

People Sustainability
**How about the “S”
in ESG?**



Summary

Stakeholder pressures are stronger than ever on the social side of sustainability – large public movements like Black Lives Matter and Me Too are demanding social justice, and investors are paying attention via thorough ESG rating methodologies. More than ever, companies must rethink the way they manage their social footprint, both internal and external to their own four walls.

Within a network of likeminded, we promote and further elaborate the idea of People Sustainability as a separate discipline within sustainability. It will largely cover the **current aspects of Social in E(S)G but will go beyond current thinking and practices.**

To make People Sustainability accessible, a model has been developed and put into practice by the contributors of this paper.

The model is based on four core dimensions: **Employment Foundation, Health, Wealth and Development**, based on the maxim of diversity, equity & inclusion. Following the Maslow pyramid model, it acknowledges the mechanisms of human progress. Sub-Dimensions with indicators will give orientation for practitioners on how to advance.



Targeted Audience:

Business Executives

Sustainability Executives / Managers / Employees

HR Executives / Managers / Employees

Investors / Analysts

Research / Science

Sustainability Status Quo

Our economic principles have allowed our society to achieve unprecedented prosperity and wealth in the last decades, following severe recessions and two world wars. Never in human history has there been such an increase in living standards as in the last hundred years.

At the same time, we are experiencing immense side effects of our economic activity, especially in the past decades. The scarcity of natural, non-renewable resources, environmental pollution and the humanitarian threat of climate catastrophe are endangering our natural livelihood. We are witnessing an ever-increasing drifting apart of the poor and rich population. According to the United Nations, 736 million people live in extreme poverty and 55 percent of the world's population have no access to social protection. In the industrialized countries, the number of mental illnesses such as burn-out or depression is increasing rapidly.

The interlink of environmental sustainability and social or – as we call it – People Sustainability is strong. We have to consider that people need a decent standard of living to support environmental sustainability issues. In a cause and effect logic, **People Sustainability is a precondition for environmental sustainability.**

Since the early 1990s, awareness of these issues has been steadily increasing in society and economics. Sustainability as a principle of action has become more and more prevalent in our lives. Businesses have increasingly committed themselves to sustainable management, published sustainability reports and in some cases set up their own departments in order to make corporate action „greener“.

Nevertheless, it must be stated that **in many cases, far-reaching changes have been missed, sustainability has too often remained “lipstick on the pig”**. Social upheavals, precarious working conditions and the approaching climate catastrophe are forcing us to make much more profound changes than it has been the case so far.

However, society has experienced a significant shake-up in recent years. The younger generations in particular are actively working for a more sustainable society and the unconditional mitigation of the climate catastrophe. “Fridays for Future” mobilized millions, while at the same time sustainability has become a focal point of the United Nations and various global economic forums. Global investments are also moving steadily towards sustainability – **ESG ratings have become a significant area of attention for corporations.**

At the same time, in 2020, the coronavirus disrupted the world. Our economies and our societies stood still for months. The subsequent recession made social imbalances and corporate malpractice more visible. Whereas the immediate trouble shooting overshadowed the entire topic of sustainability, **demands for a fundamental systemic change towards a sustainable society are becoming ever louder.**

The opportunity for far-reaching change in our ways of living and doing business is striking. Big corporates especially, with their global networks and multinational footprints, are called upon to actively drive sustainability in order to leave our children a society, economy and environment worth living in.

Sustainable at the Core

How can we anchor business responsibilities into our daily work and operations? How can we shape this change and ensure that it is really embraced? How can we get beyond “Greenwashing”?

We are firmly convinced that this requires a far-reaching transformation process that places sustainability at the heart of the company and focuses on both every employee and the corporate mindset in order to achieve a long-term impact for more sustainability.

Acknowledging responsibility for the greater good, the corporate purpose must balance interests of all stakeholders, putting sustainability at the center of the organization's maxims of action and way of thinking. To get sustainable at the core, sustainability must then be embedded in the culture and mindset of people within the organization. Therefore, it should be anchored in the very fundamental principles of the company (such as corporate values, leadership principles).

These will need to consider the different stakeholder groups that go beyond shareholders and deliberately include employees and society. Thus, sustainability is becoming a core belief, shared by the entire workforce.

Second, **sustainability must be consistently embedded in the corporate strategy.** To make this tangible and carve out the business opportunities that go with it, business cases and business models will have to be built and/or adjusted accordingly. Taking it from here, the organizational structures and incentive systems must be aligned and driven down to the sustainable direction and actions of employees.

Based on our transformational framework it is possible to firmly and effectively embed sustainability in the entire organization.



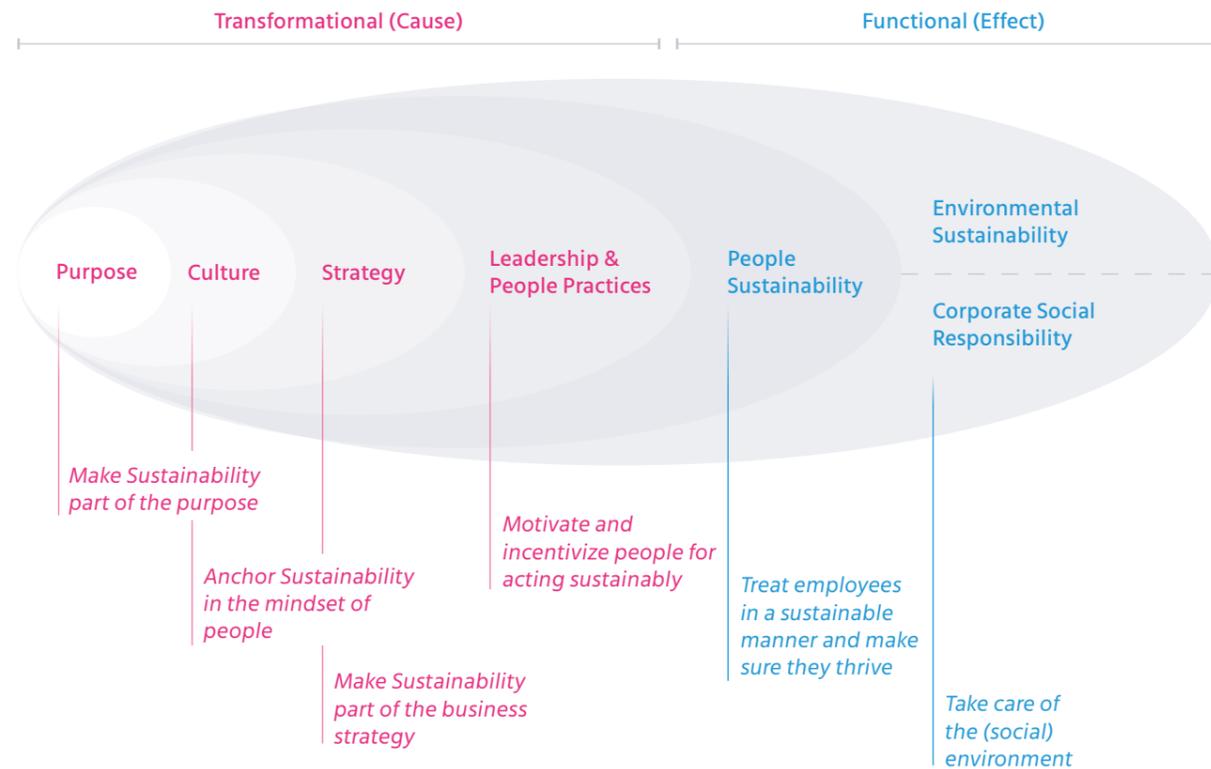


Figure 1: Sustainability Business Transformation

In the public discussion on sustainability and corporate responsibility, we believe it is now crucial to raise the social dimension, which is often neglected in public discourse, as a second pillar alongside environmental sustainability. For us, sustainability begins with the people in the organization. What we call People Sustainability essentially means **treating employees (in the broadest sense) in a sustainable or responsible manner**. People are valued in their contribution and the organization takes responsibility for the physical and mental well-being of its people. In doing so, adequate framing conditions allow employees to live a decent and dignified life and to thrive both in their professional and private life. At the same time, People Sustainability reflects the normative dimension of social sustainability, which is to **promote a diverse, equal and inclusive workforce characterized by openness and tolerance**.

In this context, the question arises whether a shift or prioritization is implied between the

environmental and people-based dimensions of corporate sustainability. If we continue to follow a consequent cause-and-effect logic, it becomes clear that a sustainable approach to the people of the organization in no way replaces or outweighs ambitions of environmental obligations. Rather, it must be recognized that – in addition to the moral commitment – People Sustainability is also an immanent prerequisite for impact-oriented environmental sustainability. After all, **employees can only implement environmental sustainability in their business and private activities if they feel physically and mentally secure throughout the entire corporate ecosystem**. Only if all employees can expect an appropriate pay, health and pension will they make environmental sustainability and social responsibility a priority in their actions. Otherwise, environmental sustainability stays a luxury good, bearing the risk that sustainability will be neglected by many, trading off the alternatives.

Correlation of Company Performance and People Sustainability

In addition to the moral dimension of People Sustainability and the causal correlations between People Sustainability and environmental sustainability, it is necessary to explore to which extent People Sustainability can have a significant positive impact on company performance.

In our view, two different perspectives must be considered: the internal and external perspective. From the externally oriented perspective, it is important to note that consumer behavior appears to be changing significantly in many areas. **Customers not only demand a high-quality product, but also consider social and environmental responsibility to be an important factor of their consumption decisions**. At the same time, regulatory requirements for companies to adopt a sustainable approach and create a positive impact on society and the environment are growing. Similarly, sustainable corporate structures are increasingly becoming a prerequisite for being able to operate successfully on the capital market. **ESG metrics are becoming significantly more important in investment decisions**, thus clearly raising the relevance of corporate responsibility. In the course of the Covid-19 crisis, it became clear that these developments no longer focus solely on the environmental dimension of corporate sustainability, but especially taking social aspects of employee health, job security and diversity, equity & inclusion (DEI) into account.

From an internal perspective, we have been seeing the constantly growing need for changed organizational capabilities over years now. The differentiators and success factors of **high-performance companies are gradually characterized by a high level of commitment**

and intrinsic motivation of the workforce. Increasingly, transformational programs are being launched to tap this potential. We are firmly convinced that engaging the entire workforce in finding appropriate ways to change the system is an indispensable prerequisite for this. Obviously, it is a mission impossible, if basic needs of employees are neglected. At the same time, employees are highly skeptical towards these programs, if they are not consequently lived from the top.

Recent research confirms a **strong positive correlation of sustainable people management** and long-term company performance. Amongst others, MIT Professor Zeynep Ton impressively demonstrates the vicious circle of lacking People Sustainability: Paying low salaries, low job security and low predictability lead to operational barriers, profits decrease, which in turn lead to cuts in labor costs and further fuel the vicious circle. The creation of good jobs, coupled with strong operational excellence, in turn creates genuine efficiency gains and promotes competitiveness.

On this basis, we are very pleased to have won leading scientific partners to further explore the long-term correlation between People Sustainability and long-term business success.

People Sustainability Model

With consideration for Maslow's hierarchy of needs, we may further define People Sustainability as the employer's duty to recognize and fulfill the human needs and motivations of its employees, as part of the employment relationship.

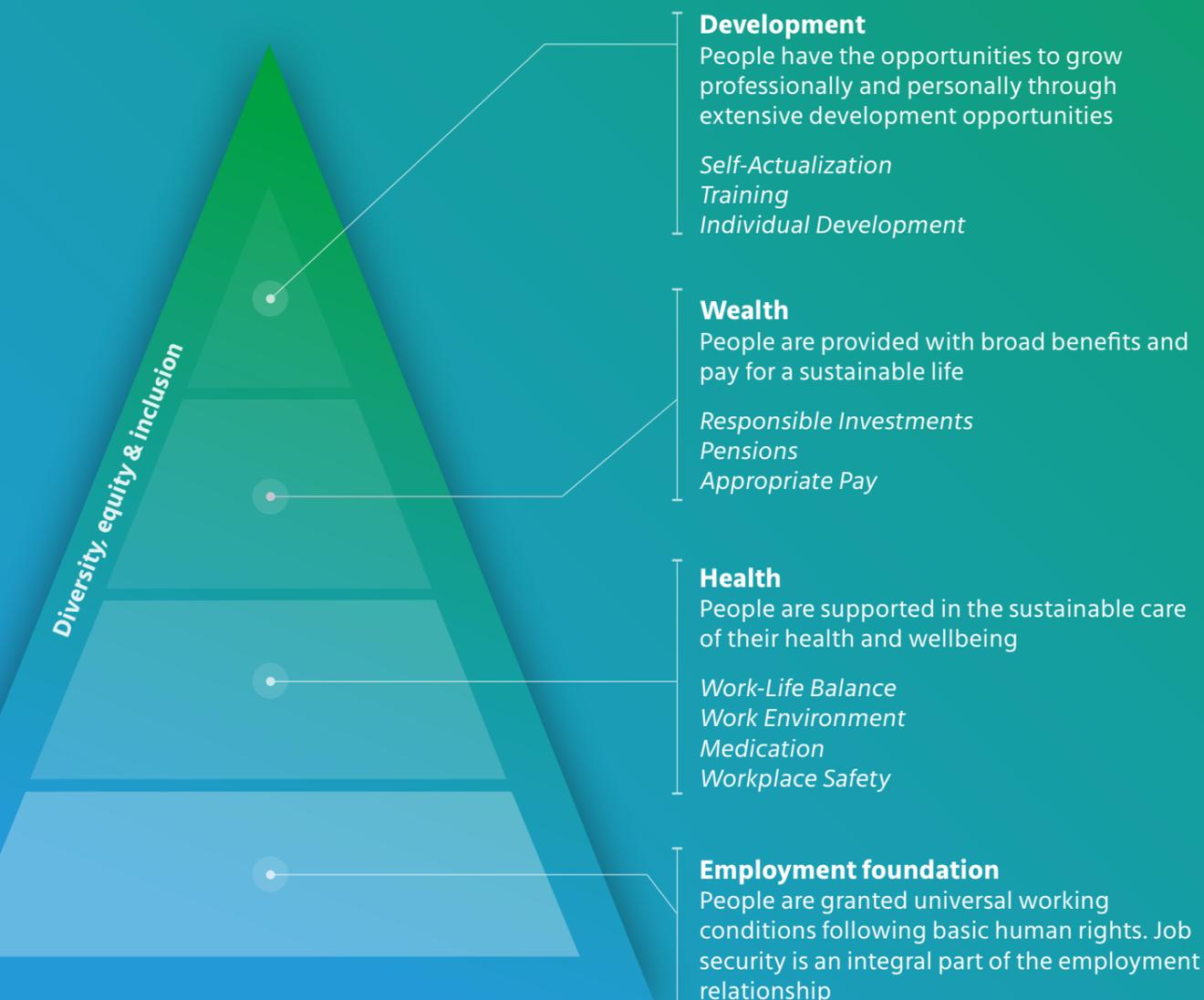


Figure 2: People Sustainability Model

This begins with the respect of universal human rights, the basic need for a job and associated job security. On this basis, the health of the employees must be regarded as a major need and both the psychological and physical dimensions must be actively shaped in a spirit of corporate responsibility.

Subsequently, an employee's need for earning a decent live (including retirement) is a shared responsibility for employers and employees.

In parallel to Maslow's pyramid, on top of People Sustainability we see the need of

employees to thrive – both in their professional and in their social life.

We combine these needs-oriented dimensions of People Sustainability with the normative dimension of DEI. In our belief, true corporate social responsibility can only be guaranteed if the people dimension represents a cross-section of society and if all diversity comes together under the same opportunities and possibilities in the organization and forms a diverse community both structurally and culturally.

Employment foundation

People are granted **universal working conditions following basic human rights**. Job security is an integral part of the employment relationship.

Health

People are supported in sustaining high levels of health and wellbeing over time.

- **Work-Life Balance:** People are encouraged in achieving a sustainable work-life balance and strengthened in building a strong, persuasive resilience.
- **Work Environment:** People work in a healthy work environment that provides psychological safety and contributes to mental health.
- **Medication:** People are provided with the necessary medical care and receive sufficient medication to ensure sustainable health.
- **Workplace Safety:** People are protected in their physical safety and encouraged to ensure this in all circumstances.

Wealth

People are provided with broad financial benefits and pay that renders decent standards of life affordable over time.

- **Responsible Investments:** People can benefit from attractive and sustainable investments that are of long-term benefit to the society, the environment and the individual.
- **Pensions:** People are provided with sustainable and satisfactory pension plans, which enable a dignified and sustainable life even at retirement age and regardless of where they live.
- **Appropriate Pay:** People receive an appropriate salary for their work in order to be able to lead a satisfying life on the one hand and to live sustainability in their own everyday life on the other.

Development

People have the opportunities to grow professionally and personally through extensive development opportunities.

- **Self-Actualization:** People are given the right opportunities and surroundings to fulfill themselves in their work.
- **Training:** People are offered sufficient training opportunities to develop their own competencies and skills in a long-term and targeted manner.
- **Individual Development:** People are given the opportunity in their jobs to thrive develop their personality and learn from failures.

Diversity, Equity & Inclusion

People within the organization reflect society and are encouraged and supported to **bring their true selves and voices to work.**

We are aware that human needs and motives cannot be considered rigidly and separately.

Rather, different dimensions come to the fore at different stages of maturity of People Sustainability. This is a dynamic process in which a saturated fulfillment of the needs of the lower level leads to a focus on the following dimensions. Nevertheless, the above-mentioned need does not disappear, but is merely subject to a shift in focus, which is due to the changed contextual conditions.

The People Sustainability Model thus adds a further pillar for a 360-degree view of a responsible business. It places the dignity of the employees, together with their individual desires, needs and development prospects, at the center of entrepreneurial action and provides the basis for **an idea of humanity that does justice to the enterprise of the 21st century.**

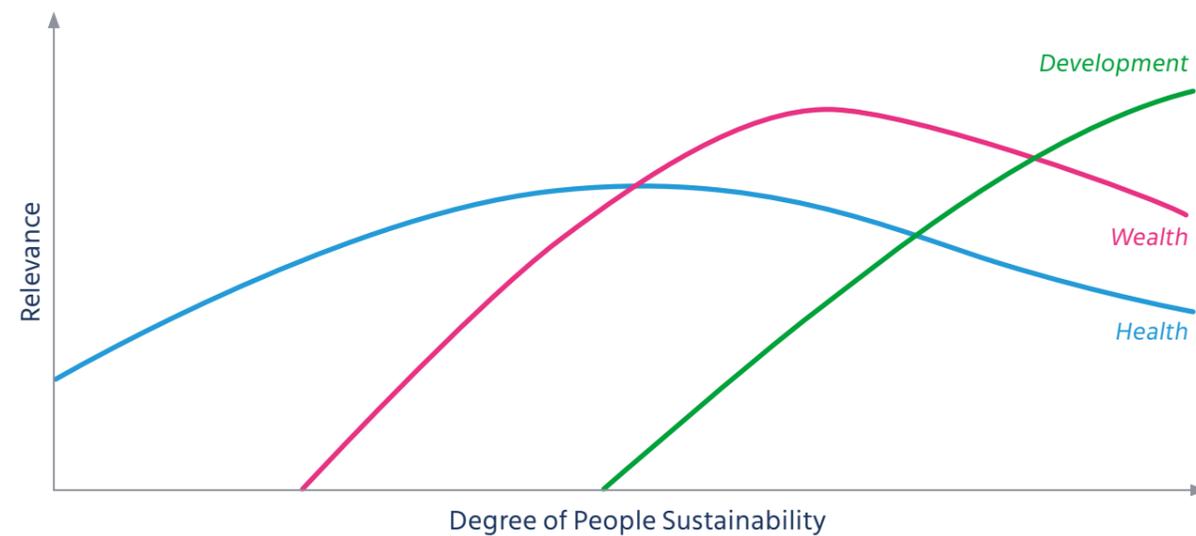


Figure 3: People Sustainability Dynamics

Implications for Employers

While many aspects of a positive correlation of People Sustainability on company performance can be identified (as described in section *Correlation of Company Performance and People Sustainability*), we would like to state that **the starting point for truly incorporated People Sustainability is always the underlying moral decision to live up to this kind of corporate responsibility.** Investments in People Sustainability can initially mean higher expenses and even short-term losses. These may affect short-term quarterly figures or

dividends. In highly competitive markets, it is important to meet these challenges creatively, break new ground and design suitable business cases for change. Enduring this phase on thin ice requires a clear moral determination for corporate responsibility. Only if this is lived out in turbulent and difficult times, a real change in the organization can take place. Furthermore, companies must continuously review the subsequent path, enter dialogue with employees and continuously develop the maturity level of People Sustainability.





Implications for Investors and Analysts

We also see People Sustainability as of growing importance to investors and analysts, as it is a way to measure the extent to which a company is focusing on sustainable long-term value, as opposed to more short-term wins. This also provides additional perspective as to how much the organization is enabling the achievement of broader sustainability objectives (be they social, environmental and/or economic).

Many current examples (e. g. in the tech sector) show that **long-term oriented investments pay off, as long as the losses are considered temporary and they are outweighed by the long-term effects**. This, in turn, makes it necessary to make the chosen path to more People Sustainability evident and to back it up with objective data and key figures. The growing importance of ESG metrics is already making a significant difference here.

However, we are convinced that the social metrics component has been neglected in the discourse to date. There is a need for **objective and reliable metrics which can inform investors and analysts on People Sustainability** performance. To this end, we have built out reliable indicators of the extent to which companies are shaping their corporate responsibility and building long-term, resilient organizations. An assessed People Sustainability Index can provide orientation and transparency to ensure sustainable change towards more People Sustainability and stabilize developments.

Way forward

We are pleased to work with our international partners from science, business and investment to promote and continuously develop and implement the concept of People Sustainability. To this end, we are developing an overarching approach for an independent assessment of the maturity level in a People Sustainability Index. This is intended to serve companies that want to set out on the path to responsible business and have identified People Sustainability as a

key field of action. It will provide orientation on strengths and weaknesses as well as key levers and fields of action. The index will also provide investors and customers with transparent and objective information that can be used to measure the extent to which companies are committed to People Sustainability and how far along they are in terms of implementing best practices.

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Welcome to brighter.

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