


Inclusive sustainability

ESG is the new way of acting on and measuring what is mutually good for profits, people and the planet – and DE&I lies at the heart of it.





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Detroit Energy (DTE), a 118-year-old company in an old school industrial sector, is the face of a clean, sustainable, and inclusive future.

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By declaring a commitment to being carbon neutral by 2050, DTE has embarked on a complete overhaul of how it generates energy and how it will prepare its employees for a whole new way of keeping much of Michigan powered up.

DTE is on the vanguard of the rapidly emerging Environment, Social, Governance (ESG) sustainability movement that aims to hold companies accountable for the impact their actions — and inactions — have on climate change, people, and communities. With this ESG movement, CEOs and board members overwhelmingly see the lines between business and society blurring.

DTE embarked on their sustainability journey over a decade ago and it has become clear to senior management that to achieve their ESG goals, DE&I must be a priority in their sustainability strategy. Jerry Norcia, DTE's president and CEO explains:

“ To achieve our company's ambitious goals, we need to build a diverse and inclusive culture where everyone contributes to the innovation and generation of clean, reliable, affordable energy and drives equity to ensure prosperous economies and thriving communities.”

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Many other companies such as Apple, Microsoft, Google, Unilever, AstraZeneca and IKEA are making their own bold ESG commitments. And a growing number among them recognize, like DTE's CEO does, that DE&I is vital for reaching ESG goals.

Before discussing why this is true, let's first get grounded in what ESG is.

Introduction to ESG and its links to DE&I

ESG, the inelegant acronym for a set of combined measurement concepts (environment, social, governance), is being heralded as essential for preventing civilization's existential catastrophe due to irreversible climate change, runaway social unrest, and collapsing institutional credibility.

For decades, academics, economists, business organizations, the United Nations, and social justice activists have been talking about the connection between people, profits, and the planet through concepts and terms such as “the triple bottom line,”¹ “the B Corporation,”² and “conscious capitalism.”³ The United Nations, over the past twenty years, launched various major initiatives to create global synergy around the spirit behind these concepts.

In fact, the term ESG was coined in the UN's 2006 Principles for Responsible Investment (PRI) report. Through this, ESG was established as the key bundle of metrics with which to measure the impact of organizational activity — not just on profits, but also on the environment and society. These criteria are used by investors to evaluate whether a company is socially and environmentally responsible, as well as by organizational strategists to shape roadmaps toward sustainability of the organization. While ESG-related concepts have been around for over 20 years, ESG mainstreamed in the past few years. Today, eighty percent of the world's 5,000 biggest companies report their sustainability performance.⁴

1 Coined in 1994 by John Elkington, it emphasizes the importance of businesses' value being measured by their impact on the planet and people as well as on profits.

2 In 2006, this concept evolved into the B Corporation, a certification that declares a business has met, “the highest standard of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose” (bcorporation.net). The intent behind this certification process is to “accelerate a global culture shift to redefine success in business and build a more inclusive and sustainable economy.

3 The concept of “conscious capitalism” was coined in 2013 by Raj Sisodia, a marketing professor, and John Mackey, the co-founder of Whole Foods in their book, “Conscious Capitalism: Liberating the Heroic Spirit of Business.” At its essence, conscious capitalism is the belief that companies should act with the utmost ethics while they pursue profits.

4 The KPMG Survey of Sustainability Reporting 2020.

Though there are currently no global standards of how ESG measures are defined, there is broad understanding of what ESG is measuring. Below are definitions gleaned from two sources⁵ and we include our interpretation of some of the direct links to DE&I we see.

E **Environmental criteria** consider how a company performs as a steward of nature. Factors include the contribution a company makes to climate change through greenhouse gas emissions, along with waste management and energy efficiency. Given renewed efforts to combat global warming, cutting emissions and decarbonization is becoming more important.

Diversity, equity, and inclusion implications:

Reducing the negative impact on the environment and, in fact, reversing global warming, is going to require an unprecedented amount of innovation. The research is clear that diversity of all kinds of backgrounds, experiences, and thinking styles — activated inclusively and equitably — consistently generates more innovation.

S **Social criteria** examine how a company manages relationships with employees, suppliers, customers, and the communities where it operates. Factors include human rights, labor standards in the supply chain, any exposure to illegal child labor, and more routine issues such as adherence to workplace health, safety, and well-being.

Diversity, equity, and inclusion implications:

Here, clearly since the workforce is diverse in all possible ways, the fair and equitable treatment of all employees in terms of how they are treated through their pay, support for their professional development, and opportunities to get promoted — as well as whether their alternative perspectives are sought after, respected, and leveraged — are all measures that need to be addressed regarding social impact.

A social score also rises if a company is well integrated with its local community and therefore has a “social license” to operate with consent. All forms of demographic diversity exist in the myriad communities’ companies operate in. To be well-integrated with their local communities requires companies grasping the diversity, equity, and inclusion dynamics that exist between the company and the community. For example, is the company investing in suppliers from the community, including those that are women or racially-ethnically minority-owned? Are they investing in the educational institutions in the community to foster a more educated labor force with the skills for the jobs of tomorrow? And does the company care in general for the holistic well-being of the community whose roads, water, police, fire, refuse services the community they are operating in is providing them?

G **Governance criteria** deal with a company’s leadership, executive pay, audits, internal controls, and shareholder rights. Factors include principles defining rights, responsibilities, and expectations between different stakeholders in the governance of corporations. A well-defined corporate governance system can be used to balance and align interests between stakeholders and can work as a tool to support a company’s long-term strategy.

Diversity, equity, and inclusion implications:

Governance strategies and policies that do not ensure all voices are represented in decision-making and influential roles will not lead to sustainability. Are the different demographic groups who are stakeholders in what the company does — either intentionally or unintentionally — represented equitably in the decision-making positions? Is their health, economic well-being and civil rights protected and advocated for by these companies?

⁵ [Investopedia, March 2021](#)
[Investment firm Robeco](#)

There is another way in which DE&I is linked to helping achieve ESG goals. While many think of sustainability as an ecological concept, at its core, sustainability is also about people. You can't take care of the planet if you aren't also taking care of your people. Korn Ferry research has identified a wide gap between what organization's are doing in changing business strategy, operational goals, and technology to achieve sustainability goals, and what they are doing around the people related components.⁶ For example, while many companies have been working tirelessly with environmental scientists to find their path to net-zero, they have not considered the behavioral science behind what their people will need to do differently and how. And here, knowing how to address the differentiated worldviews of different demographic groups will be vital for an effective application of behavioral science that needs to be cross-culturally effective.

The role that DE&I plays in ESG is what we refer to as *inclusive sustainability*. This is about the cumulative effect DE&I being leveraged to address all three aspects of ESG can have on generating greater good beyond just profits.

Let's now turn our attention to how comprehensive this impact can be by taking just one example of one long standing challenge to civilization: **pandemics**.

⁶ [The 5 ESG and sustainability questions you need to answer](#), Korn Ferry, 2021



Inclusive sustainability

In 2020, Roberto Censolo and Massimo Morelli conducted a study of what happened during a 700-year historical span of pandemics starting with the Black Plague in the 14th Century all the way to the Spanish Flu in 1920. They found that of the 57 pandemics during that time, 93% were followed by revolts and social unrest.⁷

One hundred years later, the onset of the COVID-19 epidemic fared no differently. Two months after global lockdown in early 2020, massive unrest happened in the wake of George Floyd's murder. While the epicenter of the social earthquake was the US, it reverberated around the world as nations such as Canada, Britain, Australia, France, and Peru were shaken to look at their own racial injustices like never before.

Civil unrest with different socio-historical roots also manifested elsewhere as the devastation of the pandemic lay bare the inequities that already existed in terms of healthcare, education, technology access, jobs, and wages. Social unrest, political crackdowns, and armed conflict reverberated across Latin America, the Middle East, Eastern Europe, and Hong Kong. And a political coup almost occurred in the US.

What does this have to do with ESG and DE&I? Quite a bit actually. These socio-political convulsions have had a profound impact on employees and consumers about what they expect from the companies they work for and buy from. Due to the pandemic and accompanying social unrest, 86% of people want to see a more equitable and sustainable world as we come out of the pandemic⁸ and 80% say companies need to recognize their role in systemic racial inequality.⁹ To employees and consumers, it does not matter what industry the companies are in and whether these companies even see their products and services having anything to do with social justice. From a sustainability and quality perspective, society is demanding that companies think beyond financial impact and truly look at the comprehensive impact they can have both negatively and positively.

⁷ Roberto Censolo (University of Ferrara), Massimo Morelli (Bocconi University), "COVID-19 and the Potential Consequences for Social Stability", Peace Economics, Peace Science and Public Policy

⁸ IPSOS survey, September 2020

⁹ Porter Novelli Purpose Tracker, The Business Imperative for Social Justice Today, June 2020



What consumers and employees want today

86%

of people want to see a more equitable and sustainable world after the pandemic. Almost three-quarters want their lives to change too.

80%

of consumers say companies need to recognize their role in systemic racial inequality.

43%

of employees are reconsidering their current job because their company isn't doing enough to address social justice issues externally.¹⁰

This is a revolutionary mindshift that feels daunting for company leaders, some of whom try to downplay it by declaring it is all a distraction. Yet, rather than being just an end in itself, leveraging diversity, equity, and inclusion to help achieve ESG sustainability goals is also a means to an end. It is possible to take better care of our people and the planet and still generate profits. As the following statistics show below, companies that maximize their diversity and inclusion efforts end up with more innovation, higher growth, faster time to market, and therefore better profitability.

Because the fundamentals of diversity, equity, and inclusion lie at the core of ESG, the field of DE&I is about to undergo a major transformation in its relevance, practices, outcomes, and metrics. We need to transition to not only looking at improving the demographic mix of our workforces and leadership teams but also to the outcomes of becoming more diverse and inclusive.

The outcomes that truly matter

Given a burning planet, global pandemics, economic dislocations, lifestyle disruptions, political instability, and social unrest, the reality is that more diverse, inclusive, and equitable organizations are essential for achieving ESG's ambitious sustainability goals.

DTE is one company that is grasping the wide-ranging implications of DE&I through its bold stance on ESG transformation. They see their future depending on it. On the following page, we see how it's playing out for them.

Done well diversity and inclusion maximizes performance of individuals, teams and organizations in the workplace.

Diverse and inclusive organizations outperform their peers.⁸

70%

more likely to capture
new markets

36%

more likely to outperform
on profitability

Diverse and inclusive teams
make better decisions

87%

of the time

76%

more likely to see ideas
become productized

19%

higher innovation revenue

87%

of the Most Admired
Companies see a positive
impact of diversity and inclusion
on their business performance



CASE STUDY

DTE – an energy company shows the way forward

DTE's massive transformation from fossil fuel to clean and renewable energy sources showcases what inclusive sustainability looks like. As poetic as going from coal to wind and sun sounds, this is requiring a gritty and tenacious look at every single aspect of the organization. While the engineers are looking at how to shut down the coal plants and transition to wind turbines, solar arrays and other renewable sources of energy, business and human resources leaders are looking at how to reskill their employees so they too can make the transition from the one to the other.

So, for example, as part of their commitment to the Social aspect of ESG, they have pledged to make this transition without laying anyone off. But how to maintain that promise when green energy takes fewer workers than carbon-based energy? Their plans include managing retirements and turnover thoughtfully to not overcommit on replacement hiring and this way protect the jobs of those who stay. This is inclusive sustainability in action.

And where does diversity come into DTE's story of the future? DTE recognizes that commitment to the Social dimension requires contributing to the economic sustainability of the region they operate in and hire from. To do this, their talent sourcing and hiring tap into all the demographic groups in their talent radius. Otherwise, whole communities end up being disenfranchised, and neglected neighborhoods with few breadwinners become epicenters of despair that lead to higher addictions, suicides, and chronic health conditions, which, in turn, can become vulnerable to social unrest. This would be a reality that is not only detrimental to the immediate community, but also saps the economic and social vitality of the broader region and, therefore, of DTE itself. >>



CASE STUDY

Further, the transition to a carbon neutral future requires an unprecedented amount of innovation with everything from game-changing technologies to a myriad of micro process improvements. But a homogenous workforce at different levels of the organization from the Board to the plant floor will be severely constrained in thinking alternatively about the way forward. Those who are in charge have experience in working in an energy world that is going away. Many have never led or innovated in an era like today with all its disruptions. DTE, and really all organizations, need diversity of backgrounds, experiences, cultures, income levels, education, thinking styles, and passions to envision, without a roadmap, a future that must be vastly different from what it is today. This future state “symphony” cannot be created with just one section of the orchestra.

So DTE is on the march to source, recruit, hire, and onboard the most diverse talent force it has ever had. They are not content to have it just at the plant and field operations level – as important as that is and will continue to be – but also among its engineers, technicians, managers, and executives. They already have made great inroads with non-whites representing 28% of their overall workforce, including 30% at entry level, and 40% at the next two levels up. They recognize they still have a way to go in the management ranks, but here too there is progress along with their stepped-up set of ambitious DE&I goals that are combined with metrics and meaningful accountabilities. (There is a way to do this by using Korn Ferry maturity

models for ESG and DE&I. See next page to see how maturity is measured for both using the same maturity dimensions before drilling down on the elements for each one.)

But diversity alone will not be enough. DTE also recognizes it needs inclusion. They realize while diversity is the mix, inclusion is making the mix work. So, to get the best out of the various diverse voices that they’re getting around the table, these voices need to feel valued and respected. They have to be invited to speak up, and they must have advocates that make sure their voices are heard and not nullified, overlooked, ignored, nor ridiculed. Without inclusion, the creative collective genius diverse organizations offer remains bottled up and innovation stagnates.

Finally, inclusive sustainability requires equity – the fulfilment that the promise that there will be equality in opportunities and outcomes. Otherwise, there will be dissatisfaction, resentment, and organizational tensions – ingredients that clearly don’t lead to sustainability. DTE recognizes that without equity then, any word and deeds around diversity and inclusion become empty promises and meaningless actions. And with so much at stake in the world today, anything that does not lead to sustainable change is worthless.



CASE STUDY

Discover Financial brings 1000 jobs to Black community

When Discover CEO Roger Hochschild heard university professor and activist Ibram X. Kendi in a speech challenging corporate America, he took it to heart. What had caught Hochschild's attention was Kendi's point that while addressing talent diversity was vitally important, very few companies were addressing inclusion in sustainable ways such as investing their assets in underserved communities.





CASE STUDY



Within a short period of time, Hochschild and his executive team made the decision to open Discover's next new call center in Chatham, a cornerstone Black community on Chicago's South Side, where the unemployment rate of 15.7% was nearly double the City of Chicago's average.

The response was overwhelming. Discover received more than 1,300 applications for 20 leadership roles in the first 72 hours after the company's announcement. The new center opened in June 2021 and quickly scored high marks for customer satisfaction and retention. Within the next three years, Discover expects to employ nearly 1,000 people full time with customer care representatives paid a starting salary of at least \$17.25 per hour, with health insurance, a 401k plan eligibility, paid time off and free college education for those who want it. By the end of 2021, more than 200 people were employed at the Chatham center, and 83% of them live within a 5-mile radius.

The facility also will include space that will be offered to community-based organizations and businesses in the area to host meetings and events and will serve as a training and meeting space for Discover employees. As a further commitment, 75% of the construction spend went to minority/women-owned business enterprises. In making these series of decisions, Discover made powerful links between the "S" of ESG and DE&I.

As Discover provides more opportunities for community members, their service will make a difference to all the company's customers. Ultimately, CEO Hochschild believes the Chatham center will serve as a model for how Discover operates given everything the company is doing with an eye toward inclusion and equity, from the site selection to hiring practices, to community engagement and procurement.



Discover recognizes that traditional corporate site selection has contributed to issues of unequal opportunity in our society, and we want to be part of the solution," Hochschild told the Chicago Tribune. "We hope our commitment to Chatham will serve as a springboard for further economic development in the area; and we're excited to work with residents and community leaders.



ESG is following in the same maturity trajectory as DE&I

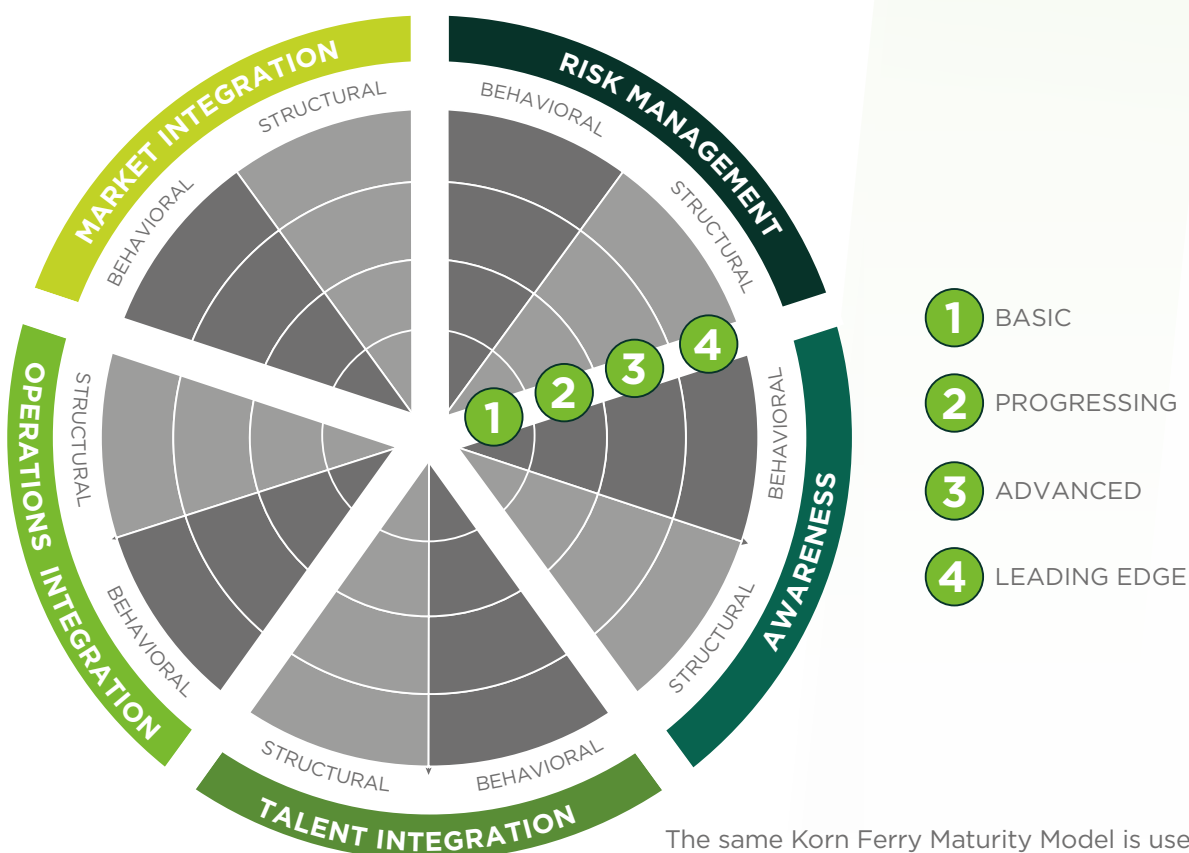
Maturity models are always helpful to track and trace how much an all encompassing, multi-layered concept has penetrated the inner workings of an organization.

DE&I has benefited from various maturity models over the years, and ESG is following the same trajectory.

Overlaying Korn Ferry's DE&I Maturity Model to the ESG Maturity Model

As we looked at shaping an ESG maturity model, all our research and experience took us to the realization that so interwoven is DE&I to ESG that we could use the same DE&I maturity framing and apply it to shaping an ESG maturity model.

This means that both maturity models can be organized with the same five dimensions of Risk Management, Awareness, Talent Integration, Operations Integration, and Market Integration - all of which are defined along the lines of behavioral and structural inclusion within four stages of maturity from Basic to Leading Edge. Where they do differ is in the particulars of who owns and is held accountable for the different components and what is getting measured within each stage of the maturity model. The model structure looks like this:



The same Korn Ferry Maturity Model is used both for ESG and DE&I even though each measures different elements and has different owners of different parts of the Maturity Model.



The table below shows how within the same maturity structure, the particulars are quite comparable yet different for ESG and DE&I.



Organizations use these models to do various important tasks: identify current state, discuss desired state, and to create strategic roadmaps with priorities spelled out for the next stage forward.

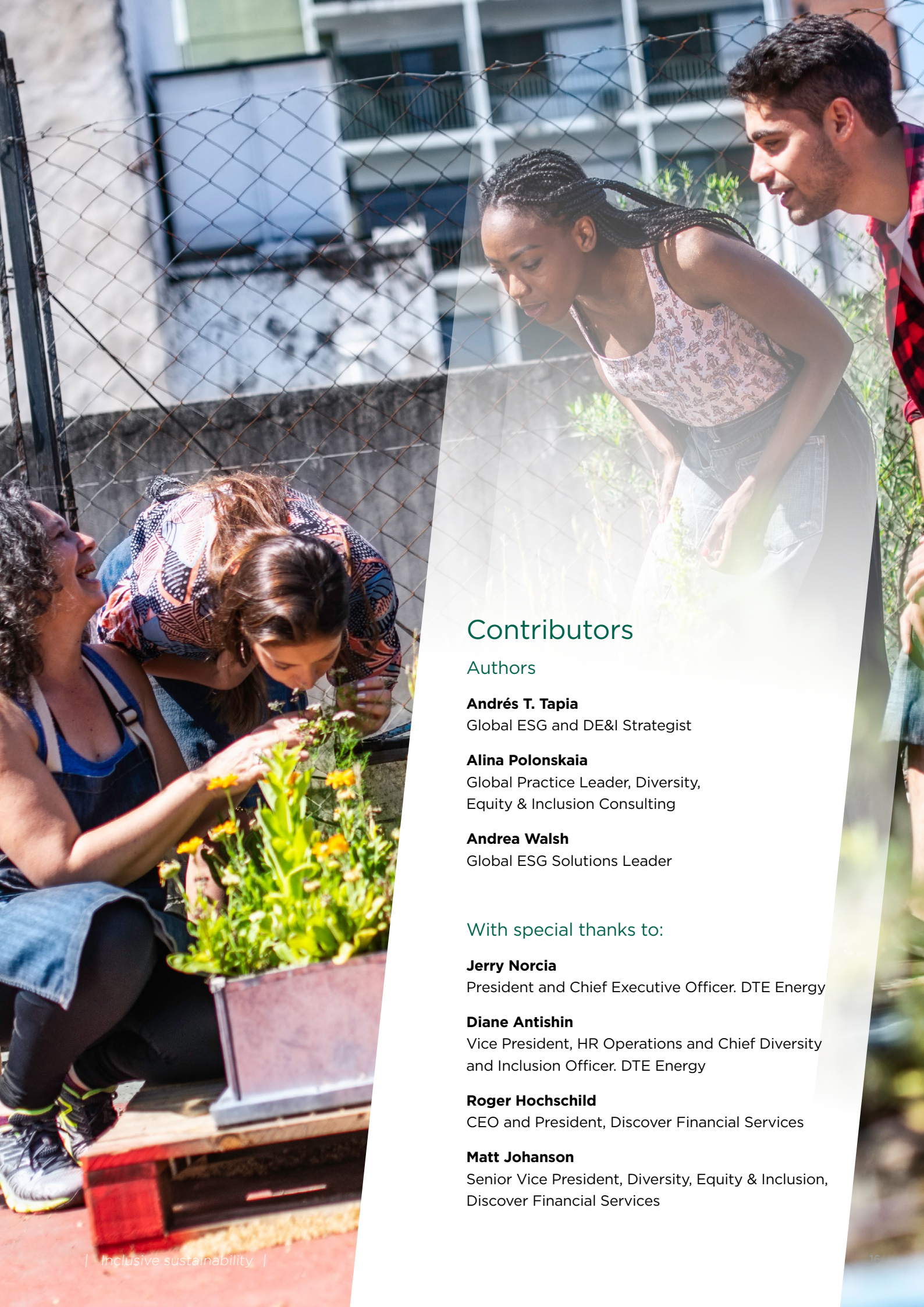


Conclusion

ESG is the clarion call that for businesses to maintain financial viability, it cannot be at the expense of the planet and people.

For too long, companies' ledger sheets have not accounted for the costs of doing business on the environment, society, and peoples' well-being, which have created structural inequities in our societies and organizations.

It's a time that calls for inclusive sustainability.



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Get in touch

to learn how we can
help you on your DE&I
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Contact us

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