

Measuring the 'Social' Component of ESG: A Critical Review of Methodologies for Assessing the Financial of Employee Well-Being

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1. Introduction

Environmental, Social, and Governance (ESG) frameworks have emerged as pillars of the modern corporate sustainability and financial valuation, serving as a multifaceted prism to the perspective of investors, regulators, and organizations in the long-term performance appraisal. The ESG paradigm has now become a quantifiable force in determining enterprise value and resilience in addition to ethical or reputational issues (Baker et al., 2022; Maaloul et al., 2021). Whereas the environmental and governance aspects have gained much focus because of their quantitative and regulatory characteristic, the social aspect of the pillar, the S in ESG is relatively underdeveloped. However, this aspect, which incorporates human capital, labour practices, diversity, equity, inclusion, and employee well-being is also getting acknowledged to be crucial in sustainable value creation (Deloitte, 2024; WEF, 2023). The rising interest of investors in the social aspect has gained pace in the recent years fueled by the rising empirical research evidence of the relationship between the welfare of the workforce and organizational performance, productivity, and financial results. Research by McKinsey (2023) and PwC (2023) highlight the fact that engaged employees help a company to achieve better innovations, lower turnover, and higher returns. Likewise, the findings of research works by De Neve et al. (2024) and Krekel

et al. (2021) are large-scale evidence that workplace well-being is significantly related to firm-level profitability and stock performance. This increased acknowledgment has triggered the introduction of human capital reporting indicators into ESG reporting systems, including the ISO 30414:2018 of Human Capital Reporting, the global reporting initiative (GRI) social standards, and the IFRS/SASB Human Capital Project. All these frameworks foster the transparency in reporting on health and safety (GRI 403), training and development (GRI 404), diversity and equal opportunity (GRI 405), and employee relations (ISO 30414, 2018). In spite of this development, there are grave and unresolved issues of how to quantify and properly incorporate the monetary element of employee well-being. A lack of standardized approaches and a similarity of definitions among the frameworks compromises the comparability and reliability of reported information (HEC Paris, 2022; IFC, 2023). As examples, ISO 30414 offers extensive reporting items, but does not give strict instructions on the methods of value creation. In a similar manner, both GRI and SASB differ in how they tackle the concept of well-being-GRI is more pro-disclosure, whereas SASB is more materiality and financial connectivity oriented. The resultant methodological confusion has generated the uncertainty

regarding the well-being to quantifiable financial value (OECD, 2022; MDPI, 2025). This absence of causality is twofold. Financial markets have a problem with quantifying the monetary value of well-being initiatives by researching and viewing them as qualitative and intangible (Erasmus University Rotterdam, 2023). Meanwhile, HRM departments do not only struggle to convert the social outcomes, which are excellent at monitoring engagement or satisfaction, into financial indicators that can be included in investor reporting (Northeastern University, 2023). This human resource analytics/financial valuation divide has in turn restricted the introduction of the social indicators to the standard ESG measurement and investment practices (PwC, 2023; Deloitte, 2024).

The gap in the research, thus, is an overlap among human capital management, sustainability disclosure and financial analytics. The current methodologies tend to work independently: HR analytics tend to focus on behavioural and engagement results, sustainability reports are associated with transparency and ethics, and finance departments are associated with results on returns. This dissection does not allow for an integrated view of how the well-being of employees creates economic value (Sonnetag et al., 2023; Nielsen et al., 2017). The recent reviews specify that the hypothesis of happy and productive worker is still supported on an empirical basis but is losing its methodological coherence, and thus requires integrated models that could correlate well-being information with the indicators of performance (Yang et al., 2024; Frontiers, 2025).

As such, this paper will critically review the approaches to measuring the social aspect of ESG and how the well-being of employees has been measured and attributed to financial performance. It also juxtaposes and integrates the main frameworks - such as

ISO 30414, GRI, SASB/IFRS, OECD, and industry-specific benchmarks (e.g. McKinsey, Deloitte, PwC) to determine areas where they converge, as well as their limitations and opportunities of being methodologically integrated. The following sections trace the development of the ESG measurement, present the current methods of measuring social performance, discuss the empirical evidence concerning the connection between human well-being and the outcomes of a firm, and suggest a conceptual framework of harmonising human capital reporting and financial valuation. The research aims to help bring together the HRM-sustainability-finance disconnection by measuring and valuing employee well being as part of ESG ecosystem so as to bring forward more credible, comparable and financially relevant social disclosures.

2. Literature Review

2.1 Growth of ESG and the Social aspect.

The progression of Environmental, Social, and Governance (ESG) principles has a wider context of corporate social responsibility (CSR) and socially responsible investing (SRI). First developed in the 1960s and 1970s in the context of increasing social and environmental awareness, CSR advised companies to go beyond profit maximization by pursuing moral and social results (Baker, Egan and Sarkar, 2022). The change of the concept has occurred in the 1990s when the investors started to quantify non-financial risks, and this concept became formalized by the financial institutions and global standard-setters. ESG was institutionalised as a model of the integration of sustainability into the investment analysis and corporate governance with the creation of the United Nations Principles of Responsible Investment (UN PRI) in 2006 (Generation Foundation, PRI & UNEP FI, 2022).

ESG measurement has its theoretical basis in the stakeholder theory, the triple bottom line (TBL) and social capital theory. Freeman (1984) stated the stakeholder theory on the assumption that long-term value is created once firms address the interests of many stakeholders, such as employees, customers, communities, and investors, than just the shareholders. The concept of corporate success has been further extended in the TBL model of Elkington (1997) that suggests incorporating the three concepts (people, planet, and profit) and proposes that balance between economic, social, and environmental performance. The social capital theory is an addition to these views as it focuses on the value of a collective created on the foundation of trust, collaboration, and networks both within and outside organizations (Nielsen et al., 2017). Collectively, these theories explain why social metrics, especially well-being of employees, should be incorporated into the ESG evaluation systems as a factor in determining the sustainable financial performance.

Regardless of this theoretical soundness, the S element of ESG is more conceptually and methodologically minuscule than environmental and governance components. The minimum of pollution, as a ratio of carbon emissions or energy-saving, is measurable and comparable across sectors (Sahin et al., 2021), whereas governance measures, like the board composition or anti-corruption measures, are defined by regulation disclosure. Conversely, social indicators, such as human rights, labour practices, and employee well-being are always qualitative and context-dependent (HEC Paris, 2022). Lack of agreement on metrics has led to inconsistent reporting in different frameworks, including GRI, SASB and ISO 30414 (OECD, 2022). Table 1 indicates that due to the disparity in social measuring options, determining the causality

between employee welfare and company performance is challenging.

Table 1: Comparative Focus of ESG Pillars

ESG Dimension	Common Metrics	Data Nature	Financial Linkage Strength
Environmental (E)	Carbon footprint, energy use, waste	Quantitative	Strong, direct (regulatory and operational costs)
Governance (G)	Board diversity, ethics, transparency	Quantitative/qualitative	Moderate to strong
Social (S)	Employee well-being, diversity, engagement	Predominantly qualitative	Weak to moderate (causal ambiguity)

Table 2: Emerging Approaches to Quantifying the Financial Value of Well-being

Therefore, the environmental and governance pillars still have the advantage of a more precise measurement norm and a way of valuation, whereas the social aspect is still developing, which is a reflection of the necessity to define human and relational capital in financial terms (ISO 30414, 2018; Northeastern University, 2023).

2.2 Creating a definition of Employee Well-being

Employee well-being is a construction of multidimensionality that includes the human experience at the workplace in physical, psychological, social, and economic dimensions of human experience (WHO and ILO, 2023). Occupational safety and health

protection are listed as physical well-being (GRI 403), whereas psychological well-being is associated with stress management, autonomy, and meaningful work (Sonnentag et al., 2023). Lasting within a social environment measures belongingness, weightiness, and trust, deciding amongst individuals (Yang et al., 2024), and economic measurements are job security, benefits, and money (PwC, 2023).

Leadership quality, workplace culture, job design, equity, and growth opportunities can be included in the list of organizational well-being drivers (McKinsey, 2023). Both ISO 30414 and the OECD Well-being Framework place special emphasis on leadership trust, ability to learn and inclusion as conditions of sustainable employee performance. In reference to Nielsen et al. (2017), the resources at the workplace that promote psychological engagement and resilience include autonomy, recognition, and supportive supervision, and this corroborates the hypothesis of a happy and productive worker. Empirical studies also confirm the fact that organizations that have higher well-being scores have less turnover, increased innovation, and increased customer satisfaction (De Neve et al., 2024; Krekel et al., 2021).

But operationalization is not consistent because the meaning of well-being has been varied in different fields and models. HRM studies usually focus on the subjective well-being and job satisfaction whereas ESG disclosure policies typically employ objective measures in the form of an absence rate or training hours (IFC, 2023). Such an incompatibility of concepts leads to challenges in embracing the measures, which are human-oriented, and the financial statements, which are investor-oriented (Deloitte, 2024; WEF, 2023). As a result, although the well-being of employees is a major factor that is known to influence the

success of an organization, the problem of its standardized reporting is a primary issue.

2.3 Financial Impact of Well-being Measure.

The interconnection between the well-being of the employees and financial performance has been a focus of wide empirical research. Metanalyses conducted by Krekel et al. (2021) and the London School of Economics (CEP, 2022) show that well-being has a positive relationship with productivity and profitability and stock performance. In the same vein, De Neve et al. (2024) resort to the large-scale survey big data of the firm to define that companies that are characterized by a high degree of well-being of employees outperform their counterparts in terms of performance on assets and shareholder value. Research by Yang et al. (2024) and Sonnentag et al. (2023) also supports the idea that well-being positively correlates with job performance by reinforcing the research by engaging, trusting, and decreasing the incidence of burnout.

However, regardless of the growing evidence, the research is still limited by the scope of the methodology that restricts the validity of the findings. Majority of the available literature uses self-reported well-being data that either can be bias or may not reflect objective behavioural changes (Frontiers, 2025). There are also casual inference problems caused by the problem of temporal lag Since well-being improvement can bring benefits later in financial value, it can be difficult to determine such effects in the short term (MDPI, 2025). In addition, the current research is mostly based on cross-sectional designs, restricting the knowledge of the dynamic feedback pathways between well-being and performance (Erasmus University Rotterdam, 2023).

In order to address them, more integrated and standardized solutions are promoted by

scholars and institutions. According to the IFC (2023), HR analytics should be paired with financial KPIs to generate similar metrics, whereas ISO 30414 advocates the reporting of the human capital investment and productivity ratios. The SASB/IFRS Human Capital Framework is the coordinator of these efforts as it connects the social indicators to the material financial outcomes. As explained in Table 3, the emerging methodologies aim to realise the economic value of well-being in quantifiable measures.

Table 2: Methodologies for Measuring Financial Impact of Employee Well-being

Methodology	Data Source	Financial Integration	Example Metric
HR–Finance Integration (IFC, 2023)	HR and accounting data	ROI on training, turnover cost savings	Productivity per employee
ISO 30414 Human Capital Reporting	HR and disclosure frameworks	Human capital value-added (HCVA)	Value per FTE
SASB/IFRS Materiality Mapping	ESG-financial linkage	Well-being as material factor for performance	Operating income variance
McKinsey Well-being Index	Survey and productivity data	Employee thriving to profit margins	Engagement–profit correlation

The intersection of the two approaches is an indication of an increasing agreement in that the concept of well-being is not a moral term but a material driver of financial results. However, the existing literature indicates that longitudinal studies, mixed and cross sector studies are critically necessary to support causal pathways. Well-being will continue to be an empirically, but analytically, opaque aspect of ESG

measurement without such empirical consolidation.

3. Theoretical Framework

The conceptualization behind the ability to connect the well-being of employees to both social and financial performance is based on an integrative conceptualization, which brings together the findings of the Human Capital Theory, the Resource-Based View (RBV), and the Stakeholder Value Creation Theory. These frameworks can be collectively considered as the explanation of how well-being investments produce organizational capability, trust in stakeholders, and long-term value generation, as one of the basic assumptions of the social aspect of the ESG frameworks ISO 30414, GRI, and SASB (ISO 30414, 2018; GRI, 2024; SASB/IFRS, 2023). The model to be used in the current study describes employee well-being as an input and as a catalyst of a dynamic system that interrelates the social performance and financial results.

The Human Capital Theory gives the theoretical basis that the human well-being is a productive capacity that promotes the individual and organizational performance. Based on this concept, the human capital theory was developed by Becker (1964) when the theorist developed the idea of human capital as accumulated skills, knowledge, and health and proposed that the firms investing in the well-being of their employees (in terms of health, safety, inclusion, and development) would produce economic benefits (OECD, 2022; IFC, 2023). In the ESG reporting, disclosure of human capital is a concept that is becoming more accepted as a depiction of organizational sustainability. As an example, ISO 30414 promotes measurement of pointers like training investment, turnover, and leadership trust as indications of human capital worth generation. The argument is in

line with the empirical studies conducted by De Neve et al. (2024) and Krekel et al. (2021), which show that companies that promote more well-being have better productivity, innovation, and profitability. In such a way, staff health serves as an asset of an organization, which can be characterized as both intangible and multiplying performance in the sense of its value being represented by the better cognitive, emotional and interpersonal abilities of the workforce.

In conjunction to this economic argument, the Resource-Based View (RBV) costs employee well-being as a strategic resource that is useful, scarce, unique, and unsuitable (Barney, 1991). In the RBV, long-term competitive advantage comes as a result of internal resources, resources that can not be easily copied by the competitors. This can be said of well-being-based cultures, which are trust-based, psychologically safe, and inclusive, since they are highly institutionalized within organizational practices and social interactions (Nielsen et al., 2017; Sonnentag et al., 2023). These environments encourage discretionary work, innovation and endurance, which convert social capital into a strategic advantage. The same has been supported by McKinsey (2023) international study on successful workplaces in which companies with high scores in well-being claimed more engagement and reduced absenteeism which directly affect operating performance and brand image. Hence, in the RBV perspective, well-being is something that the HR role is not dominant enough, but that is a part of the corporate strategy and ESG distinction.

The Stakeholder Value Creation Theory also extends this reasoning by making well-being a part of a relational and moral context. As companies take care of themselves, in the benefit of their workers, they build trust and legitimacy between themselves and other

wider stakeholder networks such as investors, customers, and regulators (Freeman, 1984; Generation Foundation, PRI & UNEP FI, 2022). This moral and strategic interdependence is reflected in the social pillar of ESG: responsible governance and risk management are positively treated of employees, which investors begin to relate more with financial ability in the long term (Bebchuk et al., 2022; HEC Paris, 2022). This is in line with the well-being framework of the OECD (2022), whereby it is important to point out that employee welfare and firm performance complement each other. In turn, employee well-being is an ethical obligation and a risk-reducing measure in the form of less reputational cost, no litigation risk, and the cost of turnover.

Integrating these theoretical lenses yields a multidimensional model linking employee well-being (input) to social performance (mediator) and financial outcomes (output), as represented in table 1.

Table 3: Conceptual Model Linking Well-being, Social Performance, and Financial Outcomes

Input	Mediator	Output	Feedback Loop
Investments in employee well-being (health programs, equity, inclusion, training)	Employee engagement, trust, and organizational citizenship	Financial returns (profitability, productivity, market value) and reputational capital	Financial success reinforces future well-being investments through resource reallocation

This ideation forms the basis of assuming that an investment in well-being triggers a series of constructive organizational

processes. An enhanced well-being boosts integration, drive, and psychological safety, which are aspects that may be empirically associated with increased innovation and customer satisfaction (Yang et al., 2024; PwC, 2023). These, in their turn, reinforce social performance, which is manifested by lower rates of attrition, enhancing diversity, and stakeholder confidence (GRI 401405). Improved social performance eventually results in monetary gains through productivity increase and high brand reputation (Maaloul et al., 2021; MDPI, 2025).

Notably, this is a dynamic and two way relationship. Financial prosperity will also lead to increasing well-being, with successful companies having a stronger opportunity to invest in the growth and health programs of their workers (WEF, 2023; Deloitte, 2024). Therefore the model uses feedback loops, in that social capital, and financial capital are reinforcers and not linear. This view is consistent with the newly growing ESG literature which proposes a systems-based concept of sustainability, where social and financial results develop together (Frontiers, 2025; Springer, 2025).

This integrative model thus cuts across three areas of analysis. According to the HRM approach, it recognizes well-being as an influencing factor of engagement and productivity; according to sustainability reporting, it defines social performance as a goal in the middle position based on ISO 30414 and GRI report disclosures; and according to the financial approach, it outlines the route by which the investments in well-being pay off through creating value. The framework helps the company to take a single approach to the measurement of the S in ESG by positioning well-being at the intersection of strategic resources, human capital and stakeholder value.

4. Methodology of the Review

This research paper has followed a critical systematic review and integrative analysis methodology in investigating the methodology used to measure the financial effect of employee well-being as part of the social aspect of ESG. The review is a synthesis of academic and practitioner publications published in the last 10 to 25 years, including theoretical as well as empirical research of the fields of human resource management, sustainability accounting and financial performance analysis. The design is methodologically grounded and interpretation adheres to a rigorous yet interpretive procedure, which tries to bring together a disjointed evidence and structures into an analytic framework that is structurally fit.

It used multidisciplinary academic databases (Scopus, Web of Science, SSRN/ etc.) and corporate disclosure criteria and ESG rating systems of MSCI, Sustainalytics, Refinitiv and Bloomberg. The institutional publications of the OECD, IFC, and major consulting companies like Deloitte, PwC, and McKinsey were used to supplement these resources and offer applied expertise on the changing ESG practices (OECD, 2022; Deloitte, 2024; PwC, 2023). The inclusion criteria meant that the chosen studies must clearly study the dimension of S in ESG, gauge employee well-being or other social indicators (e.g., engagement, inclusion, safety) and have a conceptual or empirical relationship of financial outcomes. The studies who do not have quantifiable monetary or social variables were eliminated in order to be able to stay analytical.

The analysis process underwent two major steps. To begin with, they were put through thematic classification of studies to be able to isolate prominent measurement methods, i.e., survey-based HR measurement (e.g., employee satisfaction indices) and market-oriented ESG rating. Second, it compared

quantitative models (i.e., the financial linkage studies based on regression) with the qualitative framework (i.e. case studies and disclosure studies) and found differences in the methodological rigor and interpretation of the outcome (MDPI, 2025; Erasmus University Rotterdam, 2023).

4.1 Measuring the social component using methodology.

It is argued that the quantification of the social aspect of the performance of ESG (Environmental, Social, and Governance) performance has been at the core of the academic and corporate dilemma. One advantage of the environmental and governance indicators is the comparatively objective metrics, whereas the social pillar, especially the well-being of the employees, is dependent on the multidimensional metric and the subjective variable. In this section, it is shown in a critical way how the principal methodological approaches were being used by the rating agencies, accounting and reporting standards and empirical research frameworks. It also regards the combination of the qualitative and quantitative approaches to reflect the delicate connection existing between the social performance and financial performance.

4.1.1 ESG Rating Agency and Framework of Ratings.

Key ESG rating agencies like MSCI, Sustainalytics, Refinitiv, and FTSE Russell are crucial in the process of quantifying the social factors into quantifiable performance factors. These agencies put the element of the S to work in a variety of measures such as employee turnover, health and safety incidence rates, diversity ratios, training expenditure and employee engagement scores. An example is that MSCI ESG Ratings devote approximately 30 percent of their social rating to the labor management and human capital development, and

Sustainalytics focus on occupational safety and community relations (MSCI, 2024; Sustainalytics, 2023). Refinitiv incorporates more than 20 employee-related indicators that encompass the equal opportunities, satisfaction of employees and health initiatives (Refinitiv, 2023).

Table 4:Key Employee Indicators Used by ESG Rating Agencies

Agency	Key Employee Indicators	Weighting Focus	Transparency Level
MSCI ESG Ratings	Training, turnover, safety, diversity	Human capital (30%)	Moderate
Sustainalytics	Safety performance, human rights	Employee safety (40%)	Low
Refinitiv ESG	Diversity, inclusion, pay equity	Workforce policies (25%)	High
FTSE Russell	Employee engagement, retention	Culture and inclusion (35%)	Moderate

Although the frameworks are prominent, they have been criticized continuously due to lack of transparency, inconsistency, and comparability (Berg et al., 2022). Letting external researchers access proprietary methodologies used by rating agencies is a barrier to reproducibility. In addition, the level of inter-agency correlation between social scores is also weak - often less than 0.6, which demonstrates that there is a high level of diversification in the definition of what makes social performance (Kotsantonis and Pinney, 2023). Lack of unified, standardized weighting systems or normalization procedures only increases the

interpretive vagueness of providing explanatory power of S based score to financial performance in firms.

4.1.2 Reporting Standards and Accounting.

In addition to small-scale rating, there are formal accounting and reporting standards which offer systematic directions of the manner in which companies are supposed to report social performance indicators. The most broad-based framework is the Global Reporting Initiative (GRI), which has detailed metrics on GRI 401405 that cover the following areas: employment practices, occupational health and safety, training, diversity, and equal opportunity (GRI, 2021). Meanwhile, the Sustainability Accounting Standards Board (SASB) now a part of the IFRS Foundation has specialized in financially material industries-specific social elements, and connecting the disclosure of human capital to value creation (IFRS, 2024).

Additional integration between well-being and operational efficiency is made by ISO 45001 on the management of occupational health and safety, and ISO 30414 on human capital reporting (ISO, 2018; ISO, 2019). Having the support of the International Integrated Reporting Council (IIRC), the Integrated Reporting (IR) framework encourages the human capital to be part of the value-creating stories and focuses on qualitative and visionary reports (IIRC, 2021). These disjointed standards are now combined by the Corporate Sustainability Reporting Directive (CSRD) implemented in the European Union in 2023 which requires social disclosure to be more powerful and in line with the IFRS Sustainability Disclosure Standards (IFRS S1 and S2) (European Commission, 2023).

Table 5: Comparison of Reporting Standards and Accounting Frameworks

Framework	Primary Focus	Strength	Limitation
GRI 401-405	Employment, safety, diversity	Broad disclosure scope	Limited financial linkage
SASB	Industry-specific metrics	Financial materiality	Narrow social focus
ISO 45001 / 30414	Safety and human capital reporting	Operational rigor	Adoption heterogeneity
<IR>	Human capital in value creation	Strategic integration	Qualitative and narrative-based
CSRD / IFRS S1-S2	Unified sustainability disclosure	Regulatory consistency	Early-stage implementation

These standards are still not causal in nature despite their facilitation of transparency and comparability. Output measures (such as engagement-based innovation or financial resilience) are often ignored in favor of input measures (i.e. hours of training or diversity ratio) reported in disclosures. In addition to that, voluntary and selective reporting still exists in non-EU settings, which diminishes global harmonization (Deloitte, 2024).

4.1.3 Quantitative Methods

Statistical and econometric models are mostly used in quantitative research on employee well-being and their financial performance. Some of the most popular methods are the panel data analysis, structural equation modeling (SEM) and methods of causal inference, including instrumental variables estimation and difference-in-differences estimation (DiD) estimation (Kim et al., 2022; Edmans,

2012). These methods aim at quantifying both direct and indirect impacts of well-being proxies - engagement survey outcomes, the rate of absenteeism, and employee retention, on monetary key performance indicators (KPIs) including Return on Assets (ROA), the Q criterion of Tobin and stock returns.

Empirical research has revealed that companies that are better satisfied with their employees have better long-term shareholder returns than others (Edmans, 2012; McKinsey, 2023). The analyses that lead to the use of regression, such as, associate decrease in turnover and absenteeism to enhanced profitability and customer satisfaction (OECD, 2022). With SEM models, the researcher can investigate the mediating variables, including engagement or psychological safety, which define the processes in which well-being is converted into performance (Erasmus University Rotterdam, 2023).

Nevertheless, these models have continued to have methodological issues. Causal interpretation is complicated by endogeneity, in which financial success can in turn improve well being. Contextual dependence is a constraint of generalization because there is a variation in results among industries, cultures and maturity of the firm. Moreover, capital market short-term financial time arrangements do not capture a lagging payoff of long-term well-being assets. Consequently, the well-being-performance relationship is typically underestimated with a focus on its dynamic and reciprocal nature by quantitative approaches (Krekel et al., 2019).

4.1.4 Mixed-Methods and Qualitative Approaches.

To address the same weaknesses of a strictly quantitative design, there has been the introduction of qualitative and mixed-method research design as critical tools of

contextualizing the Social aspect of ESG. Lived experiences and organizational cultures are not reflected in numerical indices, as case studies, employee stories and participatory well-being measurements focus on these aspects (Glavas, 2016). To provide an example, the ethnographic studies of multinational corporations are shown to create intrinsically motivated communities and inclusivity among leaders that create social cohesion and intrinsic drive- factors that cannot be readily measured, but an important aspect of what plays a role in long-term resilience (PwC, 2023).

Qualitative research can give depth, meaning, and interpretive understanding and bring to light how well being programs define corporate identity and stakeholder trust. Much more, such studies reveal cultural particularities and show that the perception of fairness, psychological safety, and inclusion varies within the region and industry. However, a limitation to external validity is their small samples and the subjectivity of their reports.

Mixed-method ESG assessments are becoming more popular, as a way of bridging this gap, with quantitative indicators of performance coupled with qualitative ESG screening. To illustrate, McKinsey has created the Organizational Health Index, which is a survey compiled with financial data that enables predicting of productivity increase (McKinsey, 2023). Equally, Bloomberg and Refinitiv triangulate structured HR with textual analysis of corporate disclosures to create integrated ESG dashboards, which allow the creation of more comprehensive assessments.

Such convergence is an indication of a methodological shift towards hybrid models of measurement which take into consideration the multidimensionality of the social pillar. Combining an analytical

soundness with contextual understanding, such frameworks present a plausible avenue of reducing employee well-being to financial results, which motivates the wider trend of moving capacity to evidence-based sustainability accounting (IFRS, 2024; OECD, 2022).

4.2 Financial Impact of Employee Well-being

Financial aspects of employee well-being have grown to be the centre stage in organizational strategy as well as investor decision-making. The results of empirical studies that have been conducted in the last 20 years strongly testify that a financial payoff follows investments in the health, engagement, and inclusion of the workforce. Nevertheless, industry forces, firm behavior and situational factors including cultural values and labor standards control the size and continuity of these effects. This part is a synthesis of significant research and business cases that investigate the economic benefits of well-being investments critically evaluating both convergent and divergent results of the evidence.

Well-being Initiatives ROI.

Empirical evidence is mounting to show that there is positive ROI of employee well-being initiatives. Research has revealed that job satisfaction and engagement, enhanced productivity, decreased absenteeism, and low turnover rates are linked to improvement (Krekel et al., 2019; Harter et al., 2020). The World Health Organization (WHO, 2022) approximates that four times the cost of expenditure on mental health programs at the workplace, is funded back with enhanced productivity and minimised absenteeism due to health reasons. Likewise, results of the meta-analyses by McKinsey (2023) and Deloitte (2024) show organizations with well-being cultures have increased performance in profitability (up to

21 percent) and reduced employee turnover (41 percent).

Table 6: Average Financial Impact of Well-being Initiatives

Indicator	Average Financial Impact	Source
Productivity increase	+12–25%	Harter et al. (2020)
Absenteeism reduction	–30–40%	WHO (2022)
Employee turnover cost reduction	–20–45%	Deloitte (2024)
Profitability premium (well-being leaders)	+15–21%	McKinsey (2023)

These results would be consistent with the Human Capital Theory, according to which more healthy and engaged staff would improve the efficiency of organizations and potential innovation (Becker, 1964; Wright and McMahan, 2011). Using the perspective of Resource-Based View (RBV), employee well-being can be viewed as an intangible resource which is valuable, rare and hardly imitable hence provides a sustained competitive advantage (Barney, 1991). In addition, socially responsible organizations also can take in better quality talent and win customer loyalty, which completes the financial sustainability cycle of building trusting stakeholder relationships (Freeman, 2010; Glavas, 2016).

Favourable Financial Relationships: Innovation, Retention, and Productivity.

The association between the financial performance and employee well-being is confirmed by several empirical research studies. In his study based on a 25-year longitudinal dataset on the Best Companies to Work For in the United States (2012), Edmans discovered that these companies produced 2–3 improvement in annual stock

returns over a 25 year duration than benchmarks despite stock option factors and industry factors. Like results have been also noted in a European environment, where employee engagement is associated with a positive return on assets (ROA) and operating margins (Eurofound, 2021).

In addition to the direct implications of productivity, the mechanism of well-being on performance is important through innovation capacity. The organizational culture of high inclusion and psychological safety levels is associated with the increased pace of generation and cross-functional cooperation of ideas (Deloitte, 2024). According to research by Erasmus University Rotterdam (2023), the mediating effect of engagement and trust on innovation output was found to account for almost 18% of variance in the output of 200 technology firms, and most importantly, employee well-being.

There are also significant roles of retention and employer branding. Less turned over helps to reduce the costs incurred in the hiring, maintains corporate memory and creates strategic stability in the long run. As an example, OECD (2022) stated that the employee retention rate among organizations with an above-average well-being score before the pandemic was 40% higher, and absenteeism healthcare reduced by 30%, which amounts to direct savings.

Contradictions and Variations in the Context.

Although the benefits of well-being have been thought to be financial in nature, there are divergent empirical findings. The differences between sectors are large - sectors like technology, professional services and consumer goods have healthier well-being-performance correlations as compared to manufacturing or extractives, where productivity is mainly driven by physical capital intensity (Kotsantonis and Pinney, 2023). The size of the firm is

another moderate: big companies usually have more to institutionalize well-being programs, whereas small and medium enterprises (SME) have more short-term advantages but on a smaller scale (PwC, 2023).

Measurement is also complicated by some time effects. A high number of studies note that it takes 12-24 months after well-being investments before it gains financial returns (OECD, 2022). The short-term accounting cycles and quarterly reporting frameworks do not encourage the firms to base on long-term social value-generating. Also, the attribution issue cannot be fully addressed because of the concept of endogeneity, even financially successful firms might be able to invest more in the well-being of the employees, improving reverse causality (Kim et al., 2022).

These contradictions are aggravated by measurement heterogeneity across the agencies who conduct ESG ratings, as well as inaccessibility to internal HR information. As indicated in previous sections, social metrics tend to be self-reported and subject to the local condition and their comparability across companies and geographical location is compromised. Such non-standardization hinders the capacity of the investors to draw a line between the organizations which really perform well and those which are involved in social washing. Investor and market thought and integration. An investor perspective regarding the appreciation of human resource as the source of financial value is gaining momentum. Employee well-being metrics are suggested as investments that are screened and risk assessed in ESG-focused funds, social bonds, and sustainability-linked loans. The deterioration of human capital disclosures are increasingly finely detailed by the IFRS Sustainability Disclosure Standards (S1 and S2) or the EU CSRD that allow the integration of well-

being indicators on the financial market (IFRS, 2024; European Commission, 2023). According to a recent report by sustainalytics (2024), companies with above-average scores on the S scores have a lower cost of capital and their analyst rating is stronger, especially in knowledge-intensive industries. Financing instruments based on social bonds and human capital as the source of financing have become the instruments that can be used to monetize the outcomes of well-being. An example of this is the International Finance Corporation (IFC), which introduced a 2-billion-dollar program, a so-called Social Bond Program, which directs funds to companies that care about their employees and offer inclusive labor terms (IFC, 2023). Growing evidence about the use of good well-being performance as an indicator of operational resilience and its governance quality by investors is a pointer that reducing exposure to long-term risks.

Examples of Corporate Cases.

A number of multinational companies give very compelling evidence on the financial implications of employee well-being programs. Unilever, in its turn, has incorporated its Sustainable Living Plan with its Lamplighter program on employee well-being. According to the statements of the company, enterprises include teams that have demonstrated 21 per cent more productivity and 33 per cent reduced absenteeism, which directly affect the profitability of the operations (Unilever, 2023).

Another example is Salesforce. Increasing social capital alongside brand equity, the company has realized a 25-percent improvement in the level of employee engagement, a significant increase in customer satisfaction rates, and a significant increase in the number of customers with its program, Well-being Reimagined (Salesforce, 2023). Equally, as demonstrated

by especially low turnover and sustained high rates of revenue growth, employee-oriented policies by Patagonia such as flexible work schedules and fair remuneration have brought about a clear business rationale to integrate well-being into corporate strategy (Deloitte, 2024).

All these points illustrate the idea that the well-being of employees is not just a moral or social requirement but a quantifiable financial resource. When properly incorporated in ESG and performance management systems, it boosts productivity, innovation, and investor confidence and reduces the operation and reputational risks.

5. Critical Discussion

Assessment of the social aspect in the Environmental, Social, and Governance (ESG) models is one of the most conceptually and methodologically debated domains of corporate sustainability indicators. Through the mechanisms through which methodologies seek to operationalize social performance, the meaning or value of human well-being in economics as it is perceived by organizations and investors is fundamentally formed. This part is the critical synthesis of the implications of these methodologies, which include tensions between moral and financial approaches, the inadequacy of disclosure-based systems, and the persisting debate on the issue of causality. It is also concerned with the ethical concerns of considering employee well-being as an economic factor, and then suggesting an interconnected, multi-tiered model of means to quantify social performance in a way that uses the power of digital and AI based analytics in a responsible manner.

Methodological Framing and Attitudes to “Social Performance.”

It is clear that the approach to measuring the social performance has a direct effect on the act of corporations, as well as market

perception. GRI 401-405, ISO 30414, and SASB frameworks have been developed as the standardized human capital disclosure facilitating transparency and comparability (GRI, 2023; ISO, 2018; SASB/IFRS, 2024). Nevertheless, these systems usually focus on compliance reporting, not on the actual impact and distill complex human conditions into simple indicators. This dependence on output-oriented measurements, including the turnover rates, diversity ratios, and incidents of safety has led to a kind of quantitative reductionism (HEC Paris, 2022).

Due to this, organizations risk engaging in the process of metric optimization, as opposed to the real improvement of well-being. Empirical evidence indicates that companies that have developed reporting systems are not likely to have better employee satisfaction and mental health performance (OECD, 2022). This loss of correspondence between measurement and meaning is an example of how the perception of social value can be distorted by methodology. Disclosed metrics are being seen by investors as indicators of risk management and mature governance, and by employees frequently as being unrelated to their actual lives (PwC, 2023). Therefore, social aspect of ESG has continued to be apparent in the reporting but intangible in content.

Financial vs. Moral Rationales of Well-being measurement.

The debate about employee well being has been going back and forth between two divergent arguments, which are the moral argument and the financial argument. The ethical reason is based on human rights, dignity, and inalienable well-being as the morality without considering the profit motive (OECD, 2022; WHO, 2023). The financial explanation, which prevails in the ESG investment, views well-being as the cause of productivity, innovation, and

shareholder value (McKinsey, 2023; Deloitte, 2024).

This contradiction is conceptual. The erosion of the moral ecumenism of the social dimension may be attained when well-being is instrumentalized in obtaining economic gain. Other researchers, like Garcica-Meca (2025), believe that our tendency to make well-being an input to performance commodifies human experience, which resonates with the human capital instrumentalization. However, saying that financial framing is bad and dismissing it entirely would be a mistake since this would diminish the social pillar in decision-making by investors. The difficulty is to balance between moral commitments and the financial materiality - to accept and make room that ethically committed well-being practices can and must lead to financial stability.

Disclosure vs. Real Impact.

The existing ESG frameworks are increasingly under attack because of being overdependent on disclosure. Although such reporting standards as GRI and the EU Corporate Sustainability Reporting Directive (CSRD) facilitate consistency, there are seldom guarantees that the policies reported are turning into better realities in the workplace. Research by Erasmus University Rotterdam (2023) and the HEC Paris (2022) indicates there is a large amount of reported ESG performance-internal HR data decoupling.

Table 1 illustrates this discrepancy, comparing common disclosure indicators with their actual behavioral or outcome equivalents.

Table 7: Disclosure Metrics vs. Underlying Workplace Realities

Reported Metric	Typical Disclosure Source	Underlying Reality Measured	Common Gap Identified
Employee turnover	GRI 401, ISO 30414	Retention stability	Often excludes voluntary vs. involuntary turnover
Diversity ratios	GRI 405	Inclusion quality	Captures demographics, not equity of experience
Health & safety incidents	ISO 45001	Workplace safety	Ignores mental health or psychosocial risk
Engagement scores	Internal HR reports	Employee sentiment	Infrequent, context-sensitive

The comparability and dependability of ESG ratings are undermined because of the majority of self-reported, non-audited, and inconsistent data (Sahin et al., 2021). This box-ticking type of dynamic gives preference to reputation management instead of transformation. It also provides fertile grounds of social washing, strategic inflation of well-being claims which cannot be proven to have any effect.

Causality Problem Direction and Complexity.

One reason the well-being-finance relationship is the focus of empirical research is causality. Is it well-being performance which leads to financial performance, or do profitable organizations just invest more in their human resources? According to meta-analyses by Krekel et al. (2021) and De Neve et al. (2024), a bidirectional correlation has an effect of the first and the second, where well-being initiatives are strengthened by financial stability and require the reverse action. Nonetheless, the majority of researches use cross-sectional data, which cannot be used

to make causal inferences or time lag effects.

According to the longitudinal designs and structural equation modeling solutions, the pathway is not linear but the cyclical process: financial success increases the well-being capacity, whereas well-being reinforces the long-term financial sustainability (Nielsen et al., 2017; OECD, 2022). The issue is that measurement temporality the rewards of financial moves are immediate, whereas social investments accumulate over time. Scoring systems that are based on annual disclosures as a ESG communicate poorly with this dynamic which advances short-termism.

Ethical Aspects and the Instrumentalization Risk.

With more organizations moving to commodify human well being by paying and bonding social performance and pay based on ESG, we can see the ethical aspects of human welfare being commodified. According to Bechuk et al. (2022), the pitfalls of ESG compensations are pernicious because by connecting the wellbeing of executives as social goals, performance gaming superficially—performance on paper instead of real change—is possible. Furthermore, digital systems of well-being monitoring are data-rich; however, privacy, consent, and surveillance are of concern (WHO, 2022).

The possibility that the newest technological offerings, wearables, AI-based mood tracking, sentiment analytics, etc, turn well-being into a control object instead of empowerment is getting more and more dangerous. This resonates with Foucault who describes the quantified self as a mechanism of administration instead of a caring technique. The future of ethical ESG assessment lies in the ability to balance both transparency and trust and make sure that data-based insights are employed to train an

individual, rather than use human experience.

Towards a Multi-Layered Measurement Model.

These tensions will need a multi-layered, integrative measuring model which will incorporate objectivity, subjectivity and financial relevance. This model would work in three layers that are dependent on each other:

1.Objective measures Objective measures include indicators like absenteeism, safety records, pay equity and turnover, which are external verifiable (ISO 30414; GRI 401–405).

2.Subjective measures - employee feelings about inclusion, engagement, and psychological safety based on the validated survey tools (Nielsen et al., 2017).

3.The financial analytics - profitability, productivity, market valuation correlations (De Neve et al., 2024; Deloitte, 2024).

By merging those streams of data, digital HR analytics, and AI-based modelling can make it possible to monitor the trends of well-being in real-time. Nonetheless, this kind of integration has to follow ethical principles of AI-based approach, such as anonymity, informed consent, and transparency of algorithms (IFC, 2023).

Based on this model, the implemented shift is on compliance to assessing social performance based on impact where social performance is no longer disclosed but shown. It views well-being as not only a moral obligation but also a material factor of corporate responsibility, making human sustainability and corporate accountability consistent with each other.

6. Future Research Directions

Future studies should stop relying on isolated cases and shift to the use of longitudinal, cross-industry, and cross-cultural designs that can reflect the current

and upcoming changes in the relationship between the well-being of employees and financial performance. The existing evidence is still piecemeal because of time lag, industry bias and inconsistent measurement frameworks. As well, comparative studies in geographic and institutional settings, particularly of emerging economies are needed to be able to regulate how well-being moderates the well-being performance relationship (OECD, 2022; MDPI, 2025).

The next important step towards this is to develop a common set of well-being-to-finance measures that combine both human capital and financial accounting aspects. The latest development of AI, big data analytics, and digital HR tools provides opportunities to monitor in real time any social performance indicators, including engagement, burnout, and inclusion. Nevertheless, these innovations are bound to be combined with moral administration and protection of data privacy (Nielsen et al., 2017; WHO, 2022).

There is a strong need to combine HR with sustainability analysts and financial economists to overcome conceptual and methodological gaps. An integrated structure of both ISO 30414 and IFRS Sustainability Standards may introduce a standardized design of evaluating the financial materiality of human capital, where employee welfare is no longer seen as a social issue to corporate behavior, but as a factor in shaping an organization's sustainability to the long-term and their shareholding worth.

7. Conclusion

As has been seen in this review, although employee well-being is currently being considered as key component of the social pillar of ESG, its measurement and translation into financial terms differs between frameworks. It has been proved that

well-being has a beneficial impact on productivity, innovation, and profitability, but its entire economic potential is hidden by the lack of a comprehensive methodological approach (De Neve et al., 2024; Deloitte, 2024).

The analysis supports the idea that the measurement of employee well-being is not only a moral but also an economic necessity an engine of sustainable value generation that is not limited to compliance reporting. Most of the current ESG systems tend to favour disclosure rather than actual results, and it is therefore important to implement cohesive, transparent and evidence-based systems that connect human metrics in capital with financial analytics.

The next generation of ESG guidelines must incorporate the human elements of social performance as material financial aspects of the model, so that the dimension of the corporate accountability becomes as analytical as the dimensions of environmental and governance aspects are - hence a real balance between corporate responsibility and real human sustainability.

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