

# SUSTAINABILITY IN THE CORPORATE WORLD


## RESEARCH REPORT





# HR ON THE FRONT LINE OF CHANGE: MOBILIZING TALENT TOWARD A SUSTAINABLE FUTURE

Companies leading on sustainability recognize the critical role that their human capital strategy plays in developing an innovative and resilient workforce, aligned with its sustainability vision and goals.



As a global community, we face many daunting challenges, such as resource scarcity, climate change, income disparity, unemployment/underemployment, human rights abuse, among many others. Business as usual is not sustainable. Corporations are increasingly recognizing that they have both a responsibility and an opportunity to develop innovative solutions, in line with their core areas of expertise, to address these global sustainability challenges.

Many of Mercer's clients are leaders in their industry on their approach to sustainability and corporate responsibility. In spring 2014, Mercer conducted a series of in-depth conversations with 13 of these global corporate sustainability leaders.

A common theme we heard from these sustainability leaders — as outlined in this resulting research report — is that sustainability has become a *business imperative* and that human capital strategy plays a critical role in supporting their sustainability strategy and goals.

Although the organizations are not identified for confidentiality reasons, we would like to express our sincere thanks to those who took the time to share with us information on their company's sustainability strategy and related experiences. You inspire and challenge us to think differently about how Mercer can evolve its products and services to better support our clients' sustainability efforts and also to make a more meaningful impact on addressing the world's environmental and social challenges.

We look forward to collaborating with our clients and other stakeholders in creating a sustainable future for all.

Sincerely,  
Simon O'Regan  
President — EuroPac Region, Mercer

*“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”*

— Brundtland Commission of the United Nations (1987)

Sustainability is a multifaceted and complex concept, extending from climate change and the depletion of natural resources all the way to workers’ rights and skills, corporate brand, and customer demand. It means different things to different people — to some, it’s about going green, whereas for others it falls within corporate social responsibility (CSR). Either way, businesses are increasingly going far beyond volunteering and philanthropy to embedding sustainability into their core business strategies. For leading multinational corporations around the world, sustainability is a *business imperative* given the environmental and social challenges of the world today.

This was the key finding of a pilot project Mercer recently initiated to uncover current business perspectives on sustainability. To date, Mercer has conducted in-depth discussions with 13 leading companies from various industry sectors<sup>1</sup> to understand their views and actions related to sustainability. The participants are not meant to represent all companies; rather, they are likely “leaders” in this movement based on their knowledge of the topic and initiatives undertaken.

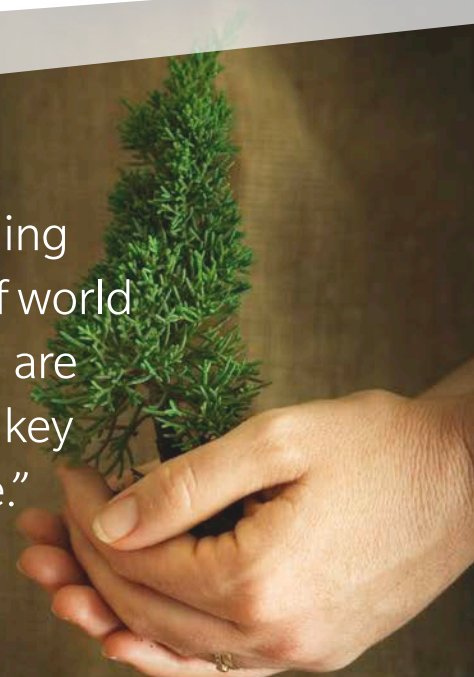
<sup>1</sup> The companies included in this pilot are all multinationals and cover the following industries: airlines/aviation, aerospace, automotive, construction, consumer goods, engineering, financial services, information services, logistics and supply chain, and oil and energy.

## Discussions with the pilot participants focused on the following key areas:

- 1 What does sustainability/CSR mean for your organization, and to what extent is it a key component of your BUSINESS STRATEGY?
- 2 How do you MEASURE PROGRESS, and what challenges are you facing?
- 3 What are the KEY DRIVERS behind your focus on sustainability (for example, risk, revenue generation, cost savings, brand value, innovation, employee engagement, etc.)?
- 4 In which ways does your HUMAN CAPITAL STRATEGY help to operationalize your sustainability strategy?

“Sustainability is a global mega-trend, alongside aging populations and urbanization. Cities take up 2% of world land space but consume 75% of world energy and are responsible for 80% of global carbon emissions. A key challenge is how to make urbanization sustainable.”

— An engineering company



# KEY FINDINGS

The top insights gained from discussions with the participants include:

1. Sustainability is core to their business strategy.
2. The CEO is fully engaged, an advocate, and often the key driver.
3. Other drivers include demand for green products, employee attraction and retention, employee engagement, brand enhancement, innovation, responsibility, and cost saving.
4. HR strategy themes include employee engagement, diversity, multigenerational workforce, training, sustainable investing, stress and well-being, green benefits, compensation, and supporting HR policies and processes, among others.
5. Common challenges include overcoming short-termism, shifting mindsets, helping employees cope with change, modifying consumer behavior, and measuring social progress (or social impact). Some believe that the finance function needs to become more engaged on sustainability.
6. Companies seeking external advice are looking for a provider that is engaging, has subject-matter expertise, and is an advocate for progress.

All participants said that sustainability is core to their business strategy — in fact, it is their aim to integrate it into everything the organizations do and is often considered a core value. As one participant summarized: “It’s good for business, clients, and the environment.” Some have dedicated substantial resources to this area for nearly a decade, whereas others have started focusing more strategically on sustainability initiatives in the past few years.

One participant, a consumer goods multinational, said sustainability is such a high priority that it is one of the company’s top five core values. The focus is driven by a combination of scarcity of environmental resources, social responsibility, waste disposal, and value for the company’s customers.

*“Sustainability is a key driver of the future growth strategy. There is clearly a growing global demand for environmentally friendly logistic solutions that are serviced in line with global social and ethical standards.”*

— A logistics and supply chain provider

An aerospace company shared that its three key drivers in the sustainability context are to satisfy customers, further innovation, and increase profitable growth. Together, the firm feels these lead to risk and cost reduction as well as revenue generation, ultimately helping customers “do more with less.”

Sustainability also has added benefits from a human capital standpoint. One firm noted that prospective employees are asking more questions today about the company’s green efforts. “Young people today want to work for an ethically sound business, and this is becoming increasingly important,” a company spokesperson said.

The efforts appear to be paying off. Many of the survey participants have received accolades and positive press as a result of their sustainability initiatives. But the impact is not merely skin-deep. At one company, for example, 80% of employees say that sustainability is a core value, and senior managers value this statistic. Another company reported that senior management is so invested in the topic that leaders are actively involved with public speaking on the topic to educate both themselves and others — reaching tens of thousands of people in the process.

At these companies, the CEO is fully engaged and is often the key driver of sustainability. In some instances, leaders are even working alongside the government to try to drive change on a much higher level. Within the company, it is not uncommon that executives and other leaders have standard targets within their annual performance plans related to compliance, diversity, and other areas of corporate development. Another company is looking into linking executive compensation to environmental performance targets (for example, potentially linked to carbon-footprint targets).



## DRIVING CHANGE FROM THE TOP

“The CEO has been an important driver. ... He personally felt that [we] needed to do more but stay true to the organization. The main driver was therefore a need to give back to society, rather than becoming more contemporary or competitive. The aim was to focus on the skills [that we] could leverage, and the process implemented focused on starting with a few social impact products and then increasing these over time.”

— An information services organization

# WHAT IS DRIVING SUSTAINABILITY?

Long-term profitable growth is the top reason for the strong focus on sustainability. This is enabled by a combination of other sustainability drivers, including:

- Demand for green products (particularly in the consumer goods, construction, automotive, logistics, and energy sectors).
- Attraction of critical talent.
- Employee engagement.
- Employer brand with purpose.
- Innovation.
- Enhanced brand and reputation.
- Climate and environmental responsibility (especially in the aviation, automotive, and energy industries).
- Social responsibility.
- Integrity, moral responsibility, and ethical behavior.
- Cost savings (though often not the primary driver).

Although the drivers are similar, each company surveyed has different thoughts about and approaches to sustainability. The differences start right out of the gate in terms of how businesses characterize and label their corporate sustainability approaches.

For example, one consumer goods company actually eliminated its former CSR function after firmly embedding its sustainability strategy into its core business. Its sustainability strategy is brought to life through the company's marketing and the consumer brands. The company aims to further enhance its social impact through the differentiation of its products and reduce its environmental impact by altering consumer habits. The expectation is that this growth will be driven by marketing the brand as a sustainability leader, which will in turn increase the company's growth and profitability.

Meanwhile, an information services company prefers not to use the word "sustainability" in describing its activities in this arena, as it perceives that the term places too much emphasis on environmental issues. For this organization, CSR better captures its three major areas of focus: social innovation products, community partners, and protecting and helping consumers. This is less about being green than it is about being dedicated to "data security and privacy, health and safety, employee well-being, and 'being a great employer.'"

At the opposite end of the spectrum, a company in the construction industry is focused heavily on branding itself as "being green," as it has found that this term "translates much better on a global level" for its type of business. The company said it is not afraid to make it clear, however, that its commitment to being green is primarily about achieving business results.

And finally, one organization refers to "integrity and corporate responsibility" in characterizing its approach. The company has founded an advisory board led by high-profile members from the federal government and organizations such as the United Nations. The key drivers of the initiative are enhancing its reputation and the perception of the company and its brands. The company sees integrity as "a key value to achieve this" and, as such, it is part of the organization's "DNA to keep social and ethical standards and comply with the UN Global Compact 10 principals." (For more information about the UN Global Compact, see the next page.)

## AIDING THE EFFORT

The UN GLOBAL COMPACT is the world's largest initiative for responsible corporate management. Members align their business activities and strategies to 10 universal principles from the areas of human rights, labor standards, environmental protection, and anti-corruption.

The WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT is a global CEO-led coalition of forward-thinking companies that galvanizes the global business community to create a sustainable future for business, society, and the environment. Its vision: In 2050, about 9 billion people live well and within the resource limits of the planet.





# WHAT COMPANIES ARE DOING

Leading companies today are striving to conduct business in an economically, environmentally and socially balanced manner, according to Mercer’s research findings. One organization described its three major “pillars” of focus, which seem to fit a general mold for how several of the pilot participants are approaching sustainability (see infographic to the right).

Most of the companies have key performance indicators (KPIs) made available in their sustainability reports. As an example, an automotive company has more than 30 sustainability KPIs in various categories that are similar for many of the pilot participants, such as:

- Product and production.
- Employees.
- Business partners and supply chain.
- Corporate and social responsibility.
- Ethics.

Some of the major areas of focus are outlined below.

## GOING GREEN

In terms of improving a company’s environmental footprint — that is, the more green side of sustainability — businesses in the construction, automotive, aviation, and energy industries are particularly focused on looking to technology improvements in the quest to improve fuel and energy efficiency as well as reduce emission and noise levels. One organization has even set up an “energy performance” company that conducts energy performance guarantees.

## LEVERAGING HUMAN CAPITAL

A larger and more common focus of sustainability movements involves the critical role that employees play in driving sustainable business growth. First, employers see sustainability as key to attracting and retaining top talent. In particular, one company said it “aims to develop the employer brand with purpose and reflect this in the employee value proposition, recruitment strategy, reward strategy, and training programs.”

## TOP AREAS OF FOCUS\*



### BETTER PRODUCTS

Help customers do more with less



### BETTER FUTURE

Innovation



### BETTER BUSINESS

Achieve profitable growth

\*As outlined by one pilot participant (though generally echoed by others).

*“We recognize the importance of an ‘employer brand with purpose’ and reflecting this in the employee value proposition, recruitment strategy, and training programs.”*

— A logistics and supply chain provider

Second, employers seek to foster innovative environments. Employee and leadership development, an innovative culture, communication, and empowerment are key to ensuring that employees are equipped to develop innovative — and profitable — products and solutions to address sustainability challenges.

*“We are very systematic and transparent with communicating internally and externally. There is also the opportunity for flexible conversations on future developments — that is, idea generation alongside systematic dialogue. To keep innovation alive, you need to be less structured.”*

— An engineering company

Third, diversity, inclusion, and employee engagement are top priorities for most employers. A number of companies have KPIs involving areas from attraction and retention through positioning the employer as an attractive place to work, along with a commitment to diversity and equal opportunities; employee development and support; occupational health and safety; and an employment environment that ensures talent needs are met. Leading businesses recognize that creating an “inclusive culture” helps motivate employees to give their best efforts and, in return, produce better results for the company.

*“Diversity is extremely important to us, in many respects. We tell our people to ‘bring yourself to work’ and encourage leadership role modeling to help break stigmas — in anything from use of flexible work policies to ‘coming out’ with dyslexia. We run workshops to help people understand unconscious biases.”*

— An energy company

## EMBRACING GENERATIONAL DIVERSITY

“Generation management” is another area of interest. One participant has a program in place geared specifically for generation Y, as this population tends to place a higher priority on sustainability and is more mobile — and there is recognition that boomers will eventually have to “hand over the reins.” Facebook, Twitter, and videos are all being leveraged to engage these audiences.

“For millennials, money is not the driver,” one company spokesperson said. “It is clear that Gen Y thinks very differently about sustainability,” another company said. “Nowadays people average about 10 jobs per life rather than the old-school thinking of a job for life. [We] are looking at ways around this thinking — that is, offering internal job changes/locations to keep employees motivated — and more work will be done on this initiative shortly.”

## EMPLOYEE HEALTH AND WELL-BEING

The companies surveyed overwhelmingly expressed a belief that employee well-being plays a role in sustainability as well. To meet objectives in promoting health and well-being, a variety of approaches are used (see infographic, “Sustaining Health and Well-being in the Workforce”). One company noted it would like to capture better metrics on whether sustainability efforts are having the desired impact on improving employees’ health and stress levels.

“We are very sensitive to the mental health and stress of our employees, as our industry and company are going through so much change,” one participant said.

## SUSTAINING HEALTH AND WELL-BEING IN THE WORKFORCE

### What Employers Are Doing



**ONSITE MEDICAL CLINICS OR EXPERTISE**  
(chief medical officer/occupational health nurses)



**HEALTHY WORK ENVIRONMENTS**  
(living plants in offices, organic food offerings, etc.)



**“RESILIENCE” TRAINING**



**STRESS MANAGEMENT PROGRAMS**



**FLEXIBLE WORK POLICIES**



**MEDITATION PRACTICES AND QUIET SPACE**



**GREEN TRAVEL ALLOWANCES**



**BIKE TO WORK CAMPAIGNS**



**GYM DISCOUNTS**



**VOLUNTEER DAYS**

## SUSTAINABLE INVESTING

The area of pension investments related to sustainability is a growing field of interest, and some companies plan to evaluate their options in the future. Green investment options in particular are not a huge strategic force at this stage, but they are becoming more and more popular — in fact, they are currently the most profitable and most popular choice among one company’s employees. The interest is so strong that this company has appointed a new team member to take an economic approach to sustainability and examine the links between sustainability and pension investments. Another participant said that it already has ESG (environmental, social, and governance) considerations embedded into its investment policy and related processes.

# WITH OPPORTUNITY COMES CHALLENGES

*“Sustainability and corporate responsibility are firmly anchored in our business strategy and in the leadership structures of our organization. A major corporate objective — and a challenge — is to implement sustainability in all our brands and subsidiaries.”*

— An automotive company

By far, the most challenging aspect of sustainability is “short-termism” — that is, long-term goals being sacrificed due to pressure for short-term results. One respondent noted, “As [we focus] on growth and profitability at the moment, there is a priority on those sustainability projects that do not require large investments.”

Indeed, there is so much focus on “succeeding today,” as one participant put it, that it can be difficult to change people’s perspectives to see the larger picture and think of how they can succeed now while ensuring that they are developing practices that will be sustainable and allow them to continue to succeed in the future. This issue is made more complicated because it can be harder to capture the return on investment. Some KPIs — such as accidents at work, energy/water consumption, and waste — are easy to measure, whereas areas such as social progress are more of a gray area and harder to capture definitively.

Another difficulty can be shifting the mindset of senior leaders from one of awareness and understanding to one of engagement and advocacy. Even when they do their part, it’s not always easy to get everyone else on board. “Senior level [managers are] very much engaged, and they have to prove they are green the same as they have to prove they meet the health and safety initiatives,” said one participant in the construction industry. “Site-level employees are also becoming very knowledgeable on quizzing people on sustainability, but it is probably middle management who is the least engaged due to their other commitments.” Leadership engagement and advocacy often improve, however, as organizations build sustainability into the infrastructure of the company.

Even when global leaders feel a sense of responsibility to drive change within their organizations and in the world

## SCALING UP IMPACT

A global financial services and information firm is taking a strategic approach in how it aligns staff volunteering efforts with the firm’s sustainability strategy. The firm is pursuing skills-based volunteering programs that help employees understand how they can use their core skills and company resources to address sustainability challenges.

For example, a team in Asia assisted a nongovernmental organization (NGO) focused on helping hungry, impoverished citizens by helping to clean up and revamp the NGO’s databases, which were in poor condition. Sales, marketing, and research and development teams also pitched in with their respective expertise.

The project ultimately helped staff get involved in helping solve sustainability challenges using their core skills. Along with doing good in the community, experiences like this equip those colleagues with a better sense of how they can infuse sustainability considerations into the work they do on products and services for clients.

around them, they often find it hard to get consumers to change behaviors when using their products. Energy efficiency is one example — it’s one thing to get people to turn their lights and computers off when not in use, but it’s quite another to get them to change home insulation. Even with government incentives, people are reluctant to take on disruptive change.

Many believe that the way to help mitigate challenges is education — for both employees and consumers alike. Embedding sustainability throughout the HR infrastructure to support cultural and behavioral change is another key action.

# CONCLUSION

Corporate sustainability leaders are embedding their sustainability strategy into their core business, with sustainable profitable growth as a key driver. CEOs are engaged and visible advocates for sustainability objectives.

Human capital strategy and sustainability strategy have a strong interdependent relationship — one supports the other. Being “green” and demonstrating a “brand with purpose” help attract and retain employees. Also, highly engaged employees enjoy and foster the innovative thinking that is required to develop profitable solutions in response to our global environmental and social challenges.

Key themes arising from the discussions include:

- **BRAND WITH PURPOSE:** As sustainability becomes more firmly embedded into core business strategy, companies seek to align their corporate brand, the CEO’s brand, and their employment brand with a consistent focus on *doing well by doing good*.
- **SUSTAINABLE ENVIRONMENT:** There is increasing recognition of business risks associated with environmental challenges, such as climate change and resource scarcity. Companies are adjusting their business strategy (and related performance goals) to address these challenges, motivated by a range of drivers, such as risk reduction, social license to operate, attraction and engagement of talent, and brand appeal, among others.
- **SUSTAINABLE WORKFORCE:** Companies are seeking to develop and support resilient, innovative, high-performing, and responsible work environments — and corporate culture plays a key role. Employee well-being, diversity, and inclusion have risen in priority. Supporting a desired culture shift requires careful attention to all aspects of the employee life-cycle — recruiting, on-boarding, training, goal setting, feedback, rewards, pension and benefits strategy, leadership development, external visibility, and more.
- **SUSTAINABLE MARKETS:** Today’s markets do not reflect the full cost of environmental degradation, and more attention is needed on measuring and incentivizing social progress (for example, human rights, labor rights, and well-being). Furthermore, “short-termism” is a common obstacle for businesses pursuing long-term sustainability goals. There is a need for continued dialogue and engagement of finance professionals and other stakeholders, including corporate pension schemes.

These themes illustrate the great momentum already underway in addressing sustainability challenges, but there is still more to be done.

Mercer looks forward to continuing the dialogue on these important topics. There are great opportunities to further mobilize both human capital and financial capital to support a sustainable future for all.



## ABOUT MERCER

Mercer is a global consulting leader in talent, health, retirement, and investments. Mercer helps clients around the world advance the health, wealth, and performance of their most vital asset — their people. Mercer's more than 20,000 employees are based in 42 countries, and the firm operates in over 130 countries. Mercer is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), a global team of professional services companies offering clients advice and solutions in the areas of risk, strategy, and human capital.

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