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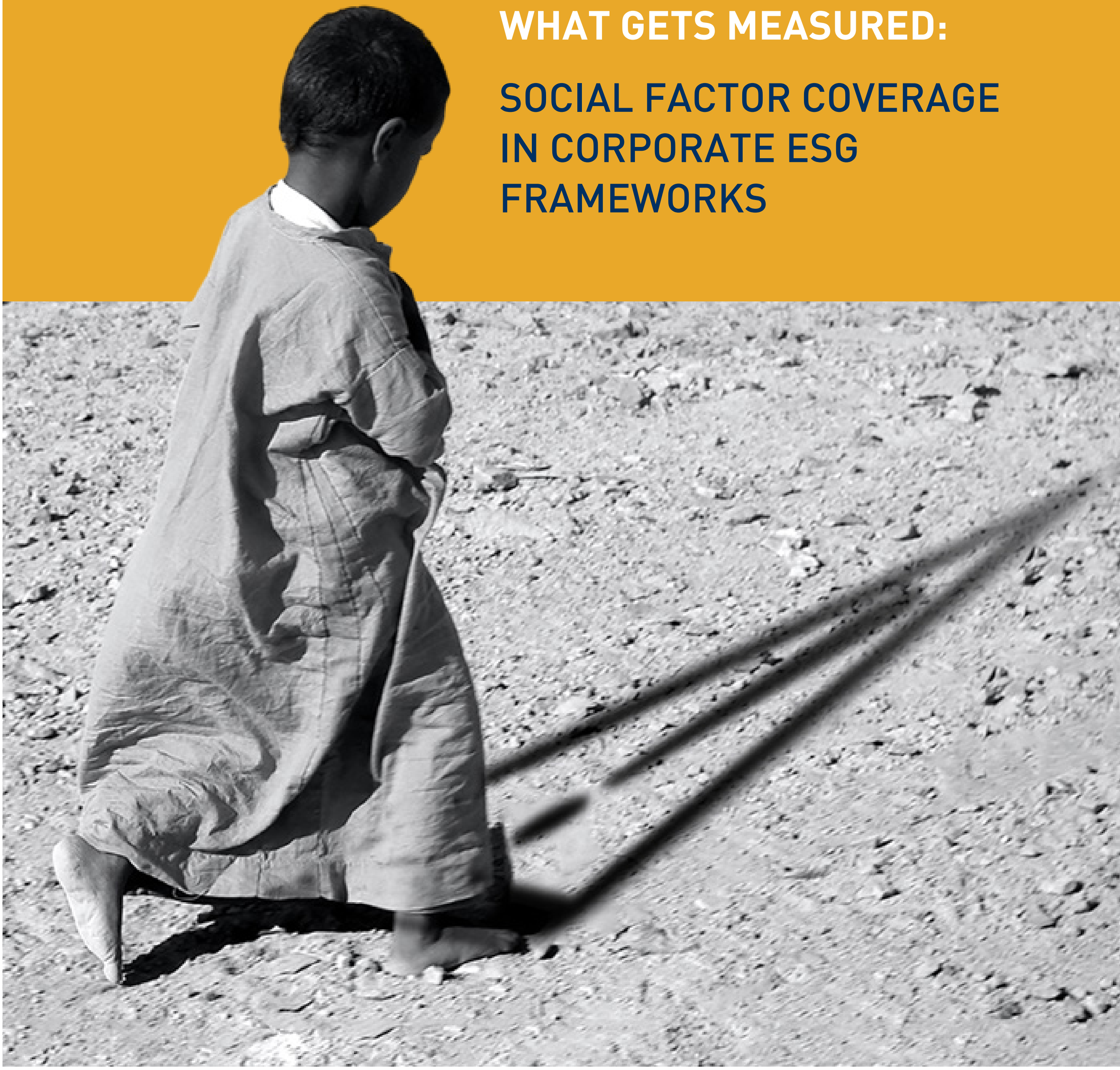
INCLUSIVE ECONOMY center

WHAT GETS MEASURED:

SOCIAL FACTOR COVERAGE IN CORPORATE ESG FRAMEWORKS



S&O Inclusive Economy Center at HEC Paris

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TABLE OF CONTENTS

About the Inclusive Economy Center of the Society & Organizations Institute (HEC Paris)
HEC S&O Inclusive Economy Center is dedicated to studying and creating new ways for companies to improve their social impacts, contribute to the fight against poverty, and co-create a more inclusive society.
We have an integrated approach along three pilars:

THINK: We combine original data collection and rigorous scientific research in order to offer reliable solutions for decision-makers seeking to further economic inclusion and expand economic opportunity for all.

TEACH: We are committed to helping our students and executive education participants develop the knowledge, knowhow and soft skills that are required to lead organizations conducive towards inclusive growth.

ACT: We collaborate with our partners -business leaders, investors, board members, public institutions, and civil society organizations – to design effective strategies to build a more inclusive economy. We foster exchange between students and faculty at HEC Paris, top academics in the field internationally, and our practitioner partners.

About the S&P Global Sustainable Finance Scientific Council
The S&P Global Sustainable Finance Scientific Council aims to provide a thought-leadership and research platform for leading scientists, academics, think-tanks and corporate executives, to develop and exchange ideas on strategies, tools and practices which will positively contribute to the wider debate on sustainability. The research generated by the S&P Global Sustainable Finance Scientific Council does not comment on current or future credit ratings nor does it constitute a methodology used for credit ratings.

For more information, including current membership and previous research, visit the S&P Global Sustainable Finance Scientific Council.

Key Takeaways

- **The 'S' dimension of ESG is often considered by the market to be the least well understood or defined of the three.** In this paper, we analyze the social factors that are covered by 18 corporate ESG frameworks (including ESG standards, evaluation, and impact frameworks) to identify social factors for which there is the greatest and least consistent coverage. In doing so, we identify higher consensus factors (those factors which have the greatest coverage across frameworks) as well as those factors with least consistent coverage across the ESG frameworks.

- **We identify four central challenges that may limit effective social factor reporting and evaluation: scope of coverage, depth of coverage, data and metrics, and relationship with E and G factors**— combined, these challenges may inhibit consistent, reliable, and comparable social performance analyses used to inform stakeholder decision-making and drive improvements over time. In this report we focus principally on the first challenge, the scope of social factor coverage in ESG frameworks.

- **Based on our analysis of social factor coverage, ESG frameworks do not provide consistent insight into the social impacts and dependencies of companies.** Our systematic analysis of the social factors covered by 18 ESG frameworks reveals that there is limited agreement on which social factors to cover, and consequently, different frameworks can paint markedly different pictures of a company's social performance.

- **The analysis reveals areas of inconsistent social factor coverage within and across ESG frameworks, most notably concentrated in the *Labor & Human Rights at Work and Community & Business Ethics* dimensions.** Lowest coverage social factors include Mental Health and Wellbeing, Ethic Supplier Relations, and Impacts on Vulnerable Groups. Some social factors are not covered at all.

- **There is, however, greater coverage of and agreement between ESG frameworks on social factors related to *Employment Practices and Employee Health & Safety***— including most notably, Minority Inclusion, Workplace Accidents and Injuries, and Social Protection and Freedom of Association.

- **Therefore, investors concerned about achieving greater coverage would benefit from looking across multiple complementary ESG frameworks** when trying to understand the social dimension of a company.

- **Lastly, we observe challenges for ESG frameworks to stay responsive to society's new or emerging social challenges,** leading firms to go beyond the scope of ESG frameworks to understand and respond to their broader societal impacts.

Introduction

Despite the increasing focus on company Environmental, *Social,* and Governance (ESG) performance in recent years, the social dimension — driven in part by the impacts of the COVID-19 pandemic — has only recently begun to attract the strategic consideration of many companies, investors and other financial market participants[1]. Recent academic work underscores the potential reputational and relational impacts (positive and negative) on companies stemming from social factors, and subsequently the effects of these impacts on companies' financial outcomes (see for example: Eccles, Ioannou, & Serafeim, 2014; Barnett, Henriques, & Husted, 2020; Durand & Huysentruyt, 2022; Nardi, Zenger, Lazzarini, & Cabral, 2022).
Against this backdrop, the debate on the role of business in society has progressed beyond whether firms should engage on social issues to understanding *what* impact they have on stakeholders—including their workforce, consumers, and the community—and how they can engage to best manage this impact. Indeed, recent regulatory developments have made effective monitoring and management of social factors an imperative for many firms. For example, see the Withhold Release Orders used by United States Customs and Border Patrol to restrict imports due to forced labor risks, the mandatory human rights and environmental due diligence law passed in Germany in 2021, and the European Commission's released draft directive on Corporate Sustainability Due Diligence.

But while initiatives like the Task Force on Climate-Related Financial Disclosures (TCFD), Carbon Disclosure Project (CDP), the Task Force on Nature-Related Financial Disclosures (TNFD) and the EU Green Taxonomy have served to bring consensus around and focus stakeholder thinking on what to measure and how to report on *environmental* factors, there remains considerably less agreement on what issues fall under the 'S' in ESG and, critically, how to measure and report on them—this is despite the proliferation of ESG standards, reporting, and evaluation frameworks. Not surprisingly, there is a growing interest to accelerate the current work on social-related metrics, including the potential extension of the EU Taxonomy to cover social, or other such initiative.

Last February the European Commission's Platform on Sustainable Finance issued its Final Report on Social Taxonomy, providing recommendations for the classification of socially sustainable activities. Even more recently, the draft European sustainability reporting standards (ESRS) were released for public consultation. The draft standards relative to the 'S' dimension of organizations' strategy, strategy implementation, performance and impact are notably ambitious. For example, in relation to value chain workers or affected communities, the standards require organizations to provide detailed information about processes, actions, targets and mitigation strategies, well beyond simply indicating whether certain policies are in place. Further, the draft standards specifically call upon organizations to disclose information about the employment of persons with disabilities. This provides one example of current movement to bring greater collective understanding around what is included under the umbrella of the 'S' in ESG.

Recent controversies (see Box A for examples) raise questions around whether and how well social issues such as workers' rights in the supply chain, labor relations, customer safety, and stakeholder engagement are captured by various ESG frameworks. Indeed, they further underscore the importance of understanding the coverage of 'S' by ESG frameworks.

(1) - While COVID-19 may have drawn greater attention to social issues, it is not the sole driver, and these social issues are by no means new. Several leading companies and organizations have for years worked to explore, develop understanding of, and address social impacts through their own operations or through joint initiatives such as B4IG and the Collective (in France).

1

KEY CHALLENGES TO SOCIAL FACTOR ANALYSIS

In our view, there are four central challenges that may limit effective social factor reporting and evaluation (see chart 1). Combined, these challenges may inhibit consistent, reliable, and comparable social performance analyses of companies used to inform stakeholder decision-making and drive improvements over time.

Chart 1 What's standing in the way of effective social factor reporting and evaluation?

Scope of coverage
The market lacks comprehensive agreement on what factors fall under the "S" umbrella, as well as common terminologies and definitions to describe and categorize these factors.

Depth of coverage
Factors may not be treated with adequate level of depth to draw the insights required to make informed decisions related to what are complex issues. For instance, criteria may require evidence of a policy but not actions taken to implement policy.

Performance metrics & data
Factors are often treated qualitatively or are measured using predominantly input variables that do not necessarily reflect performance, outcomes, or impact, which can lead to more of a box checking exercise.

Relationship to "E" and "G" factors
An understanding of how the "S" factors relate to and interact with the "E" and "G" factors in terms of their impact remains limited – leading some frameworks to underweight social factors in overall ESG performance assessments.

Source: HEC Paris and S&P Global Sustainable Finance Scientific Council (2022).

Addressing these challenges is a multi-step process, but it should begin with the foundational step of determining the scope of issue coverage as it relates to the "S" in ESG and ideally reaching some common understanding on terminology and definitions—an ambition of various initiatives. The objective of our analysis, therefore, is to focus on this first challenge—scope of coverage—by establishing what social factors get measured (and what is missed) when stakeholders report against, or are evaluated on, social performance using ESG frameworks.

To this effect, we built a database enabling the analysis of social factor coverage across 18 ESG frameworks. Note that in building the database we took an inclusive approach – including all social factors addressed by any of the 18 ESG frameworks, but not factors currently outside the scope of the frameworks. Several results stand out.

- First, ESG frameworks differ considerably in terms of which social factors are covered, and consequently, may well paint markedly different pictures of a company's social performance.
- Along some dimensions, such as *Community & Business Ethics,* there is not only less agreement around which social factors to include, but also the degree of coverage by any single framework tends to be low.
- For other dimensions, like *Employment Practices*, there is a much stronger overlap (or consensus) regarding which social factors are included, and some framework types exhibit a very high coverage rate.

Further, we identify social factors that are only rarely covered, and others that are not at all covered, though perhaps should be given the steering focus of flagship supranational agendas or initiatives (like the UN Sustainable Development Goals (SDGs) or the UN Guiding Principles on Business and Human Rights) and/or given today's fast-evolving societal challenges. *See Appendix 1* for a preliminary analysis and discussion of ESG framework alignment with the SDGs.

One practical implication of our findings is that ESG frameworks currently provide only limited capacity for stakeholders to fully and consistently understand, measure, and compare the social risks, impacts, and dependencies of companies. And similarly, companies may lack clear and consistent guidance on the material social factors on which to focus and report. Thus, to develop a comprehensive view of a company's social performance across the full spectrum of social factors, stakeholders may need to integrate information and data from multiple (complementary) ESG frameworks. Furthermore, given the inconsistent coverage and limitations of these ESG frameworks, companies and other stakeholders should seek to expand beyond the issues covered by ESG frameworks to directly address the risks or opportunities linked to emerging social trends.

BOX A

Examples illustrate the importance of understanding the coverage of ESG frameworks

In 2020, a media report revealed that workers at domestic manufacturing facilities producing apparel for a UK-based fast fashion retailer were being systematically underpaid and subject to unacceptable working conditions. The fall-out from this report, the details of which the company's own investigation later determined were substantially true, led to a dramatic drop in the company's share price and loss of its market capitalization (in addition to longer term reputational harm) in the aftermath of the report.

In 2022, a leading worldwide operator in dependency care made headline news because of alleged malpractice, neglect, and abuse of elderly residing in their nursing homes (including, severe failings in hygiene care). These (and other) revelations have triggered a dramatic share price fall and legal action.

In both cases, the shock was particularly acute and surprising given the companies' generally positive ESG reputations.

These controversies raise questions as to whether or how well social issues such as workers' rights in the supply chain, labor relations, customer safety, and stakeholder engagement are captured in various ESG frameworks. While there may be many contributing factors in these cases, answers could include issues of both breadth and depth of social factor coverage. For example, there could be insufficient or lack of coverage of the supply chain and/or an overweighting of the value of having a supplier code of conduct in place, with too little scrutiny of how policies are implemented in practice.

2

METHODOLOGY FOR EVALUATING THE SOCIAL FACTOR COVERAGE OF EXISTING ESG FRAMEWORKS

To analyze social factor coverage in current ESG frameworks, we first had to (1) select frameworks for analysis and (2) determine and organize the individual social factors against which framework coverage would be analyzed. This second step is particularly important given the range of terminologies used to describe and different approaches to organizing social issues.

Step 1 Selecting frameworks

The database used for our analysis was generated using publicly available criteria and social factor data from 18 ESG frameworks that met the following three conditions:

- Sector agnostic with established usage by investors, researchers, and other key stakeholders;
- Broad coverage of the "S" dimension—that is, coverage not restricted to specific social dimensions or social factors; and
- Public availability of framework approach and topical coverage.

To aid the analysis, we organized the 18 frameworks into three framework types (see Box B).

BOX B

Three types of ESG frameworks

A. ***ESG standards & reporting frameworks:*** Frameworks developed by standards organizations, private and public alike, that help reporting entities understand and communicate their ESG performance. They are generally targeted for use by reporting organizations. Examples: GRI, SASB, and the European Guidelines for Nonfinancial Reporting.

B. ***ESG evaluation frameworks:*** Frameworks developed by organizations, often private firms, that evaluate and score or rate companies' ESG performance by industry and/or commercialize ESG data. These frameworks are generally targeted for use by investors and financial market stakeholders. Examples: S&P Global ESG Scores, MSCI ESG Ratings, and Sustainalytics.

C. ***ESG impact measurement frameworks:*** Frameworks developed by organizations, often university-based research teams, that propose systematic approaches to measure ESG performance and impact at the company level. Frameworks in this category often provide guidance on the construction of relevant metrics and selection of adequate comparison groups. They also aid in the creation of monetization pathways—that is, methodologies that can be used to convert measurement of social indicators (e.g., jobs created in a community, or reduction in gender pay gap) to monetary value. Examples: Impact-Weighted Accounts and Cambridge's Investment Leaders Group.

As they seek to respond to different user needs and serve different objectives, these three types of ESG frameworks are necessarily distinct. Nevertheless, understanding the differences across and within framework types allows us to identify social issue areas with strong versus weak overlap, and to challenge or expand our perspective on what falls under the "S" dimension.

Step 2 Determining social factors

To define the set of social factors to include in our analysis of ESG frameworks, we started with the topical social dimensions covered by the ESG standards and reporting frameworks (type A in the box above) and complemented this initial set with other social factors considered by each of the other ESG evaluation and impact frameworks. We then consolidated social topics into 33 individual social factors organized within five social dimensions *(see chart 2)*.

In consolidating and categorizing factors, we chose dimensions and labeled individual social factors that are most recognizable, interpretable, and meaningful (that is, avoiding dimensions with a lot of missing data). We recognize, however, that this is an endogenous process, and some classification choices could be made differently – indeed, social factors are labeled and organized differently from one framework to another *(see box C)*.

BOX C

Example of variable/indicator organization into factors

The table below shows the indicators from different ESG frameworks that are assigned to the social factor "Pay equality"

FRAMEWORK	SAMPLE FRAMEWORK INDICATOR	OUR FACTOR CLASSIFICATION
S&R 3	Women-to-men wage salary ratio	Pay equality
S&R 5	Transparency of wage practices	Pay equality
S&R 5	Management and communication of worker pay policies	Pay equality
Eval 2	CEO's total salary (or other highest salary) divided by average wage	Pay equality
Eval 5	Poor employment conditions, including pay issues	Pay equality
Impact 3	Per group wage gap	Pay equality

Using this new dataset, we undertook a process to analyze what social issues are addressed in ESG frameworks, how coverage varies between frameworks, and what are key areas of consensus and disagreement. Finally, we compare these findings against the UN SDGs to better understand the extent to which these frameworks may reflect companies' contribution to these goals, and potentially speak to other societal development objectives.

Note that there are practical limitations to our analysis. The lack of clear guidance and general consensus on social factor labeling, definitions, and organization led us to adopt an inclusive approach to compose our dataset, where only dimensions that appear in multiple frameworks were included. We also adopted our own factor labeling and organization, as shown in Chart 2. Indeed, the process of constructing the dataset served to underscore a central challenge to social factor analysis – inconsistency from one framework to another on how to label, describe, and organize otherwise similar social issues. In some cases, for example, factors treated as "social" under one framework may be considered "governance" in others.

Consequently, there may be natural disagreement on which factors were included in this analysis, how they are labeled, and/or into which categories they are organized. There may also exist additional social factor with inconsistent coverage which are not revealed or treated by our assessment. Finally, our report only considers ESG frameworks whose methodologies are described in publicly available documents. Therefore, the effective coverage of the social factors discussed may be higher than suggested by this report.

Chart 2 Analysis focused on coverage of 33 social factors across 18 ESG frameworks

FRAMEWORK TYPE (number of observations)	ESG standards & reporting frameworks (8)	ESG evaluation frameworks (6)	ESG impact measurement frameworks (4)

DIMENSIONS[2]	Employment Practices	Employee Health & Safety	Community & Business Ethics	Labor and Human Rights at Work	Product Responsibility
FACTORS	Turnover and career prospects	Health and Safety Standards	Anti-corruption Practices	Child Labor	Responsible Marketing
	Social Protection and Freedom of Association	Workplace Accidents and Injuries	Tax Planning and Contributions	Supply Chain Human Rights and Social Compliance Monitoring	Product/Service Safety and Quality
	Ethical Worker Relations	Work-related Fatalities	Anticompetitive practices	Ethical Supplier Relations	Privacy and Cybersecurity
	Professional Learning & Development	Mental Health and Wellbeing	Crisis Management	Forced Labor	Ethical Customer Relationships
	Living Wage & Decent Employment		Exposure to Social Issue Controversies	Respect for Fundamental Human Rights	Access and Affordability of Products and Services
	Equal Opportunity		Local Livelihood Impact	Sanctions, Legal Action and Regulatory Compliance	
	Minority Inclusion		Philanthropy and Community Investment		
	Pay Equality		Impacts on Vulnerable Groups		
			Community Engagement		
			Community Relations		

[2] - The social dimensions and factors laid out in this chart and used for the purposes of this analysis are not necessarily a reflection of the social factors used by S&P Global Ratings in its "ESG Evaluations" or credit rating analyses.

3

RESULTS
AND FINDINGS

Social factor coverage differs depending on ESG framework type

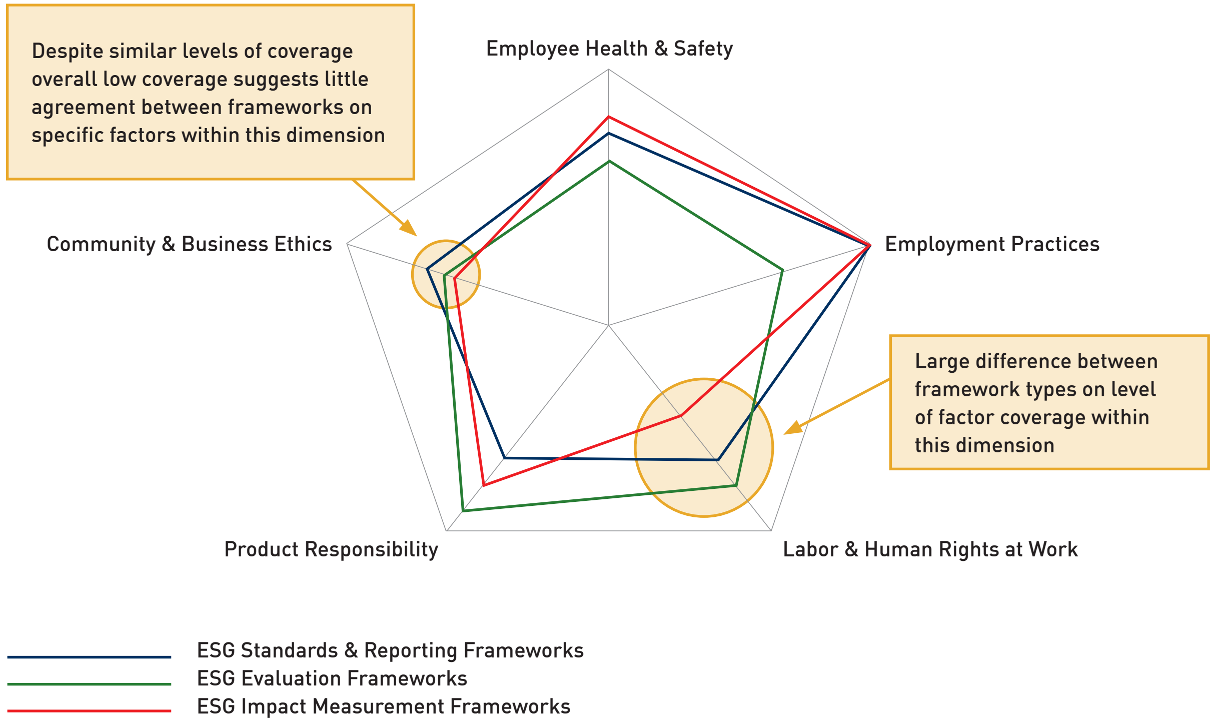
First, we set out to discern patterns at the aggregate level by comparing ESG frameworks by broad type. Specifically, we chart and compare the average coverage of the three ESG framework types—Standards & reporting frameworks versus Evaluation frameworks versus Impact measurement frameworks— along the five main social dimensions. This provides a high-level sense of systematic similarities and differences in coverage patterns.

As illustrated in chart 3, ESG framework types can vary considerably in the degree to which they cover social factors, and in fact, no single framework type exhibits strong coverage across all five social dimensions. Rather, different framework types tend to focus more or less heavily on different social dimensions. For instance, ESG evaluation frameworks, while relatively strong on their coverage of *Product Responsibility* and *Labor & Human Rights at Work* dimensions, are relatively weaker than other framework types on coverage of *Employment Practices* and *Employee Health & Safety.*

Further, our analysis suggests that within social dimensions there may be variability not only in terms of the breadth of coverage but also the individual social factors included. To illustrate, consider the *Labor & Human Rights at Work* axis. Along this social dimension, we observe not only the biggest discrepancy in coverage rate (as indicated by the distance (or difference) between highest and lowest coverage rate), but also divergence in terms of the factors included (as indicated by the distance between the highest coverage rate and the endpoint along this axis in chart 3).

Another interesting example is that of *Community & Business Ethics.* Within this social dimension, we observe that the three framework types exhibit more similar levels of coverage (as indicated by smaller distance between highest and lowest coverage rate), but differ significantly in terms of which specific social factors within this dimension are treated (as indicated by the large distance from the endpoint along this axis in chart 3).

Chart 3 Strength of social factor coverage varies by framework type and social dimension



Center is at 0%. Each corner represents 100% of coverage.

Source: HEC Paris and S&P Global Sustainable Finance Scientific Council (2022).

The patterns may be explained—at least in part—by the breadth-depth trade-off of the different framework types. Many ESG Impact measurement frameworks, for instance, may privilege depth over breadth. They tend to provide deeper, more refined guidance on measurement—for example, by also accounting for concerns such as the choice of comparison groups or monetization pathways. Many ESG standards & reporting frameworks, on the other hand, may privilege breadth, aiming for greater issue coverage. Finally, that ESG evaluation frameworks focus comparatively more on the *Product Responsibility* and *Labor & Human Rights at Work* dimensions may reflect their greater connection with financial analysis and those ESG issues considered to be of most direct financial materiality.

Despite some topical overlap, social factor inconsistencies exist across all ESG frameworks

Next, we sought to explore further areas of consensus and conflict between, and within, the three types of ESG Frameworks. Specifically, we identify the social factors for which there is the most consistent overlap across the different ESG frameworks, as well as the social factors with least consistent coverage across the ESG frameworks *(see Chart 4)*.

Chart 4 Analysis reveals social factors of greatest consensus across ESG frameworks

TOP 10 - HIGH CONSENSUS FACTORS

	SOCIAL FACTOR	ESG Standards & Reporting Frameworks (a)	ESG Evaluation Frameworks (b)	ESG Impact Frameworks (c)	SUM
1	Minority Inclusion	1.00	0.83	1.00	2.83
2	Workplace Accidents and Injuries	0.88	0.83	1.00	2.71
3	Social Protection & FOA	0.88	0.67	1.00	2.54
4	Professional Learning & Development	1.00	0.50	0.75	2.25
5	Product/Service Safety and Quality	0.63	0.83	0.75	2.21
5	Ethical Customer Relationships	0.63	0.83	0.75	2.21
5	Anti-Corruption Practices	0.88	0.83	0.50	2.21
8	Health and Safety Standards	0.75	0.67	0.75	2.17
8	Equal Opportunity	0.75	0.67	0.75	2.17
10	Pay Equality	0.88	0.50	0.75	2.13
10	Local Livelihood Impact	0.88	0.50	0.75	2.13
10	Community Engagement	0.88	0.50	0.75	2.13

Weaker Coverage — Greater Coverage

*** Numbers represent the proportion of frameworks within each framework type that cover the given social factor. Higher numbers represent greater factor coverage.*
Source: HEC Paris and S&P Global Sustainable Finance Scientific Council (2022).

Chart 4 highlights the social factors for which there is greatest consensus within and between ESG framework types. These are the social factors for which the sum of the corresponding values in columns (a) + (b) + (c) was closest to 3. Social factors such as those related to inclusion, pay inequalities, and responsible employee practices—associated with the *Employment Practices* and *Employee Health & Safety* dimensions—tend to receive strongest coverage from most frameworks. This is notable given the current climate in which many employers are facing high employee turnover and decisions around how (or whether) to return to the office – and are thus evaluating their human capital strategies, particularly around talent attraction, retention and development. We also see strong agreement on specific factors in the *Community & Business Ethics* dimension—for example, factors associated with community impacts and engagement—as well as on two *Product Responsibility* factors— product safety and ethical customers relations.

Chart 5 Analysis reveals social factors of lowest coverage across ESG frameworks

BOTTOM 10 - LOW COVERAGE FACTORS

	SOCIAL FACTOR	ESG Standards & Reporting Frameworks (a)	ESG Evaluation Frameworks (b)	ESG Impact Frameworks (c)	SUM
1	Sanctions, Legal Action and Regulatory Compliance	0.13	0.67	0.25	1.04
2	Mental Health and Wellbeing	0.38	0.00	0.75	1.13
3	Social Issue Controversies	0.25	0.67	0.25	1.17
4	Crisis Management	0.50	0.50	0.25	1.25
5	Ethical Supplier Relations	0.63	0.17	0.50	1.29
5	Impacts on Vulnerable Groups	0.63	0.17	0.50	1.29
7	Community Relations	0.50	0.33	0.50	1.33
8	Work-related Fatalities	0.50	0.67	0.25	1.42
9	Fundamental Human Rights	0.38	0.83	0.25	1.46
10	Tax Planning and Contributions	0.50	0.50	0.50	1.50
10	Philanthropy and Community Investment	0.50	0.50	0.50	1.50

Weaker Coverage — Greater Coverage

*** Numbers represent the proportion of frameworks within each framework type that cover the given social factor. Higher numbers represent greater factor coverage.*
Source: HEC Paris and S&P Global Sustainable Finance Scientific Council (2022).

In contrast, chart 5 highlights the social factors with weaker or inconsistent coverage across framework types and on which the ESG frameworks exhibit the lowest level of agreement. Social factors that relate to *Labor & Human Rights at Work* (like Sanctions, Legal Action and Regulatory Compliance and Ethical Supplier Relations) and *Community & Business Ethics* (like social issue controversies, community relations, and impacts on vulnerable groups) account for the vast majority of the factors with least agreement. On *Community & Business Ethics* in particular, we find weak coverage in areas such as community relations, crisis management, tax planning practices, and exposure to social issues. Coverage of philanthropic contributions and direct community investments is also lower, with just 50% framework coverage amongst each of the three framework types. In *Labor & Human Rights at Work*, the factor with lowest overall coverage — sanctions, legal actions, and regulatory compliance – is perhaps unsurprising given that while some frameworks consider legal and regulatory exposure to be an ESG issue, many others consider it outside the scope of ESG. Another notable area of difference across frameworks is employee mental health and wellbeing in the *Employee Health & Safety* dimension – a factor that has become more relevant to companies, though perhaps not yet reflected in ESG frameworks.

Next, we turn to the individual ESG frameworks and examine their social factor coverage. Chart 6 demonstrates areas within individual frameworks of stronger and weaker (or even zero) coverage. We find that while some frameworks have stronger coverage than others, no single ESG framework in this analysis has complete coverage across all social factors. Indeed, the variance observed between frameworks, even amongst those in the same framework type, can help to explain why there is an observed low correlation between the findings of various ESG evaluation organizations[3].

(3) - Berg, F. et. al. (2022) found, for instance, only a 61% correlation between the findings of four prominent ESG ratings agencies.

Chart 6 Analysis of individual ESG frameworks shows variation in social factor coverage and reveals further inconsistencies within ESG frameworks types

		SOCIAL DIMENSION				
Frameworks Type	**Frameworks**	**Employee Health & Safety**	**Employment Practices**	**Community & Business Ethics**	**Labor and Human Rights at Work**	**Product Responsibility**
ESG Standards & Reporting frameworks	S&R 1	0,75	1,00	0,83	0,80	0,50
	S&R 2	0,25	0,88	0,50	1,00	0,60
	S&R 3	1,00	0,88	0,67	0,60	0,80
	S&R 4	0,75	1,00	0,33	0,60	0,50
	S&R 5	0,75	0,88	0,83	1,00	0,80
	S&R 6	0,25	0,38	0,00	0,00	0,50
	S&R 7	0,25	0,63	0,50	0,20	0,70
	S&R 8	1,00	1,00	0,83	0,20	0,30
ESG Evaluation frameworks	Eval 1	0,50	0,50	0,33	0,00	0,10
	Eval 2	0,75	0,75	0,83	1,00	0,60
	Eval 3	0,75	0,88	0,83	0,80	0,90
	Eval 4	0,25	0,50	0,67	1,00	0,50
	Eval 5	0,50	0,38	0,50	0,80	0,60
	Eval 6	0,50	0,38	0,83	1,00	0,50
Impact frameworks	Impact 1	0,75	1,00	0,67	1,00	0,60
	Impact 2	0,50	0,38	0,00	0,20	0,10
	Impact 3	0,50	1,00	0,00	0,60	0,30
	Impact 4	1,00	1,00	0,83	0,80	1,00

Weaker Coverage — Greater Coverage

*** Numbers represent the proportion of frameworks within each framework type that cover the given social factor. Higher numbers represent greater factor coverage.*

Source: HEC Paris and S&P Global Sustainable Finance Scientific Council (2022).

For instance, factors such as work-related fatalities (Employee Health & Safety), forced labor (Labor & Human Rights at Work), and privacy and cybersecurity (Product Responsibility) are relatively overlooked by many Impact frameworks, but are more strongly covered by Standards & reporting and Evaluation frameworks. At the same time, Impact measurement frameworks have relatively strong coverage of mental health and wellbeing (Employee Health & Safety) and access and affordability of products and services (Community & Business Ethics), factors on which both Standards & reporting frameworks and Evaluation frameworks exhibit weaker coverage.

And certain frameworks have no coverage of entire social dimensions (highlighted in yellow), let alone individual factors. In other words, any given framework will have social factors with inconsistent coverage that should be understood and accounted for in ESG analyses using that framework. And it is only through the examination of multiple frameworks, drawing data from multiple sources (or by "deconstructing" frameworks, as described by Ehlers et.al. 2022), that a stakeholder can reliably expect to develop a comprehensive understanding of a company's performance across all relevant social factors.

Conclusion

Companies are increasingly expected to provide stakeholders, including investors, with sufficient information for them to understand the company's social impact and dependencies on human and social capital. It is therefore of growing direct strategic interest to companies to better manage their social risks and opportunities. ESG frameworks can play a critical role informing, disciplining, and steering decision-making. But as this analysis shows, a lack of social factor consensus and divergence between coverage from one ESG framework to another may muddy the guidance and challenge informed decision-making.

Finally, as we are writing this report, the ongoing war in Ukraine is fast becoming one of the most significant humanitarian crises in Europe since the World Wars. The war presents companies with myriad challenges and brings even greater focus to social issues. The crisis also provides an acute example of the significance of social factor coverage limitations. None of the existing ESG frameworks that we analyzed, for instance, specifically addresses companies' impact on or activities related to refugees or other direct social consequences of conflict. The question remains whether they can and should capture companies' contributions to these global societal challenges.

The problem of these inconsistencies is not specific to ESG frameworks. Nor is it necessarily unique to the social dimension. But until there is a collective understanding around most relevant social factors and their measurement techniques, stakeholders, notably investors, may be best served by determining their own key factors and drawing from complementary ESG frameworks when undertaking their own analysis. And for those organizations supporting the further development of ESG frameworks, it will be important for frameworks to be adaptable, to stay responsive to society's new social challenges, and to ensure that what gets measured matters for businesses and the people and communities they impact.

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APPENDIX 1: Corporate ESG frameworks are not designed to feed directly into global development and sustainability agendas

Now that we have a better understanding of social factor coverage patterns of ESG frameworks, we undertook a preliminary analysis to look at how they relate to and potentially interact with broad societal development agendas like the Sustainable Development Goals (SDGs), especially as we see corporates increasingly aligning their sustainability strategies with specific SDGs. This raises new questions, for example:

- What do we see when we compare these corporate ESG frameworks and the social factors they cover against important supranational initiatives, agendas, and principles, such as the UN Sustainable Development Goals (SDGs), the European Pillar of Social Rights, the UN Guiding Principles on Business and Human Rights (UNGPs), the OECD Guidelines for Multinational Enterprises?

- Do the social components of ESG frameworks capture a company's contribution or commitment to the goals and expectations set out in these initiatives?

- Or does this comparison reveal additional social factor gaps which ESG frameworks could further develop?

It is important first to bear in mind that the SDGs and ESG frameworks were designed for different purposes and primarily target different stakeholders (countries for the former and corporate and market stakeholders for the latter). As such, we find that ESG frameworks are generally not designed to speak directly to company impact on or contribution to these broad societal development objectives.

Specifically, when we relate the 17 SDGs, and their underlying targets, to the 33 social factors covered by the ESG frameworks and, vice-versa (that is, the social factors to the SDGs) we find four main insights:

- **The level of granularity in many UN SDG targets and KPIs is often not reflected in many corporate ESG frameworks. For example, most ESG frameworks do not capture systematic information about many of the specific minority groups that are explicitly mentioned in the UN SDGs:** UN SDGs explicitly draw attention to the needs of people with disabilities, migrants and refugees, youth, and older employees, amongst others. Yet virtually none of the existing ESG frameworks provide systematic, detailed information about the company and its impacts on these groups (or specific risks that emanate from issues related to these groups). The implication of this is twofold: First, ESG frameworks may not fully capture or represent the contributions that companies make towards achieving societal aims, such as those established in the SDGs (for example, an company's efforts to support a vulnerable group may not be fully visible or valorized in existing ESG frameworks). Second, because ESG frameworks do not generally require companies to report on their policies, actions, or practices vis-à-vis many of the minority groups on which UN SDGs focus, there may not be the clarity needed for companies to understand and act on the linkages between their actions and the needs of marginalized groups.

- **The extent to which the ESG frameworks map to the targets set out in the UN SDGs is highly uneven.** For some goals, notably SDG #8 (decent work and economic growth), ESG frameworks offer clear and direct links – that is, there is a strong overlap between ESG social factors and the SDG's ambitions. For other goals, however, the overlap between the ESG social factors and an SDG is much weaker, meaning it is less evident how companies are expected to contribute to these goals, or how these contributions may be captured. On SDG #2 (zero hunger), for instance, it is unclear how companies may be expected to disclose how their practices related to their own workforce, value chain workers, or communities contribute to the eradication of hunger. Finally, some social factors can be readily linked to multiple goals. Consider for instance minimum wage policies contribute to SDG #1 (no poverty), SDG #5 (gender equality), and SDG #8 (decent work and economic growth).

- **Multi-sector partnerships are at the heart of the vision for how UN SDGs can be achieved. Yet this is different from the vision of ESG frameworks which are primarily focused on capturing and understanding an individual firm's social performance.** UN SDGs emphasize the importance of multi-stakeholder partnerships; however, ESG frameworks rarely ask companies to comment explicitly on the number and quality of partnerships in which they are engaged. This is understandable, given that the information provided by ESG frameworks is specific to one company, and the value created (negatively or positively) by a partnership is more difficult to attribute to one specific member company. Nevertheless, by not capturing or valuing this information, ESG frameworks risk undervaluing or disincentivizing the building of and contributions to partnerships.

- **Both UN SDGs and ESG frameworks are relatively static instruments and thus may not alert companies to important new societal trends.** Supranational initiatives and formal frameworks are the outcome of a complex and long stakeholder consultation process. And as such, some frameworks may not be sufficiently flexible or nimble to draw attention to new or emerging social issues and risks, while others may seek to integrate emerging issues but face challenges related to poor, inconsistent, or unavailable data.

Ultimately, ESG frameworks and broad societal development initiatives were conceived with different objectives in mind – and they often speak to different audiences. Nevertheless, recognizing where they do and do not align with one another may assist future framework development such that a company's ESG goals are better positioned to contribute to shared global challenges. And though here we only take a high-level look at the SDGs, our initial findings provide strong motivation for follow-on analysis that more systematically compares ESG frameworks to additional global initiatives, including the UNGPs and OECD Guidelines for Multinational Enterprises.

Related research

S&P Global ratings research

- *The ESG Pulse: Social Factors Could Drive More Rating Actions As Health And Inequality Remain In Focus, July 16, 2020*
- *Diversity And Inclusion as A Social Imperative, Aug. 3, 2020*

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- *Key trends that will drive the ESG agenda in 2022, S&P Global Sustainable1, Jan. 31, 2022*
- *The Importance of Demystifying, Measuring the 'S' in ESG, S&P Global Sustainable1, Oct. 8, 2021*
- *The 'S' in ESG here to stay after pandemic-induced surge in social bond sales, S&P Global Market Intelligence, Jul. 29, 2021*
- *COVID-19 upended employee expectations – now companies must adapt, S&P Global Sustainable 1, Feb. 1, 2021*
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