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ESG Trends: Results of the 2022 HR@Moore Survey of CHROs

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Sponsored by the Center for Executive Succession

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EXECUTIVE SUMMARY

There has been incredible momentum in recent years for the expectation that major companies should be attentive to and deliver results on Environmental, Social, and Governance (ESG) issues. For their part, companies and their executive leadership teams (ELTs) seem responsive to these expectations, developing ESG strategies and devoting resources to making progress in these areas. Perhaps the most notable commitment along these lines came in 2019, when the Business Roundtable (BRT) issued a statement to "redefine the purpose of a corporation" to focus on all stakeholders rather than be predominantly centered on shareholders. Much of the conversation around corporations in the years since, through the pandemic, George Floyd's murder, growing climate concerns, and more, has only accelerated the focus on ESG.

Given these developments, we asked CHROs a series of ESG-related questions intended to gather insight into how their ELTs' time and attention devoted to stakeholder issues is changing and on what activities they are spending that time. The majority of CHROs report an increase in their ELT's time devoted to non-shareholder stakeholders in recent years, exemplifying the principles of the BRT statement. In other words, the CHROs we heard from broadly feel, on average, as though the BRT statement is a reality in their ELTs and at their companies.

Our respondents also report a substantial variety of initiatives their ELTs are currently engaged in for each of the environmental, social, and governance domains. Perhaps unsurprisingly, emissions reduction and diversity, equity, and inclusion (DEI) dominated the responses in the environmental and social categories, respectively, with over 80% of CHROs citing their company's efforts in these areas. But underneath those headliners was an assortment of initiatives on a wide range of ESG issues that ELTs are committed to making a positive impact.

An interesting pattern of relationships emerged between these initiatives and the CHROs' ratings of their company's environmental, social, and employee-focused performance relative to their closest competitors. The category of environmental initiatives that was most strongly related to environmental performance was those seeking to address grand societal challenges, whereas those focused on internal capabilities and waste reduction were actually negatively related. These relationships suggest that CHROs of companies thinking (and acting) more broadly in their environmental initiatives are more optimistic about their company's environmental impact.

The relationships in the social domain were even more striking. Employee focused initiatives (e.g., DEI, employee engagement, safety) were only weakly related to CHRO ratings of the company's performance in "attracting and retaining key employees" but were all negatively related to the ratings of social performance. In contrast, externally focused initiatives (e.g., community engagement, racial justice, community workforce development) were far more strongly related to CHRO ratings of company social performance and the company's ability to attract and retain employees. These findings suggest there may be more "win-wins" created through social initiatives that seek to make an impact outside the company compared to those that are strictly focused on supporting employees.

For this report, and as part of the 2022 HR@Moore Survey of Chief Human Resource Officers, we gathered information about the time and attention ELTs are paying towards ESG issues and the specific ESG initiatives occupying their time. We received responses on these items from 107 CHROs. We also asked CHROs for assessments of their company's performance along a variety of dimensions relevant to ESG to provide further analysis on the connection between ESG initiatives and company impact.

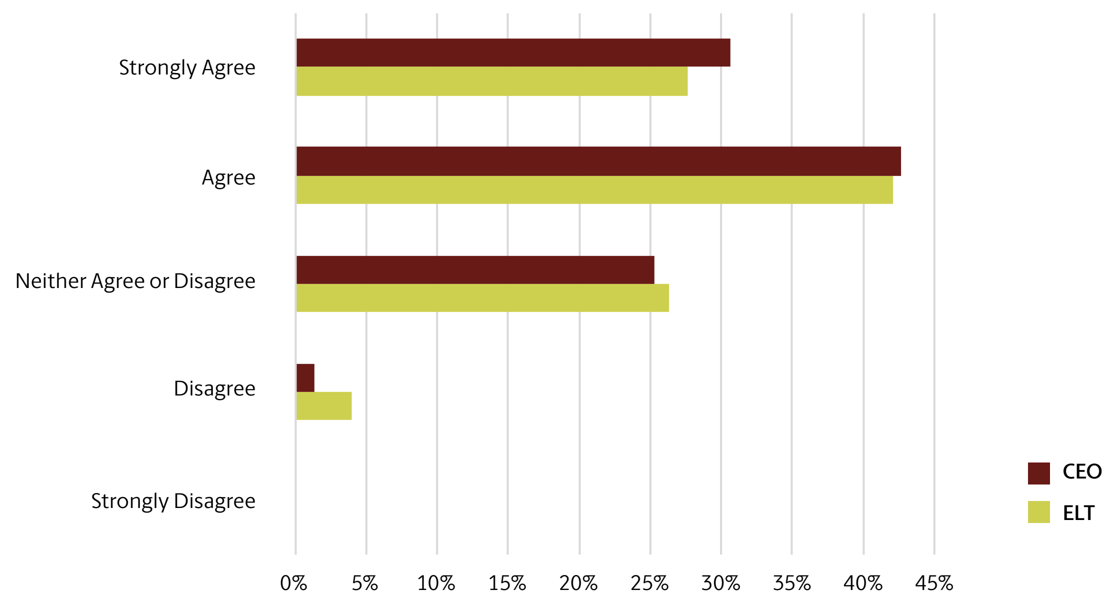
Business Roundtable Statement

We asked CHROs several questions pertaining to the Business Roundtable (BRT) statement from 2019, in which 181 CEOs from many of the largest US companies agreed to “redefine the purpose of a corporation” to commit to all stakeholders, not just shareholders. This statement came amid changing attitudes around ESG issues and increasing expectations for companies to do more for stakeholders. The BRT statement was met with something of a mixed response and perhaps even some skepticism that it represented a significant shift away from the shareholder primacy mindset. In the 2022 CHRO survey, we asked questions to gain insights into whether ELTs are approaching their roles in line with the principles of the BRT statement and how their emphasis on stakeholders has changed in the years since this statement.

First, we asked CHROs to rate the extent to which their CEO and ELTs exemplify the principles of the BRT statement and incorporate these principles into company decision-making. These responses are illustrated in **Figure 1**. 73% of respondents agreed or strongly agreed that their CEO embodied this statement, while 70% agreed or strongly agreed regarding their ELT. Unsurprisingly, CEO and ELT ratings on this question were correlated very highly (r = .89). No respondents “strongly disagreed” with this statement for either CEOs or ELTs, and only one and three “disagreed” regarding their CEO and ELT, respectively.

Figure 1

Our CEO/ELT exemplifies the principles of the BRT’s statement and incorporates these principles into company decision-making.

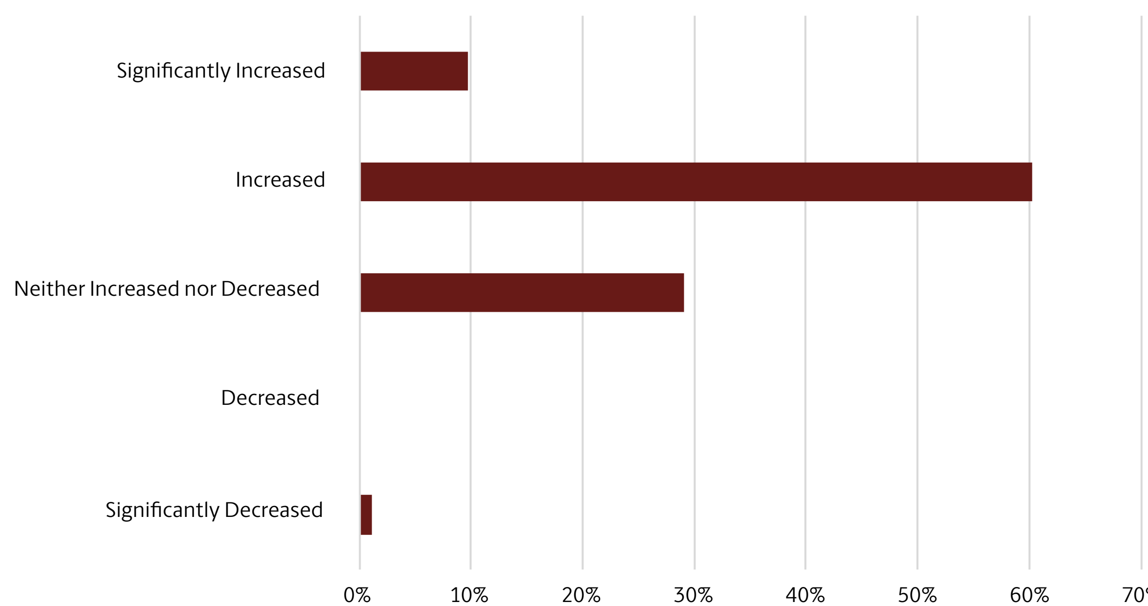


We also asked whether their ELTs had changed the time they devote to stakeholders over the past few years. The most common response was "increase" (60% of respondents), followed by "neither increase nor decrease" (29%), "significantly increased" (10%), and "significantly decreased" (1%). While perhaps unsurprising that so few companies report decreasing their focus on stakeholders, it may be somewhat surprising that so few have significantly increased their focus especially relatively to those with no change. See **Figure 2**.

The ratings of CEOs and ELTs embodying the BRT statement were both correlated with increasing time spent on stakeholders (r = .26 and r = .20, respectively). It says something that these CEOs and ELTs were more likely to continue to increase their focus on stakeholder in the years since the BRT statement, particularly since these BRT-principled CEOs and ELTs were likely already spending considerable time on stakeholders. Finally, the higher correlation with the CEO rating (compared to the ELT rating) suggests that CEOs are, albeit slightly, more instrumental to driving the ELT's focus on stakeholders.

Figure 2

To what extent has the time and attention your ELT pays to the non-shareholder stakeholders listed above (i.e., customers, employees, suppliers, and communities) changed in the past 3-5 years?



Environmental Initiatives

The increasing demands in recent years, including from many investors, to limit environmental harms and otherwise become more sustainable have made the 'E' in ESG a mainstream area of focus for ELTs and boards of directors. Because companies are at various stages of their environmental journeys, we asked CHROs an open-ended question regarding what environmental initiatives their ELTs were primarily focused. **Table 1** features the categories that emerged from those responses, the percentage of respondents who reported an initiative in each category, and some representative examples from categories which featured more varied activities.

Table 1

67 total responses

Thinking About ESG Goals, What Are The 2-3 Environmental Initiatives That Your ELTs Most Focused On Currently?	Percent Respondents
Reduce Direct (Scope 1 & 2) Greenhouse Gas Emissions • Establish target dates and roadmaps to achieve net zero carbon emissions • Convert from fossil fuels to renewable energy sources • Reduce travel and other transportation emissions	**85%**
Reduce Waste • Enhance recycling efforts • Limit hazardous waste and landfill use	**28%**
Reduce Scope 3 Emissions Throughout Product Life-Cycles • Educate customers and help them reduce carbon footprint • Work with suppliers to develop more sustainable sourcing	**19%**
Reduce Water Usage	**18%**
Develop Internal Capabilities around Sustainability • Set and implement plans around Science-Based Targets (SBTs) • Invest in sustainability-focused people and processes	**16%**
Address Grand Societal Challenges Related to Sustainability • Help to decarbonize the U.S. economy • Use sustainable practices to resolve food insecurity • Work towards environmental justice	**9%**
Innovate and Develop Sustainable Products	**7%**

We received responses on specific initiatives from 67 CHROs, 85% of whom noted their companies intended to reduce emissions directly from company operations and energy use (Scope 1 and Scope 2, respectively), by far the most commonly reported area of focus. Many respondent companies have committed to achieving "net zero" emissions by a certain target date and developed a roadmap to achieve their target. Such roadmaps often include a mix of reduction of high-emitting activities and transition to cleaner sources of energy.

Some CHROs (19%) reported that their ELTs have evolved their focus to Scope 3 emissions, or those that are not created directly from company operations but indirectly throughout their products' life-cycles. These 19% were split between supplier-focused initiatives to select and work with partners to reduce emissions throughout the supply chain and consumer-focused initiatives to educate and help customers to make more environmentally friendly choices and improve their product usage.

Other common responses included reduction of waste (28%), often referencing recycling efforts and mitigating landfill use, as well as reduction of water usage (18%). Some CHROs (16%) referenced specific internal capabilities and goal-setting around sustainability, others spoke to grand societal challenges (e.g., food insecurity, environmental justice) (9%), and a few (7%) cited their companies' efforts to innovate new products that contribute to sustainability.

We also asked CHROs to rate their environmental performance over the prior three years relative to their main competitors. Interestingly, we found the category of environmental initiatives from Table 1 that exhibited the strongest correlation with these CHROs' environmental performance ratings were those addressing grand societal challenges ($r = .16$), perhaps indicative of those companies' abilities and ambitions to have a broader environmental impact.

In contrast, the categories with the strongest negative correlations with environmental performance ratings were waste reduction ($r = -.15$) and internal capabilities ($r = -.12$). While all environmental initiatives are highly interdependent, it may be that waste reduction is less costly or intensive than others and is therefore less indicative of CHROs' perceptions of a comprehensive environmental strategy. For the latter, many of the responses around internal capabilities seemed to indicate CHROs felt their companies were earlier in their environmental journeys.

Social Initiatives

We similarly asked CHROs to offer their highest priority social initiatives and coded the categories that emerged from the 70 responses received (see **Table 2**). Diversity, equity, and inclusion (DEI) was far and away the most common area of focus reported (86%), as our respondents are working to increase representation of women and racial minorities in their companies and create an inclusive culture that can help make this push for diversity more enduring. Notably, however, CHROs of these companies did not report in separate survey items having more women or nonwhite individuals in their CEO talent pipeline or current ELT compared to those that did not mention any DEI initiatives. This at least suggests these companies' DEI efforts have yet to yield significant impact at the highest levels of their organization.

CHROs reported many additional initiatives around racial justice and equity that are focused more on external communities than within the company (16%). Clearly, this emphasis on race and justice issues is at the forefront of companies' social efforts, particularly following significant societal movements in recent years, most notably the protests following the murder of George Floyd.

The broader distinction between inwardly focused initiatives, largely around employees, and externally focused ones emerged as an interesting theme in these responses. As with DEI, other initiatives that are employee focused included employee engagement and retention (16%), workplace safety (10%), and employee mental health and well-being (9%). Other initiatives more externally focused, akin to those attending to broader justice and equity concerns, include community engagement and philanthropy (23%), workforce development and education (16%), and efforts to bridge socioeconomic divides (9%).

In addition to these initiatives, we asked CHROs to rate their company's performance over the prior three years relative to competitors on "attraction and retention of key employees" and "support for social or community issues". One would expect the employee focused initiatives to be strongly related to CHRO ratings of their company's attraction and retention of employees and the externally focused initiatives to be strongly related to CHRO ratings of company social performance.

Table 2

70 total responses

Thinking About ESG Goals, What Are The 2-3 Social Initiatives That Your ELT Is Most Focused On Currently?	Percent Respondents
Diversity, Equity, and Inclusion • Increase gender and racial diversity throughout company • Implement HR practices around inclusion and develop inclusive culture	**86%**
Community Engagement and Philanthropy • Form and strengthen local community partnerships • Enhance employee volunteer programs • Build or maintain philanthropic foundation	**23%**
Racial Justice and Human Rights • Support community racial justice initiatives • Improve health and education equity • Advocate for human rights initiatives	**16%**
Community Workforce Development and Education • Expand opportunities for STEAM education • Create awareness and opportunities for skilled trades	**16%**
Employee Engagement and Development • Improve company culture and employee engagement scores • Upskill and offer clear opportunities for advancement	**16%**
Workplace Safety	**10%**
Bridging Societal Divides • Advocate for affordable housing and other economic inclusion initiatives • Play a role in improving social cohesion and allaying polarization • Minimize impact of clean energy on communities reliant on fossil fuels	**9%**
Mental Health and Well-being • Provide mental health support for employees • Seek ways to improve overall employee well-being	**9%**

Interestingly, however, the four employee focused categories (DEI, engagement, safety, and mental health) were very weakly related to CHRO ratings of their company's ability to attract and retain employees (the strongest was safety at only r = .04), and all were negatively related to CHRO ratings of social performance ratings (ranging from r = -.08 for mental health to r = -.27 for engagement). These findings suggest at some level that employee focused initiatives may be done at the expense of social or community efforts. More concerningly, however, these initiatives do not appear to improve the company's ability to compete for talent, perhaps in part because younger generations of workers (e.g., Gen Z) are seeking employers that offer purpose-driven work that makes a broader social impact.

The externally focused initiatives (community engagement, racial justice, workforce development, bridging divides) tell a far different story. Their correlations with social performance ratings ranged from r = .05 (workforce development) to r = .19 (racial justice), making each more strongly correlated to social performance ratings than any of the employee initiative correlations described above. Interestingly, this did not come at the expense of the company's ability to compete for talent, as three of the four externally focused categories (community engagement, racial justice, and workforce development) were positively related to CHRO ratings of company performance in attracting and retaining employees. Most notably, community engagement exhibited the strongest relationship with these ratings of any category (r = .22).

Governance Initiatives

In contrast to environmental and social initiatives, there was not a single category of governance initiatives that emerged from a large majority of the 50 responses received. Initiatives pertaining to board composition and oversight (36%) were mentioned more than any other category, with many specifically referencing company efforts to increase representation of women and racial minorities on the board.

Close behind was governance around ESG (30%), which included some mentions of incentives and other accountability mechanisms to achieve the company's ESG goals. The most common theme in this category, however, was engaging the board on ESG topics and finding alignment with the board on the company's ESG strategy.

A variety of conventional governance topics were cited by our responding CHROs, including risk management (18%) and shareholder relations (8%). Reporting and disclosures (18%) represent another traditional governance activity but one that is taking on increasing importance for many companies with new SEC disclosure requirements looming, many of which pertain directly to ESG issues.

One final subject of note is cybersecurity (16%), as many companies are increasingly concerned about service disruptions and data hacking, among other digital threats. Particularly in light of some high-profile cybersecurity breaches in recent years, proficiency in this area has become imperative, and many companies are aggressively working to build and refine their cybersecurity capabilities.

Table 3

50 total responses

Thinking About ESG Goals, What Are The 2-3 Governance Initiatives That Your ELT Is Most Focused On Currently?	Percent Respondants
Board Composition and Oversight • Increase board diversity and representation • Navigate board retirements and other succession events • Incorporate industry best governance practices	**36%**
Governance around ESG Issues • Align board with ESG goals • Link ESG goals to incentives • Ensure accountability for ESG goals	**30%**
Enterprise Risk Management	**18%**
Reporting and Disclosures • Comply with new SEC requirements • Develop new and better metrics • Improve 3rd party ratings and certifications	**18%**
Cybersecurity • Align security practices with international standards • Develop and implement standards for data privacy and security	**16%**
Ethics	**10%**
Shareholder Relations • Prepare for proxy season • Manage say-on-pay votes	**8%**
Other Issues (e.g., executive pay, talent pipeline, compliance training)	**16%**

SUMMARY AND CONCLUSIONS

ESG is increasingly at the forefront of the minds of our CHRO respondents and appears to be a higher priority item in corporate ELTs than perhaps ever before. The responses we received show that ELTs are largely bought in to the stakeholder-focused principles advocated by the BRT statement and underlying the push towards ESG. Beyond that, a clear majority of ELTs are spending more time and attention on stakeholders in recent years than they had previously, further evidence of ESG's growing stature as a strategic imperative.

Clearly, DEI and emissions reductions are the two issues that dominate much of the ESG conversation and most heavily occupy the time and attention ELTs devote to ESG. But the breadth of ESG goals companies are working towards and initiatives they are undertaking to achieve those goals is striking and suggests there may well be new ESG trends on the horizon in the coming years.

On this point, some of our data indicates that companies that are thinking more broadly about their ESG initiatives, such as those pursuing social goals outside company walls or those using environmental initiatives to address lofty societal challenges, report stronger ESG performance relative to their competitors. That is not to say this will or should turn into a race for who can do the "most" ESG, but it does suggest there are potential advantages to be gained for pursuing ESG goals outside the big two of DEI and emissions reductions.

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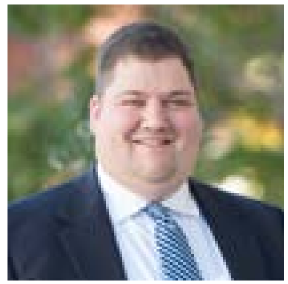

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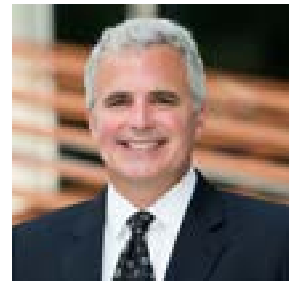

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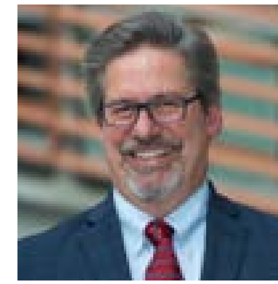

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The Center for Executive Succession serves as an independent, objective source of knowledge regarding C-suite succession practices. The center provides a forum for corporate leaders to shape the future direction of succession practices, which are increasingly one of the board's top governance priorities. Our partners have the opportunity to contribute to cutting-edge research that challenges the status quo and is empirically driven to further success in C-suite succession planning. For more information or to inquire about potential membership, please visit our website or contact us at sc.edu/moore/ces.

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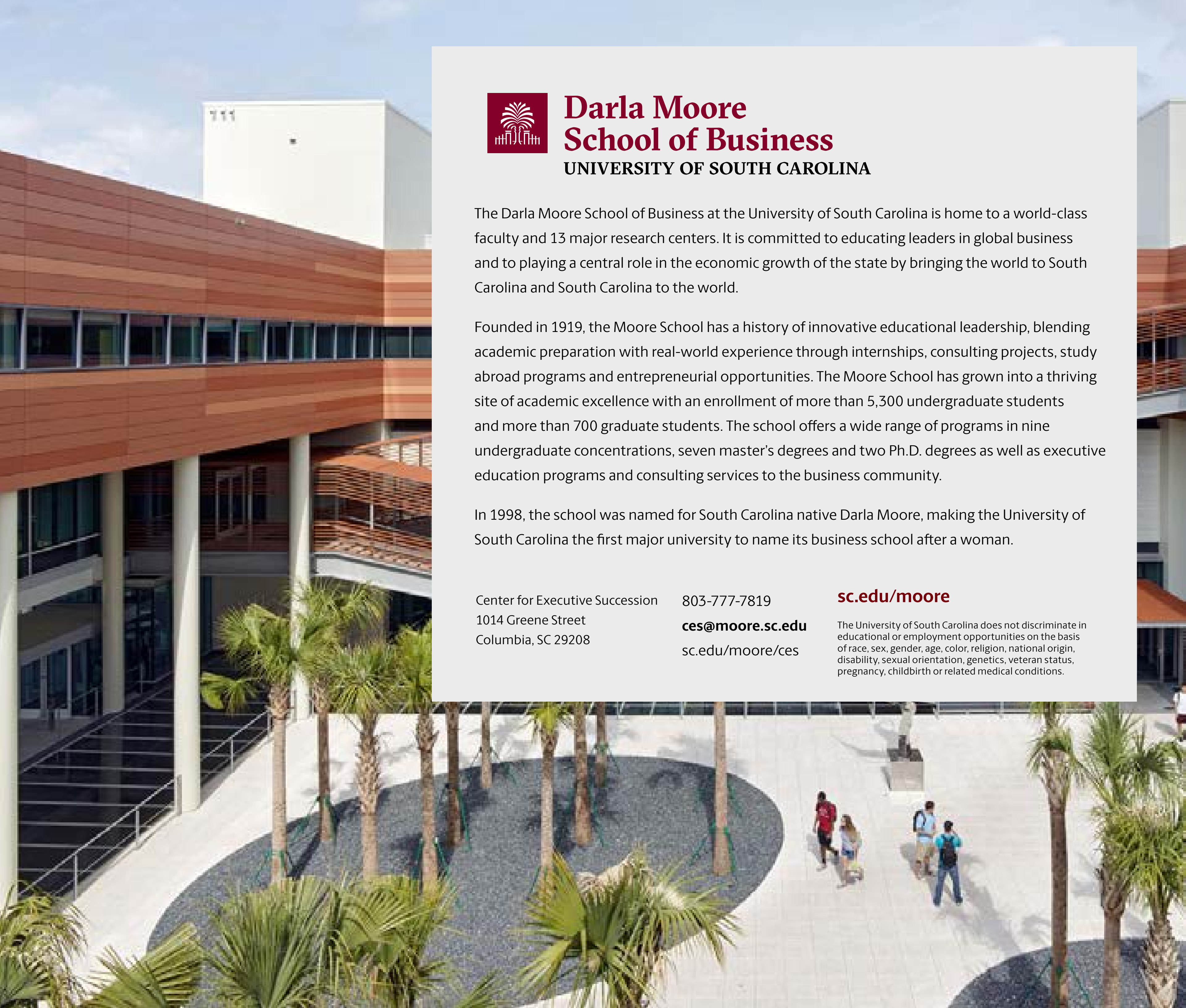

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Founded in 1919, the Moore School has a history of innovative educational leadership, blending academic preparation with real-world experience through internships, consulting projects, study abroad programs and entrepreneurial opportunities. The Moore School has grown into a thriving site of academic excellence with an enrollment of more than 5,300 undergraduate students and more than 700 graduate students. The school offers a wide range of programs in nine undergraduate concentrations, seven master's degrees and two Ph.D. degrees as well as executive education programs and consulting services to the business community.

In 1998, the school was named for South Carolina native Darla Moore, making the University of South Carolina the first major university to name its business school after a woman.

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