6 Truths About the "S" in ESG

ESG is a hot topic these days. Boards are focused on social and human capital transparency and accountability. Employees are increasingly taking action to support or refute organizational policies. And C-suite executives are seeking an objective assessment of the efficacy of current programming and how the dollars invested are contributing to healthy workplace culture.

So as the founder of an ESG data analytics company, I thought it'd be helpful to address some of the ESG misconceptions that are out there, particularly around the "S."

Let's bust a few myths:

Myth #1: The "S" in ESG stands for "sustainability."

Common mistake. The "S" in ESG stands for "social," as in an organization's social capital. Our scientific team thinks of social capital in broader terms–as "cultural capital," which encompasses both an organization's social and human capital.

Cultural capital is a non-financial asset that values the relationship between an individual member and the organization, as well as relationships between members of the organization. Cultural capital evolves, increases in value with consistency, and gives the organization an advantage in the marketplace.

Myth #2: Culture doesn't matter.

Yes, it does. A healthy organizational culture is important for two reasons:

1. **Risk Management:** Audit committees are now charged with overseeing "ESG risk," defined as corporate exposure stemming from organizational cultural misalignment. ESG risk spans reputational risk, operational risk, and financial risk. KPMG is one firm outlining the importance of a strong ESG agenda and how in a COVID-19 world "Purpose and value take center stage."
2. **Growth Opportunities:** What company doesn't like increasing their capital? McKinsey lists the "Five ways ESG creates value," specifically pointing out that a strong ESG proposition translates into higher equity return.

Myth #3: You can't measure culture.

Not true. This is a shiny new field of research that is emerging with the application of AI to the ESG space. Not only can we measure culture, but we can measure it in a way that is less biased (as we know, nothing is completely unbiased) by leveraging extensive external checks like crowd-truthing.

Crowd-truthing, sometimes referred to as "crowd-sourcing" or—poetically—the "wisdom of the crowd," is a method of asking large quantities of individuals to offer independent judgment to gain a deeper understanding of a large data set. We use crowd-truthing to assess the underlying values of individuals that create a specific culture.

Myth #4: A company has one culture.

Partially correct. A company or organization will have a dominant culture, but also many subcultures. ERGs (Employee Resource Groups) are a good example of organizational subcultures that encourage individuals with shared perspectives to connect and form a community.

Myth #5: Corporations dictate company culture.

Nope. According to our lead behavioral scientist Dr. Helga Wild, culture can't be mandated. Culture is the manifestation of social behaviors and norms found within an organization and is an embodiment of its participants. So top-down dictums on a company's culture are often more aspirational than actual.

Alignment between an organization's "aspirational" culture and the "actual" values of stakeholders like employees is where a healthy culture lives. Here's a couple of examples of aligned cultures.

• Spanx: The company adheres to a collaborative leadership model with a mission to elevate women. This emphasis on sharing decision-making and sharing the wealth was highlighted when founder Sara Blakely gifted employees $10,000 plus 2 first-class plane tickets to celebrate a private equity deal.

- Patagonia: Part of Patagonia's mission is to use business to protect nature and to ensure that all employees have a "passion for something outside themselves." This shared commitment to the larger world is seen in the company's funding of environmental concerns that affect communities and the world.

Myth #6: Culture is constant.

Big miss. At the core, a set of principles drives an individual's behavior, but we live in a dynamic environment. So, while one's underlying values rarely change, the intensity and expression of our values vary in response to internal and external influences.

For instance, our political and economic surroundings shift (think about elections and inflation). Our professional environment changes (a transition to remote working or a merger at our company). And our life circumstances evolve (retirement, maternity, or a new health issue).

Because culture is always shifting, organizations need a way to continually assess the alignment and health of the culture that is the underpinning of organizational success as measured by individual belonging, team productivity, and corporate profitability.

ESG is a field that remains ripe for innovation. It's an exciting time to push the field forward and a good first step is de-bunking the misconceptions around what culture is and isn't.

How does your organization think about culture? Do you see your values represented in your workplace culture? Any good examples of companies aligning values with ESG reporting? Reach me at Erin@summery.ai. I'd love to hear your thoughts.

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