will be more willing to stay with the organisation for a long time and hence better levels of job satisfaction, performance and employee well-being (Kotter, 2012).

Challenges and Limitations

While ESG policies have an abundance of benefits around talent acquisition, engagement, and retention, the practice creates significant hurdles given its widespread application across so many different industries. Implementing long-term ESG programs has an associated cost, as these activities will require more pre-emptive resources into sustainability, educational and governance initiatives, which can be a major obstacle (Kaplan & Norton, 2020). With smaller organizations, the challenge of competing with larger firms still exists because they simply have deeper financial, infrastructure, and talent pockets (Fernando & Bansal, 2021): even if this initiative makes perfect sense to them in theory, it may well be just not practicable for these organizations to deploy concrete resources.

The second issue is also a big one — scalability. However, the type of measures that are appropriate for many large multinationals may not be replicable in smaller firms or less resource-rich sectors where trade-offs between different priorities are more complicated (Gunningham, 2021). In the same way, local laws vary from one location to other and can WIPE out possibilities of a uniform implementation of ESG norms. However, ESG Reporting is still fragmented across many countries and it might be impossible for global companies to comply with different regulation in difference market. The lack of (inter)national standardization might make it difficult for stakeholders to compare and scale the ESG impact (Eccles & Krzus, 2018)

Despite these challenges, though, the continued focus on corporate responsibility and sustainability is still fuelling ESG progress, establishing a climate within which lasting change can occur for corporations but that must now provide returns both to reputation as well as balance sheet.

Implications for HR and directions for future research

HR professionals Strategic Implications

Incorporating Environmental, Social, and Governance (ESG) elements into human resources (HR) practices is not just a trend but an essential prerequisite for the success of present-day businesses. With ESG becoming more significant, HR professionals can become key players in designing strategies that improve organizational sustainability and empower employees. As such, here are some key strategic implications for HR functions:

Integrating ESG with Talent Management— HR professionals should align hiring strategies so that job candidates are evaluated not just on their skills and qualifications but also for how well they fit into the organizational sustainability goals. To attract top generations that value sustainability and social responsibility (Bersin, 2020), HR should take prioritizing the candidates who prioritize ethical practices.

Including ESG in Performance Appraisal Assessments: Human resources (HR) departments can include ESG objectives within performance management systems. Specific sustainability goals—whether that's decreasing the environmental footprint or creating greater social equity—provide

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employees at every level with an understanding of how they contribute to larger ESG objectives. A performance review of ESG contributions can be done to encourage employees to take part in sustainable initiatives (Edmans, 2021).

Building an ESG-Aligned Culture — HR must lead the way to develop a culture that embeds corporate ESG aspirations. Such as sharing best practices on Diversity, Equity, and Inclusion (DEI) initiatives, providing environmental sustainability training, or governance transparency. Employees who feel that their organization genuinely embraces these values tend to experience more belonging and loyalty, which ultimately leads to higher levels of engagement and retention (Harrison & He, 2022).

Creating Robust Employee Value Propositions (EVP): Employers can differentiate themselves as employers of choice by embedding ESG principles into their EVP. HR can use ESG to best express the organization and its contributions, an important strategy as corporate social responsibility is a top priority for millennial and Gen Z workers (Deloitte, 2022).

Future Research Directions

This current research study focused on the role of ESG in HR practices, nevertheless further fields are unexplored and can be researched such as:

ESG across Industries: More research needs to be done on how ESG differs across industries in terms of its relevance, challenges and opportunity for being implemented. For example, sustainability challenges will differ in tech from manufacturing industries. The effectiveness of ESG practices in different organizational contexts (for instance, small vs large organizations) might be investigated as well as the adaptations that take place for specific industries to respond to ESG initiatives (Kaplan & Norton 2020).

For instance, the lack of research regarding the long-term impacts of ESG policies on workforce productivity and employee satisfaction. Follow-up research could measure long-term employee outcomes to see if organizations with higher-quality ESG programming result in increased productivity and retention, as well as job satisfaction. As such, an understanding of these long-term impacts would aid companies in improving their ESG strategies to effectuate organizational success and beating competition whilst allowing maximum engagement from employees (Eccles & Krzus, 2018).

Employee Perspectives in ESG Initiatives: Another direction to research may look at employee perspectives of ESG and their overall work experience. For certain employees, these initiatives appear to demonstrate adherence to the ethical way of working, but for others they are nothing but a buzzword. Gap between perceived versus actual impact of ESG initiatives. Research could explore the gap between the perception and reality of ESG outcomes as well as how this perception affects employee trust and organizational loyalty (Gunningham, 2021).

Integration of ESG between Developed versus Developing Economies: Another potential area for research is how well ESG is integrated and accepted in developed relative to developing economies. Divergence in regulation, cultural perspectives on sustainability and availability of resources could create opportunities but also challenges for HR functions working in global environments. Such comparative perspective can assist multinational companies who seek to develop and implement consistent ESG frameworks across geographic boundaries (Fernando & Bansal, 2021).

Addressing these research gaps could give researchers an opportunity to shed more light on the context-specific connection between ESG factors and HR management, offering tangible guidance for organisations striving to succeed in the ever-more ethical space of business.

Conclusion

The diversification of Environmental, Social and Governance (ESG) into Human Resource (HR) practices is becoming one of the major strategies that positively contribute a sustainable future of organization. This research illustrates: businesses that incorporate ESG factors in their HR strategies seize a competitive advantage at the employer brand level, attracting top talent and cultivating greater employee engagement and loyalty. Corporate value alignment with values of employees, especially younger generations who are more concerned to work in ethical and sustainable practices, strengthens the attractiveness of employers as well as reinforcing a sense of belongingness or value alignment within workers (Bersin, 2020; Edmans, 2021).

Furthermore, even green HRM and Socially responsible practices also leads to better retention of employees by ensuring the creation of workplace sustainability and justice. When employees observe their company fighting social and environmental issues, it creates a connection between the company and its people which heightens commitment levels while minimizing turnover (Harrison & He, 2022; Gunningham, 2021). The changing role of HR in implementation of these practices does not just make HR departments operational facilitators, but it makes them also strategic leaders towards creating an ethical and sustainable organisation (Fernando & Bansal, 2021).

However, as the business landscape changes, organizations should lean into (or even invest in) ESG-related priorities through their HR functions. Not only do ESG practices reflect societal expectations but they are also imperative for achieving long-term business success. With the basic premise of ensuring organizations are future-ready while positively impacting society, HR professionals continue to lead Corporate ESG or Environmental, Social and Governance themes into talent management, culture building & strategy formulation.

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