Transforming Engagement Series: Report Two

Aligning corporate culture and human values

Reward & Employee Benefits Association

PURSUING BEST PRACTICE

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Intro: Focusing on sustainability can transform organisational culture

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CEOs of listed companies are under increasing pressure to meet environmental, social and governance (ESG) measures within their organisations, or risk seeing shareholders invest elsewhere.

In 2020, according to asset manager Natixis, ESG investments took in a record $152 billion to reach $1.6 trillion in total assets across the US, Europe and Asia, while the percentage of institutional investors that implement ESG approaches rose by 18% from 2019 to 2021.

If this shift is not enough to make CEOs and boards think hard about their organisation's purpose, responsibility and long-term wellbeing, then pulling the executive compensation lever could focus minds. A 2021 report from Mercer, *Environmental, Social and Governance (ESG), Issues and Organisational Priorities in 2021*, shows that whilst ESG targets are now more common, UK companies lag behind European counterparts with a lower proportion incorporating ESG metrics into annual bonus or imposing commitments on suppliers or contractors. But it is not just organisations in the private sector that are under pressure to meet ESG targets. To win government tenders or simply do business with large public sector bodies, suppliers must also meet ESG or ESG-related criteria.

To meet ESG measures ranging from environmental targets and workforce diversity goals, through to corporate purpose and having a wellbeing culture for employees, CEOs need the experience, insights and skills of their HR teams.

Our research shows that many HR and reward teams are increasing their focus on the 'S' within ESG, primarily through employee wellbeing, while a healthy (albeit lesser) number are raising their focus on the 'E' for environmental goals.

But to really change the dial on organisational culture and avoid lip service, changes in behaviours need to cascade throughout workforces in a fully embedded manner. Our research tested this by checking out how a variety of ESG-related behaviours were playing out in practice among line managers.

The results, although not unexpected, show line managers lag far behind their HR leaders, who in turn are not quite catching up to board-stated objectives. To be fair, this is a relatively new area (ESG as a concept has been around for fewer than 20 years) and HR has the heavy-lifting end of the bargain: from changing employment and workplace policies to reviewing employee benefits and shifting behaviours through reward and development.

This second report in our three-part series on Transforming Engagement, in association with Mercer Marsh Benefits, provide chief human resource officers, HRDs and reward directors with the data they need to spot the gaps within their organisations, as well as practical tools to help them work with CEOs and boards on the ESG journey.

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Overview: Strategic HR in a values-led world

UK firms are increasingly cognisant of the need to make sure that their corporate culture, values and purpose align with wider societal views. Stakeholders, whether that's customers, investors or the media, expect organisations to live their company values, clearly demonstrating that their policies, practices and employee benefits are fitting with the face that is presented to the outside world.

Employers that make bold statements about wider societal issues but are then found to have poor practices closer to home risk loss of reputation – which, in turn, can lead to falling share prices as clients or customers vote with their feet. Critically, the expectation is that company purpose will be reflected in all facets of an organisation's interactions, including throughout the supply chain.

The first instalment of our three-part research series *People risk: why the need for change is urgent* clearly showed that employee-related risks, such as diversity, equality and inclusivity (DEI) and employee wellbeing are rising up the boardroom agenda. This second part of our series demonstrates how UK organisations are meeting the need to be sustainable in the long-term by focusing on human values, employee wellbeing, fairness, purpose, the environment (including ESG and net zero), DEI and responsible reward.

Top 5 ESG priorities for Boards (from a list of 23 criteria)

Diversity, equality and inclusivity
74%

Contribution to local community
69%

Modern slavery
61%

Proof of good governance practices
55%

Net zero emissions targets
55%

Lowest 5 ESG priorities for Boards

Ethnicity pay gaps
30%

Sustainable industrialisation
30%

ESG practices linked to executive pay
28%

Low pay practices
26%

Providing full, productive, decent work
26%

Data at a glance: Human values at board level

Key focus

78% Responsible business

78% Workplace diversity, equality and inclusivity

73% Employee wellbeing

Medium focus

69% Creating a sustainable business

69% Organisational purpose

65% Employee engagement

Lower focus

58% Climate change and environmental issues

51% UN's 17 Sustainable Development Goals

To become part of the fabric of business, human values and organisational purpose need to be recognised at executive level.

With board-level commitment, values such as sustainability and diversity, equality and inclusivity (DEI) can start to become an integral part of how businesses achieve growth balanced with purpose. Embedding these values is also pivotal to addressing employee-related challenges such as changing working models, skills realignment and talent retention.

Responsible business practices (78%), along with workforce-related values such as DEI (78%) and employee wellbeing (73%), are well recognised at board level. Despite legislative and societal pressure, ESG factors, such as climate change and environmental issues, are less so, with 58% citing these as high priority.

Data at a glance: Human values in the wider organisation

	Board-level priority	HR priority	Line managers	Supply chain
ESG and sustainable business	58%	53%	21%	25%
Employee mental health	51%	80%	47%	2%
Diversity, equality and inclusivity (DEI)	78%	77%	50%	17%

Creating a business in which human values and purpose are a part of everyday culture requires commitment across the whole organisation, not just at board level. Employees' day-to-day experiences need to match the image a company portrays externally.

While there is synergy between board-level and HR-level goals around values such as diversity, equality and inclusivity or sustainability, this is not always reflected at line manager level and is distinctly lacking when it comes to supply chains.

One reason for this can be disparities between reward and incentive strategies, and the values or behaviours the business wants to promote. For example, team incentive frameworks that are based on high productivity or consistently outstanding customer service may be at odds with mental wellbeing policies designed to avoid burnout.

Over time, these disparities risk reputational damage, with knock-on effects for staff retention and recruitment.

Influencer views

"Companies are aware that their corporate culture, values and purpose have to align with wider societal views. Stakeholders, whether that's customers, investors or employees, expect organisations to live their company values, clearly demonstrating that their employment policies and employee benefits are aligned with their commitments to the outside world. DEI and wellbeing currently represent the dominant priorities, however many organisations are taking a more holistic position on the framework of responsible employment practices that raise levels of decency and fairness. Responsible employers craft a complete employee experience, covering rewards, skills and careers, often through a DEI lens."

Michelle Sequeira

UK Diversity, Equity and Inclusion Consulting Leader, Mercer

"We launched our Responsible Business Charter, setting out clear targets and commitments that will help us deliver on our purpose. Putting targets in place sends a clear signal that the business has a goal in mind and shows prospective talent, the current workforce and other stakeholders the direction we're going in. Our commitments reinforce these targets and demonstrate practical steps that can achieve progress and ultimately long-term success."

Duncan Burt

Director, National Grid

"When you think about why organisations exist you could take a very simple view that it is to create value in some shape or form. The purposeful movement is saying that is no longer sufficient and you need something more. It's about saying: "Anybody can create this widget, in this way, for this amount of money, but the reason we're different is because we have this connection to something that is greater than commercial value."

Neil Morrison

Group HR Director, Severn Trent

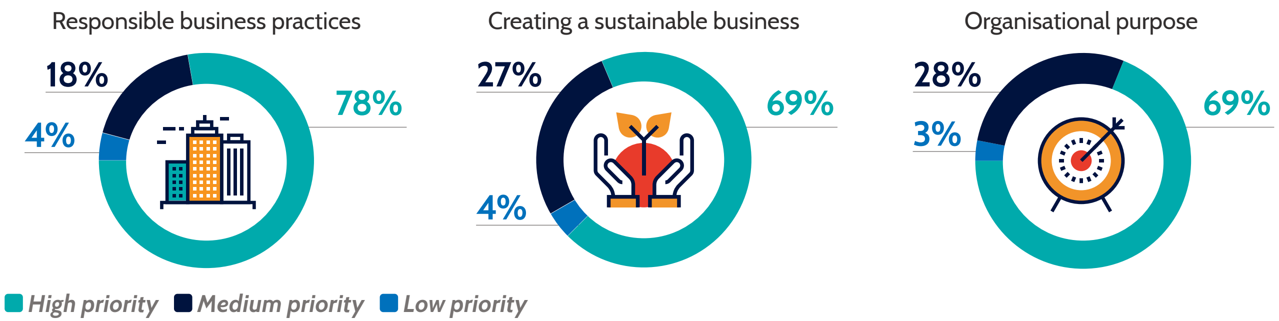
Part 1: Environment, responsibility and purpose

Insight group The Purposeful Company defines a purposeful business as one that recognises that "profit is the outcome of identifying and pursuing a purpose that benefits society".

Employers are well positioned to be agents of change for many social and environmental factors including inequality, climate change and sustainability – while also achieving profit growth. Businesses themselves are undergoing significant change at present as a result of long-term shifts in working models including digitalisation and changing skills requirements, environmental imperatives and the after-effects of Covid-19.

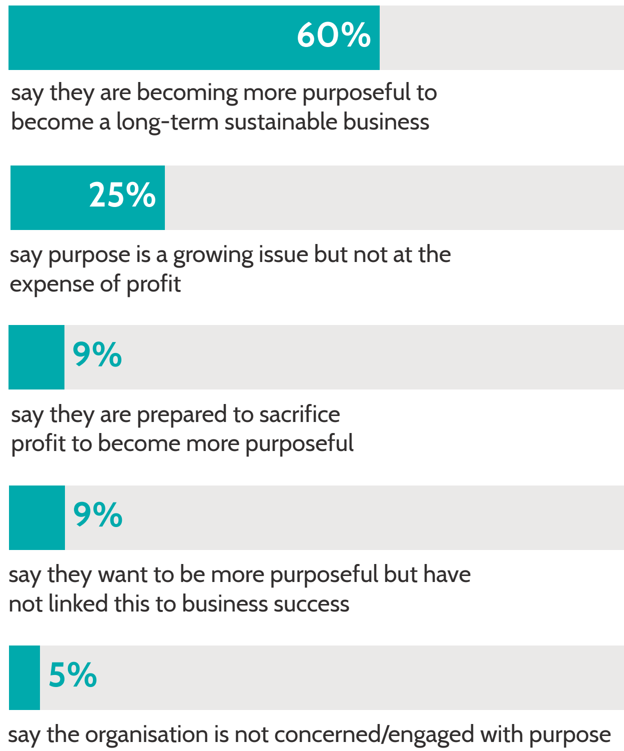
Responsible business principles are now a key focus for business, with only 4% saying that this is a low priority for boards.

Which of the following human values are stated board-level policies/targets at your organisation?



As employers in many sectors completely rethink their business models, becoming more purposeful is a part of their new thinking. Six out of 10 employers in our survey say that their businesses are now making the link between purposeful business and long-term sustainability, with a further 9% willing to sacrifice profit in order to become more purposeful.

There is also a growing body of evidence showing that purpose and profit can be aligned. For example, Alan Jope, CEO at Unilever, estimates that around 60% of turnover now comes from the company's brands that take action on purpose, and that those brands are growing around 70% faster than the rest of the consumer goods manufacturers' portfolio.[1]



1 *The Purpose Tapes*, The Purposeful Company, May 2021.

Part 1: Environment, responsibility and purpose

Investors expect to see action on climate change and sustainable development

Climate change is influencing behaviour and decision-making at individual, corporate, national and global level. Pressure on employers to take tangible action is intensifying, most notably in the energy sector. In a single day in May 2021, oil giant ExxonMobil's shareholders voted to add two climate activists to its board, and Royal Dutch Shell was ordered by a court in the Netherlands to speed up its decarbonisation timetable.

Investors and consumers are scrutinising other sectors too, from the traditional throwaway culture of fast fashion to insurance. For example, in June 2021, Legal and General Investment Management (LGIM) announced that it would divest from insurers AIG, citing a lack of reporting information on ESG issues, including emissions data.

Despite the risk of divestment and reputational damage, just 58% of employers said that climate change and environmental issues are a priority at board level, with less than a third (30%) saying line managers across the business are actively protective of the environment.

Every business and employee within it has a part to play in addressing climate change at corporate level.

Which of the following human values are stated board-level policies/targets at your organisation?

Climate change and environmental issues

Which of these behaviours do you believe your organisation embodies at line manager level?

Actively protective of the environment at company level

Suppliers are also being held to task

Businesses are not just addressing environmental concerns from the perspective of their own operations but monitoring activity down the supply chain too.

The top 5 ESG issues being addressed in supply chain policies according to our research are:

- Modern slavery
- Net zero emissions targets
- Climate change other than net zero
- Fossil fuel goals
- Diversity, equality and inclusivity.

"With an increased focus on mental health internally within organisations, the accountability in the supply chain is concerningly low. Accountability between organisations on mental health would create a more sustainable change and accelerate the normalising of the conversation. This is something I would encourage all organisations to embrace."

Nick McClelland

Partner and UK Growth Leader,
Mercer Marsh Benefits

Part 1: Environment, responsibility and purpose

Making insurance, investments and savings greener

Workplace benefits such as pensions, savings and investments are coming under greater scrutiny from employees with a greater focus on environmental issues and fairness, and from employers conscious of aligning all aspects of business with board-level ESG objectives.

In May this year, campaign group Make My Money Matter launched a Green Pensions Charter encouraging employers to engage with their pension providers and ensure their funds are invested more sustainably. It has attracted signatories including EY, IKEA and Oxfam.

There is regulatory as well as societal pressure, with pension schemes now required by The Pensions Regulator to document how they take account of ESG factors in their investment portfolios.

The group risk sector also looks set to come under greater scrutiny. From an employer perspective, around half (51%) say they are now increasing focus on insurances and other employee benefits to meet responsibility goals.

How will your HR team change focus over the coming 12 months?

51%
will increase their focus on reviewing insurances and/or employee benefits to meet responsibility goals

45%
will increase focus on reviewing workplace savings offerings (e.g. pensions) to align to responsibility goals

Pay and ESG

Mercer conducted a survey with over 100 organisations around Europe to determine the relationship between pay and ESG. Key findings included:

- A third of participants take ESG into account when setting salary levels; approaches based on Living Wage or Global Minimum Standards are equally prevalent.
- Half of the participants hold suppliers and contractors accountable through Codes of Conduct, Living Wage or HSE standards.
- ESG has or will be factored into benefits design for between a third and half of participants.
- 51% of organisations incorporate or will incorporate ESG into their short-term incentive. Typically, between 1 – 4 metrics are used with an average total weighting of 24%. DEI was the most prevalent bonus metric followed by environmental sustainability.
- 26% of organisations incorporate or will be incorporating ESG into their long-term incentives. Typically, between 1 – 3 metrics are used with an average total weighting of 17%. CO_2 / carbon reductions was the most prevalent metric used followed by environment sustainability and DEI.

We found that environmental metrics were cascaded in a third of plans reflecting the actions all employees can take to contribute towards collective goals and/or as a way of communicating the environment as a strategic priority. DEI metrics, however, are typically held at the senior leadership level reflecting the need to drive this agenda from the top down. Health and Safety is also a priority for organisations and is a metric that can be readily cascaded in the bonus to all participants.

Source: Environmental, Social and Governance – Issues and Organisational Priorities in 2021, Mercer

Part 1: Environment, responsibility and purpose

Looking after communities through responsible decision making

Traditionally, businesses' key focus has been on the 'E' of ESG, with issues such as climate change and net zero targets being addressed through regulation.

However, investors and governments are recognising the critical importance of social and governance factors on business performance as well. For instance, the UK government is already consulting on how pension schemes should take account of social risks and opportunities in their investment strategies.

Despite this broadening focus, just 51% of respondents say that targeting the UN's 17 Sustainable Development Goals, a blueprint for shared prosperity and a better future, is a high priority for boards. The goals include addressing good quality work and employee wellbeing, alongside wider societal factors such as sustainable communities and poverty reduction.

According to global human rights partnership Alliance 8.7, around 40 million people worldwide are subjected to modern slavery.[2] However, only 25% of companies are addressing modern slavery in their supply chains and just 15% look for proof of good governance.

More broadly, research in February 2021 from the Modern Slavery Registry showed 40% non-compliance with mandatory reporting set by the UK Modern Slavery Act,[3] which requires businesses to describe the ways they tackle risks in this area.

Governance failings within supply chains are starting to affect business: for example, auditor PwC announced last year that it would no longer work with fast fashion giant Boohoo due to tolerance of abuses of employment law in its supply chain.

ESG being addressed in firms

Proof of good governance practice

Corporate policy **55%**

HR policy **28%**

Supply chains **15%**

Modern slavery

Corporate policy **61%**

HR policy **28%**

Supply chains **25%**

Contribution to local community

Corporate policy **69%**

HR policy **36%**

Supply chains **13%**

2 *Global Estimates of Modern Slavery: Forced Labour and Forced Marriage*, Alliance 8.7, 2017.

3 *Modern Slavery Act: Five years of reporting*, Business and Human Rights Resource Centre and Modern Slavery Registry, 2021.

What are the UN Sustainable Development Goals?

1. No poverty
2. Zero hunger
3. Good health and wellbeing
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice and strong institutions
17. Partnership for the goals.

Part 1: Environment, responsibility and purpose

Duncan Burt

Responsible Business Director, **National Grid**

Case study from National Grid: How to embed responsible business across an organisation

Purpose-led companies attract the best minds and have passionate employees who want to achieve and change the world in some way.

National Grid's purpose is, in its simplest form, to 'bring energy to life'. That means getting the heat, light and power that our customers rely on into their homes and businesses. But we're also committed to making a positive contribution to society, whether that's by helping the young people of today to become the energy problem-solvers of tomorrow, or supporting customers to use energy more efficiently.

Climate change is the biggest challenge facing our generation. We know that every decision we make affects the future of the planet. Mitigating the impact of businesses on the environment and embedding sustainable practices goes hand in hand with being a purpose-led organisation. How do we do this?

1. **Prioritise sustainability and environmental goals to attract and retain top talent.** We know people are increasingly motivated by a job with purpose – our research shows that over three quarters of UK adults want to play a part in reaching the UK's net zero goal and more than half want to work for an organisation that helps us get there.
2. **Review policies for talent development.** Ensure these include a focus on how to drive sustainability and environmental policies. Create appropriate talent programmes and training to develop the skills needed to deliver on these goals.
3. **Embed responsible business actions across the organisation.** Make this clear in job adverts, internal communication and other resources. Ensure employees and future talent are aware of how the company is meeting its climate objectives and how the workforce can get involved.

Part 2: Inclusivity and fairness

Inclusivity has become a front burner issue, with 78% of boards marking diversity, equality and inclusivity (DEI) as an area of high priority. That's in part down to external factors such as gender pay gap reporting, the Black Lives Matter movement and events such as Pride, which celebrates the LGBTQ+ community.

However, there's growing recognition that diversity is a huge business asset and that staff communities comprising a mix of ethnicities, and who come from a range of socio-economic backgrounds and experiences, bring innovation and disruptive change to the table. In our interconnected world, diverse employers also drive loyalty from customers, clients and suppliers who increasingly demand their differing needs be reflected in the products and services on offer; and that their values, beliefs and cultures be represented at all levels of the workforce.

Talent attraction and retention strategies that are truly inclusive and drill down to understanding employees' expectations are key. This must be at an individual level, not just by segmenting groups according to gender or ethnicity, for example. This is too broad brush an approach and will miss opportunities to ensure policies and benefits from wellbeing to reward are fair and genuinely meet staff needs, keeping them motivated.

Social media and sites such as Glassdoor are easy ways for employees to shine a torchlight on employers not delivering on inclusivity, risking reputational damage. By contrast, workplaces effectively engaging with the DEI agenda, through endorsement and action led by members of the C-suite, will be positioning themselves as employers of choice.

The role of intersectionality

An intersectional approach to diversity, equality and inclusivity (DEI) examines how people's social identities can overlap, compounding discrimination. Its premise is that the interconnected nature of social categorisations such as race, class and gender can create interdependent systems of discrimination or disadvantage.

Despite the growing pressure towards tackling intersectionality, it is low down the priority list for HR teams. In fact, just 31% of teams plan to increase focus on awareness of the implications of intersectionality – the lowest ranked issue.

Improved data is critical for HR departments keen to address intersectionality. In other words, firms should not just look at gender or racially and ethnically diverse groups in isolation with regards to issues such as pay and representation but also examine how people face discrimination in multiple areas due to varying characteristics.

31%

of HR teams plan to increase focus on awareness of intersectionality over the next 12 months

64%

of HR teams say they won't change their focus

4%

say they will reduce focus on intersectionality over the next 12 months

Part 2: Inclusivity and fairness

Recruiting from wider pools and fostering a more inclusive culture

There is a growing recognition of the importance of DEI in recruitment, retention, talent development and business decision-making, which means it's a key area of focus across corporate and HR policies, and for supply chains.

Diversity, Equality and Inclusivity are addressed in:

Corporate policy **75%**

HR policy **78%**

Supply chains **17%**

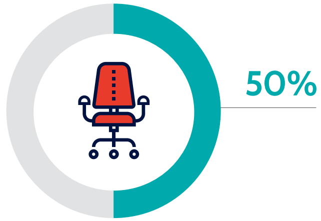
However, there is still a significant gap between the attention paid to DEI at board level (78% consider it high priority) and at line manager level (only half of employers said line managers consistently show awareness of DEI across their organisation). Failing to address this mismatch between stated intention and actual behaviour leaves businesses exposed to reputational risk, as well as damages employee retention rates.

of businesses say workplace diversity, equality and inclusivity is a high priority for their boards

From policy to practice

Increased board awareness of the importance of DEI is not yet fully linked to day-to-day operations. Deeply ingrained working practices, such as long working hours, not only affect employee wellbeing but also DEI, reducing the talent pool available for specialist skills.

Employers who say line managers are committed to DEI across the whole of their business



Company statements on DEI need to be interlinked with other aspects of HR strategy, including on wellbeing policies, representation in medical benefits, reward policies and financial benefits. For example, research from Islamic Finance Guru showed that Muslim workers could be missing out on as much as £13 billion in pension savings, due to concerns over Sharia compatibility in DC default schemes.[4]

4 Muslims missing out on pensions worth £13bn due to Sharia concerns, Pensions Expert, June 2021

Part 2: Inclusivity and fairness

Michelle Sequeira
UK Diversity, Equity and Inclusion Consulting Leader, **Mercer**

How to avoid key mistakes when tackling diversity, equality and inclusivity (DEI)

Here are five things that we call actions with good intent but have lower impact. These are common mistakes that employers make when tackling DEI:

1. **Making diversity and inclusivity an HR-only priority.**

   Instead, firms need to make DEI a business priority as this is when it is most impactful.

2. **Focusing mainly on talent attraction and overlooking promotion and retention.**

   Organisations want to mirror the communities they serve. However, if hiring is the only focus, employees will leave if they perceive they are not being treated fairly, or there isn't an inclusive environment.

3. **Using unconscious bias training as the primary inclusive tactic.**

   A single training session during onboarding, for example, might have limited results. Unlearning biases takes time and often a more holistic learning journey is more effective. This should comprise a variety of training sessions, nudges, peer coaching circles, webinars, podcasts and mentoring to constantly embed that learning.

4. **Relying on resource groups to lead and implement the DEI strategy.**

   Resource groups are strong enablers and for further success, organisations may wish to consider having a dedicated DEI resource, with the strategy led by the C-Suite.

5. **Communicating proactively, but without a plan.**

   Following George Floyd's murder in 2020, organisations were very quick to get anti-racist messages out and pledge their commitment to workplace diversity. When employees delved deeper and asked their employers to explain more about their investment into diversity or for details of their action plans there was little response. The gestures fell flat for many organisations because they didn't have a strategy to support them. There's a real need to think strategically when communicating, and to bring employees on a journey to build trust.

Part 2: Inclusivity and fairness

Tackling equal and fair pay

Pay equity is an important component of the ESG agenda and has been given added impetus as a result of the Covid-19 pandemic, which has had a disproportionate economic effect on women and low-paid workers and exposed a widening inequality gap.

There's a clear benefit from a legal perspective to address pay gaps – it reduces the risk of costly equal pay claims (both financially and reputationally). However, for boards that say their top priorities are achieving greater diversity, equality and inclusivity (78%) and improving employee wellbeing (73%), action around pay inequity to avoid court cases is the bare minimum of what they should be doing.

Senior managers need to have a deep understanding of how pay structures and policies affect the 'Social' aspect of ESG measures, rather than viewing staff earnings through a purely financial or cost containment lens.

Our study indicates this understanding is lacking. For example, employers are struggling to make the link between the two issues of equality of opportunity and fair pay, so while 68% say they will strengthen equal opportunities in the next 12 months, only 53% say they plan to put greater focus on fairness in pay. The C-suite needs to pay attention to these two areas in tandem since pay and performance systems that are perceived as unfair or discriminatory are barriers to creating a culture that truly promotes equal opportunities.

There also seems to be little appetite from boards to remedy low pay practices (26%), such as committing to a Living Wage, despite increased public scrutiny on the gaps between executive pay and low earners and around unfair treatment of workers. This issue can also have serious repercussions for employee wellbeing and ultimately the bottom line – the Living Wage Foundation highlights that low pay and the stresses it brings can increase the risk of mental ill-health among workers, which can in turn raise absence levels.

Since gender pay gap reporting regulations have been in place for some time, it's unsurprising findings show that corporate and HR policies most commonly focus on gender pay gaps.

Boards need to be prepared for the possibility that ethnicity pay gap reporting may become a legal requirement too although progressive employers are already doing this voluntarily – The BITC's 2020 *Race at Work* report found 30% of participating employers publish their ethnicity pay gap - and leading organisations are delving into the intersectionality of pay gaps between gender and ethnicity.

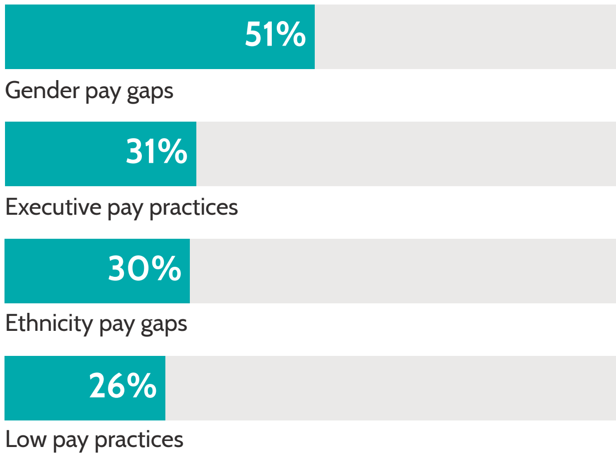
Source: The Prince's Responsible Business Network - Race at work report 2020 - Leadership Transparency Advocacy & Accountability

Change in HR focus on fairness

53%
say they will increase focus on fairness in pay and benefits over the next year

68%
say they will more closely target equality of opportunity across the workforce

What pay gaps/pay issues are being addressed in corporate policies?



Part 2: Inclusivity and fairness

Neil Morrison
Group HR Director,
Severn Trent

Case study from Severn Trent: HR's role in social purpose

Social purpose is a major focus for the organisation and being able to articulate how we create social value above and beyond the service that we provide is really important. That means:

- Making sure that the people who work for us are looked after during their time with us, that they're treated well and that when the time is right, their pensions are sufficient to fund their retirement.
- Ensuring that if employees are ill or have an accident we look after them and that they don't become the state's responsibility.
- Examining how we can give back to communities whether that's in terms of our supply chain, working with partners, or supporting charitable organisations.

From a sustainability perspective, we've committed to a triple carbon pledge by 2030 (including net zero) – ahead of the UK government's target. The industry has had a mixed track record when it comes to the environment, so we need to examine our role in that, for example improving river and seawater quality and making sure that when we're discharging back into rivers, the water is as clean as possible.

We're also looking at how to reduce our electricity usage and carbon in construction programmes. It's interwoven in pretty much everything that we do.

What is HR's role in achieving company purpose?

One of the big tools is looking at job creation and hiring practices. For instance, exploring how to create jobs in local communities and creating local training and employability programmes.

Being ethical in our recruitment is another crucial element, and we try to strip out as much bias from the process as possible.

As an engineering firm, we also focus on trying to inspire young people from different backgrounds into different careers. We want to encourage young women in particular into this area.

In addition, we aim to redeploy people rather than make them redundant, so we are not adding to unemployment and to the burden on society.

Pensions are also important. We try to ensure our pension scheme allows people to have sufficient funds to be able to retire and not have to draw on the state or other sources.

Part 2: Inclusivity and fairness

Linking the employee experience and employee engagement

Inclusivity, wellbeing and business purpose all contribute to the employee experience. This aspect of working life is becoming more significant as businesses find ways to respond to an increased demand for skills that are in short supply and employees become more vocal about their workplace needs.

This echoes throughout businesses with values and actions espoused by the board seen as part of the culture and reputation of a business. The Edelman Trust Barometer 2021 showed that 65% of respondents believed that CEOs should hold themselves accountable to the public, and not just to shareholders. Being silent on issues such as inclusivity and climate change is fast becoming as damaging as negative statements.

Employees are also becoming less tolerant of poor governance in the workplace: Edelman found that 50% of employees said they are more likely to voice objections or take place in workplace protests now compared with a year ago.

With employee engagement such a critical factor for future business growth, it's surprising that only just over two thirds (65%) of organisations say that this is a high priority board-level policy.

How important is employee engagement for boards?

The disconnect between board-level views and line manager behaviours is evident when it comes to employee engagement. Line managers are at the heart of people's day-to-day workplace experiences, so ensuring that they are aligned with corporate values around engagement and are fully equipped to support them is crucial.

Line managers are committed to improving employee engagement:

Across the business	In many but not all areas	In a few areas	Rarely or never seen
43%	41%	12%	4%

Part 2: Inclusivity and fairness

Attracting talent and reskilling

In the first report of this series, *People risk: why the need for change is urgent*, we found that talent and ongoing reskilling was a critical concern for firms especially in the light of increased automation and use of digital technology, which are changing the way we do business.

These worries are felt keenly by those at the top: scarcity of talent and how to attract and retain it fared highest on CEOs' list of hot button issues last year, according to a 2020 survey from The Conference Board, a non-profit membership organisation.

Pay is often no longer the main pull factor for the best candidates. Many are now much more switched on to being socially responsible – in particular, newest entrants to the labour market expect employers to contribute to social and environmental issues while also wanting to be treated fairly and have purposeful work.

Greater attention is now being placed on the Employee Value Proposition (EVP) that sets out how 'good' an employer is in terms of its culture, reputation and values; how interesting the work offered is; what opportunities there are for growth and learning; and how well it pays. This is supported by the fact our study shows that 57% of HR teams plans to increase focus on how appealing company culture is to new talent.

An EVP must be authentic and acted upon. Potential candidates can easily discover whether a firm's employer brand is mere spin by reading reviews and ratings of the employment experience online or on social media. Protecting reputation is critical.

HR teams' targets for company reputation:

Appeal of company culture to new talent

External company reputation

Four steps to tackling DEI

1. **Diagnose:** Understand your current state by examining three types of data. First, examine your workforce data (e.g. promotions, pay equity data) for the most impactful levers for change. Second, is the employee voice - in order to understand how employees are experiencing the culture and to understand the impact of policies and programmes you need to hear from your employees directly (e.g. through pulse or engagement surveys or virtual focus groups). Third, review policies and practices to make sure you are meeting your employees' needs. Analysing all three is critical - focusing on just one area will provide limited value.
2. **Engage:** Create aligned and equipped stakeholders. Organisations need to think how to engage every stakeholder on the journey. Actions that help include awareness and collaboration sessions, getting managers to help with prioritisation of programmes and initiatives and developing an organisational voice.
3. **Take action:** Advance strategies that ensure equality of opportunity, experience and pay. Actions that make a difference include capability building, bias-free talent management practices, robust pay equity practices and change management and communication.
4. **Drive accountability:** Measure results, demand accountability and share transparency. Only a quarter of organisations have goals that are tied to reward. Actions that have really made a difference for organisations include establishing suitable metrics and goals, implementing a dashboard, reviewing and communicating DEI metrics on a regular basis and linking reward to DEI goals throughout the organisation.

Source: Mercer

Part 3: Employee wellbeing

The significance of employee wellbeing has skyrocketed as a result of Covid-19, with the widespread realisation that wellbeing risk is business risk. For the first time in many organisations, employee wellbeing is now a board-level issue, driving changes in working practices and democratisation of wellbeing-related benefits such as private medical insurance.

However, while Covid-19 has opened up the wellbeing debate at executive level, it is less well embedded with line managers where conflicts between wellbeing policies and other workplace objectives are most likely to occur.

Although line managers are taking care of 'hygiene factors' around employee wellbeing, such as prioritising health and safety (67%) and acting with integrity (63%), there is still progress to make on more specific wellbeing factors. For example, only 47% of employers say their line managers support mental wellbeing in all areas of the business.

The four traditional pillars of mental, physical, social and financial wellbeing remain key points of focus. Each of those strands demands a multi-disciplinary approach that requires cross-organisational input to avoid the risk of conflicts between wellbeing strategies and broader business needs. Beyond the workplace, ill-health across society is a more widespread concern, which means that businesses not only need to offer health programmes but also ensure that employees engage in self-help to improve their own wellbeing.

"While it is easy for a business to say it has purpose, the difficulty is how you then build on that in daily decisions, what you do, how you interact, and how you treat people. That's where the HR function comes into play: by looking at corporate purpose and then asking how that is reflected in the experience that people have at work, how the business interacts with society and how we approach skills or reward strategies."

Neil Morrison, Group HR Director, Severn Trent

77%

of HR teams say they will increase focus on employee wellbeing over the next 12 months

Part 3: Employee wellbeing

Mental wellbeing: burnout, stress and exhaustion

The corporate behaviour change needed to cope with enormous societal shifts and new business demands while meeting ever more vital ESG targets means that mitigating people risks, such as burnout, stress and exhaustion, is a complex challenge for CEOs and CHROs.

80%
of HR teams will increase focus on employee mental wellbeing over the next 12 months

73%
of HR teams will increase focus on burnout, stress or exhaustion over the next 12 months

The pandemic has wreaked havoc on employee mental wellbeing. Instances of loneliness, anxiety, bereavement and a growing lack of confidence are well reported. It is also evident that the impact of heavy workloads and long hours due to large-scale business change, redundancies and job role restructures; the reskilling and launching of services to meet new demands; as well as rising pressure to meet new regulations, such as environmental targets, are taking their toll with worker exhaustion, burnout and stress.

This people risk linked to mental wellbeing is hitting just as the economy speeds up out of a V-shaped recession. Without heightened focus on supporting employee mental health, recovery will be damaged and businesses will fail to meet their objectives. Our research shows that 80% of HR teams plan to take more action on this issue in the coming 12 months. A further 73% say they will be increasing focus on burnout, stress and exhaustion.

A big challenge for HR and reward teams is ensuring individual and team targets are not prioritised over good health and wellbeing. They will need to review job design and pay structures with a view to creating a resilient, sustainable workforce – a key objective of ESG targets.

How mental wellbeing is addressed as an ESG issue

51%
address employee mental wellbeing within corporate policy

80%
address employee mental wellbeing within HR policy

2%
address employee mental wellbeing within supply chain policy

Key resources on employee mental wellbeing

- **Business in the Community report:** *What if your job was good for you* (2021)
- **Mercer Marsh Benefits:** *Turning health risk into value: Are you supporting mental health?* (2021)
- **City Mental Health Alliance UK:** *Thriving at work UK guide* (2020)
- **Health and Safety Executive, Department for Work and Pensions, Department of Health:** *Line Managers' Resource: A practical guide to managing and supporting people with mental health problems in the workplace*
- ***Thriving at work:** The Stevenson / Farmer review of mental health and employers* (2017)

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Part 3: Employee wellbeing

Keeping employees safe and physically well

While the work-related factors affecting mental wellbeing have made it a boardroom as well as an HR priority, physical wellbeing is just as critical for business sustainability, as the Covid-19 pandemic has shown. Preventative action to address risk factors such as obesity, poor sleep and the physical effects of stress; chronic conditions including Long Covid; the impact of delayed diagnosis for conditions like cancer as a result of the pandemic; and the effect of homeworking environments will all have a significant impact on health strategies for the future.

Recognition by insurers of Long Covid as a clinical condition is now more widespread. However, the scale of delayed diagnoses for conditions such as cancer is still being established. According to charity Breast Cancer Now, there are an estimated 11,000 cases of undiagnosed breast cancer alone, based on comparisons between typical diagnosis rates and those seen between March and December 2020.

40% address employee physical wellbeing in corporate policies

71% address employee physical wellbeing in HR policies

3% address employee physical wellbeing in supply chains

50%

of HR teams intend to increase focus on the health and safety of employees wherever they work

Estelle Wright
Culture Insight & Strategy Senior Manager, Human Resources – Culture & Experience Team, **Santander**

Case study from Santander: 5 recent wellbeing initiatives

- Members of our Executive Committee sponsor and lead each of our seven employee networks focused on women, ethnicity, LGBT+, disability, families and carers, social mobility, and mental wellbeing.
- In September 2020, we launched our Black Inclusion Plan to accelerate the pace of change alongside an ambition to double our black senior leaders by 2023.
- In 2020 we increased the number of paid weeks' leave for maternity, adoption and shared parental leave from 16 to 20 weeks.
- We have changed our family friendly policies to support those colleagues whose babies are born prematurely and have been awarded The Smallest Things Best Employer Charter Mark.
- We've received a number of awards and recognitions. These include 2021 winner of Working Families Best for Mental Health and Wellbeing; being certified as a Great Place to Work and also recognised as a centre of excellence in wellbeing by Great Places to Work; being a Top 75 employer in the Social Mobility Foundation's Employer Index 2020; and being in The Times Top 50 Employers for Women 2020.

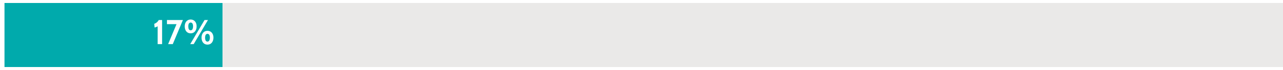
Part 3: Employee wellbeing

Easing employees’ money worries

Financial wellbeing is at risk of slipping down the agenda at a time when the after-effects of Covid-19’s furlough arrangements, as well as redundancies, are hitting employees hard. The pandemic showed just how unprepared many employees were for sudden financial shocks such as loss of income, particularly among low-paid and younger age groups.

Another financial side effect of the pandemic has been increased interest in early retirement among over-55s, especially for higher paid employees who are close to the lifetime allowance for pensions tax relief. In some sectors this is driving skills shortages and increasing pressure on remaining workforces. By contrast, falls in income will have dented the retirement plans of other employees, with knock-on issues for motivation and engagement.

Financial wellbeing is a multi-dimensional area that can encompass fair pay, reward strategy, retirement planning, debt management, employee share ownership and financial education. It requires a multi-disciplinary approach to implementation and organisations may struggle to identify who ‘owns’ financial wellbeing.



of organisations say line managers are committed to caring for employees’ financial wellbeing across the business

of HR teams will increase focus on financial wellbeing in the next 12 months

Michelle Sequeira

UK Diversity, Equity and Inclusion Consulting Leader, **Mercer**

Three key actions for financial wellbeing

1. **Understand your current position.** How are existing financial wellbeing programmes developing? What are the goals and objectives? What is the business case that will convince the board to invest?
2. **Listen to the workforce to find out what the real issues are.** Is it education? Is it budgeting? Is it debt or the need to save more?
3. **Keep it manageable.** Work out the most appropriate and effective options and choose services or solutions that will be most impactful for employees, now and in the future. Avoid implementing tactical solutions in isolation; instead ensure that everything is linked to a wider strategy.

Part 3: Employee wellbeing

Social wellbeing: the importance of belonging

Social wellbeing is an important but often overlooked element of employee wellness.

Our research shows that only 36% of businesses have a corporate policy on it although 71% have an HR policy.

The ability to form meaningful connections and relationships at work that reinforce an employee's feelings of being included can too easily be misconstrued as fluffy.

However, these social connections tie in with how strongly a person feels aligned to company culture and values, their sense of trust, and how appreciated they feel at work, all factors widely known to boost engagement and commitment.

Building that cohesiveness isn't only about building a positive social environment through the promotion of networks and non-work activities away from the office (quizzes, yoga classes and so forth). Leaders also need to find more ways to foster collaboration and teamwork, particularly as teams become more of a mix of remote and on-site workers.

Boards should also think about the social wellbeing of the company as a whole and the part it plays in responsibly supporting local communities and economies. This has the benefit of building reputation and employer brand, again bolstering engagement and aiding recruitment and retention of top talent.

Chris Castle

Head of Reward,
HCA Healthcare UK

Case study from HCA Healthcare UK

The last 18 months have been extraordinarily challenging for those working on the front line. Throughout the pandemic, staff at HCA Healthcare UK have played a vital role delivering urgent treatment to critically ill patients. At the beginning of the pandemic, we worked with Mercer Marsh Benefits to launch our new Social Wellbeing app to staff. Through the app's newsfeed, the company can post important updates and provide links to useful wellbeing resources that staff can access from their phones. Staff can connect with other likeminded colleagues by joining different communities within the app such as our Culinary Club and Culture Club, where they can share recipes and film reviews. And there are regular wellbeing challenges, like our Walk to Nashville Challenge, that staff can get involved in and have some fun along the way. The app provides a unique social platform for our staff to connect, whether they are working from home or on the hospital wards.

Employee voice can strengthen wellbeing

In May 2021, the Involvement and Participation Association with the Financial Reporting Council explored the extent to which employee voice is recognised in the FTSE 350. It produced key best-practice guidelines for all employers that said:

- Ensure that employee voice reflects the geography and demography of the workforce.
- Integrate different engagement and voice channels with each other, including collective forms of employee representation.
- Provide for regular and structured input from the workforce, especially during periods of rapid change.
- Choose workforce representatives, whether sitting on a panel or as worker directors, with some input from the workforce.
- Focus on the substance of workforce engagement, not the process.
- Set agendas to include a balance between topics of management interest and topics of workforce interest.
- Establish a feedback loop – a two-way dialogue between boards and the workforce – so staff are properly briefed on key issues before being asked their opinions.

About the survey

This survey had 123 responses from employers representing an estimated collective total of more than 700,000 employees. It took place online during May 2021 and was conducted by the Reward & Employee Benefits Association among its c2,400 Professional Members and c8,500 subscribers.

How many UK-based staff does your organisation employ?

20,000+ employees	6%
10,000-19,999 employees	9%
5,000- 9,999 employees	10%
1,000-4,999 employees	25%
500-999 employees	15%
250-499 employees	15%
100-249 employees	11%
50-99 employees	4%
1-49 employees	7%

What is your organisation's industry sector?

Professional Services	16%
Media, Technology & Telecommunications	11%
Manufacturing & Production	11%
Financial Services	10%
Public Sector	9%
Retail	9%
Not-for-profit	7%
Health & Pharmaceuticals	7%
Engineering and Construction	7%
Transport & Logistics	6%
Leisure & Travel	6%
Utilities & Energy	3%

Thank you to our respondents:

Adam Architecture, Addison Lee, AECOM, Aegon UK, AGS Airports, Air France KLM, Allegis Group, ALUK (GB), Anglian Water, Argonon, Argyll Community Housing Association, Arrow Global Group, Arup, Ashurst, Avaloq, AVEVA, B H Brawn and Co, Bacardi, Batten, BBC Studios, Beazley, Bloomberg Finance LP, BrightTALK, Bryan Cave Leighton Paisner, BSI, Bupa, BWI UK, CF Fertilisers, City & Guilds Group, Colt Technology Services, Compass Group, Covea Insurance, CPI, CVS Group, Deciem, DHL Supply Chain, EBC LLP, Effective Leadership Matters 2, Eli Lilly and Company, Enara Bio, ENGIE, Farrans Construction, FCA, FedEx Express, Ferguson Group Services, Financial Reporting Council, Gowling WLG, Grant Thornton, Greystar Europe Holdings, Hexcel, Hilti Gt Britain, Howden, IHG, IKEA, Inchcape, Intercontinental Hotels Group, JLL, John Lewis Partnership, Jungheinrich UK, Kellogg, Lockheed Martin, London Borough Southwark, Lotus Cars Limited, Magnox, Maples and Calder, Marriott Hotels, Medallia, MFS Investment Management, Missguided, Mott MacDonald, Natixis, NatWest Group, Needle & Thread, NewDay, Norbar Torque Tools, Novartis, Oaktree, Ocado Retail, Ocean Housing Group, Orange Business Services, Oxera, Palletways, Parkville Pharmaceuticals, Pfizer Ltd, PPB / Flutter, Rentokil Initial, ResMed, RGB, Saga Group, Sage, Saint-Gobain, SATCoL, Save the Children, Scottish Courts & Tribunal Services, ScottishPower, Serco, Severn Trent, Sky, Skyscanner, Smiths News, Springernature, Stantec UK, Systemiq Earth, Taylor Wessing, The Gap Partnership, The Outwardbound Trust, University of Manchester, University Partnerships Programme, UTB, Vale Garden Houses, VetCT, Virgin Media, William Hill Organization, Wolseley UK Ltd, Wood (John Wood Group), World Duty Free Group UK, Wyndham Hotels & Resorts, Yeo Valley, Yorkshire Water, Zebra.

About us

Reward & Employee Benefits Association

REBA is the professional networking community for reward and benefits practitioners.

We make members' working lives easier by saving them time, money and effort through sharing experience, ideas, data and insight with each other.

We help members to pursue best practice, increase professionalism in the industry and prepare for upcoming changes. REBA also lobbies government on members' behalf.

What REBA does:

- Runs regular conferences and networking events, both face-to-face and virtually through webinars and online platforms
- Supports the reward and benefits community through its rebaLINK peer-to-peer networking platform
- Produces benchmarking research, insight & data reports, and analysis on key reward and benefits themes
- Curates an industry-wide research library of reports, government consultations and best-practice guides
- Creates, curates and distributes online content for the reward and benefits community, including industry insights into best practice, case studies and thought leadership
- Delivers focused content to our membership through daily emails and social media channels
- Supports professional members with supplier shortlisting and research.

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Mercer Marsh Benefits

At Mercer Marsh Benefits, we provide a range of solutions to help you manage people risk, including:

- Brokerage of core employee benefits as well as expatriate and special risks like business travel accident.
- Advice and support for health and wellbeing, plan member communications, and benefit plan financing.
- Digital solutions to engage plan members in their health and benefits.

Mercer Marsh Benefits provides clients with a single source for managing the costs, people risks, and complexities of employee benefits. The network is a combination of Mercer and Marsh local offices around the world, plus country correspondents who have been selected based on specific criteria. Our benefits professionals serve clients in more than 150 countries and are deeply knowledgeable about their local markets. Through our locally established businesses, we have a unique common platform which allows us to serve clients with global consistency and locally unique solutions.

Website: www.uk.mercer.com
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