

# People at the Centre

Driving the Value of Human Resources with Purpose

An Environmental, Social, Governance (ESG) Series

July 2020





**2020 has brought change on an unthinkable scale to our personal and professional lives. COVID-19 has forced businesses to contend with the human aspects of their operations as never before, from changing the way we work to highlighting many inequalities, disproportionately affecting the poor, as well as black and other ethnic minority communities.**



The COVID-19 challenge has highlighted the importance of the ESG agenda



**The appetite to “build back better” has brought issues of social responsibility and policy to the corporate agenda, with a focus on racial equality, reskilling the young COVID-19 “lost generation”, together with sustainability and supply chain issues, and the interrelationship between people and environment.**

ESG refers to environmental, social and governance factors in relation to a company’s financial performance



Key ESG HR issues concern how a company engages with its workforce, with a strong focus on a culture incorporating inclusion and diversity, and how it looks at issues of pay and equality

How businesses engage on these issues will shape their long term future, in particular as the “unlocking” of economies around the world brings fresh challenges. Reputation will be key, as will corporate “purpose”, as the call grows for corporates to play their part in solving the problems of people and planet, and corporations increasingly adopt a long term stakeholder approach to their business models. Incorporating non-financial considerations into business decision-making has also become the mainstay of investors as they adopt environmental, social and governance (ESG) factors into their investment frameworks, along with positive impacts on the UN Sustainable Development Goals (SDGs).



The HR agenda is now a boardroom priority and provides an opportunity for HR leaders to take the lead in recovery efforts





# HR Priorities

As businesses enter the next phase of the “new normal”, the people agenda and Human Resources will again be on the front line, covering not just the immediate priorities of job losses, health and safety concerns and mental wellbeing around the workplace but also the provision of a working environment that engages and motivates their workforce against the backdrop of chronic economic uncertainty and dwindling government support.



How do you treat your people in a way that engenders their confidence, regardless of whether tough decisions need to be taken on cost?



With the pandemic having changed the notion of “workplaces” and how people work, how do you maintain productivity and connectivity with prolonged or permanent remote working?



What are the tax and data protection issues arising from use of remote working platforms like Slack and Teams?



How will remote working affect work/life balance and mental health?



Does the renewed focus on equality affect your diversity and inclusion agenda?



What impact will this and COVID-19 have on recruitment and retention, particularly as we return to an interim semi-virtual hybrid world?

These are all issues we will address as part of our People at the Centre initiative. We invite your participation in a series of discussion forums where we can share insight on how businesses are tackling the ESG agenda and putting people at the forefront of future thinking.

We start our series by asking, what are your HR priorities now? [Take part in our quick survey here.](#)

We also take a look at the key ESG developments of 2020 and share the results of our ESG survey from earlier this year.





**Investors are increasingly seeing non-financial considerations as material to companies' performance. The data is starting to demonstrate a positive correlation between strong ESG practices and financial performance.**

Businesses with robust governance frameworks are able to manage their environmental and social factors and can better mitigate risks and increase productivity. At the same time, public discourse on climate change, social inequality and corporate governance failures has kept these issues at the top of the policy agenda, with more than 730 hard and soft laws underpinning ESG considerations worldwide.

COVID-19 presented the ESG approach with its biggest test. However, ESG stocks have consistently outperformed traditional stocks during this crisis. In the UK, investors piled a net £2.9 billion into ESG investment funds in the first three months of 2020, making it the second-best quarter for such funds. Europe has also seen inflows of €30 billion in the same quarter and a similar trend has occurred globally, according to research by BlackRock. ESG-conscious companies with sound governance and solid relationships with their suppliers, employees and stakeholders have been able to better account for long term risks, shown greater resilience and outperformed during this period of intense volatility. Even before the pandemic, the largest review of studies into whether the integration of ESG principles had a positive effect on corporate financial performance showed that the business case for ESG was empirically well founded. In a post-COVID-19 world it is likely we will see an expansion of investment in businesses that consider the long-term interests of employees, suppliers and wider society.





## **Governments around the world have provided unprecedented fiscal support to employers through this crisis.**

With public funding paid to private enterprises to support their employees during the pandemic, it may be argued there is a greater expectation on these businesses to be responsible and make good on the stakeholder agenda. Whether companies have used government furlough schemes responsibly or executives have taken their share of pain through pay-cuts and job losses has been the focus of many a newspaper story. Public response and reputational damage for perceived corporate “misbehaviour” is likely to be strong, with regulatory intervention a possibility.

The pandemic has also cast a spotlight on our interconnectedness with the planet. Global markets and supply chains have proved vulnerable to environmental risks and health generally depends on access to natural assets such as clean air, water and nutritious food. Whether policymakers will use the crisis to accelerate a transformation in clean energy infrastructure and technologies or whether the fiscal packages used to counter the economic fallout will fuel a greater climate crisis remains to be seen. However the demand for sustainable solutions is only likely to increase and companies that are able to meet this demand will not only attract investment but also benefit from growth in the long term.

Irrespective of regulatory or fiscal intervention, corporations and investors themselves are reacting to this crisis with a greater willingness to sign up to the stakeholder pledge and engage in policy advocacy. The UN Global Compact and UN Principles for Responsible Investment (UN PRI), two leading sustainability and responsible investment bodies, have reported an above-average increase in membership and engagement during this period; and corporates are taking part in initiatives at regional and country levels to drive sustainability and lead efforts to improve corporate governance.

**The call for greater corporate transparency on ESG issues will only amplify as ESG factors prove themselves not just to be non-financial considerations but material drivers of financial performance and business resilience.**



# Public Perceptions

There is considerable public appetite for change:

## Edelman Study

Of 12,000 people in 12 countries asked, 52% said that big brands must do everything they can to protect the well-being and financial security of their employees and their suppliers until the pandemic ends.

Furthermore, a sizeable proportion said they had already boycotted companies they perceived to be doing the wrong thing, with a third saying they had also convinced other people to stop using a brand they felt was not acting appropriately in response to the pandemic. What is the “wrong thing” will depend on the business, sector and public perception, so businesses need to be alive to the wider issues of people and place.

**52%**

Said that big brands must do everything they can to protect the well-being and financial security of their employees and their suppliers

## Just Capital Survey

A large majority of Americans surveyed think that big companies should reset their priorities. More than 80% of respondents would remember which companies did the right thing by their workers, whether by way of extra safety measures or efforts to avoid layoffs.

Three-quarters said they would remember the businesses that took missteps during the pandemic long after it is over. These are obviously easy things to say now but even if only a small proportion actually stick by their word, the potential upside (or downside) for the businesses concerned is clearly very material.

**80%+**

respondents would remember which companies did the right thing by their workers, whether by way of extra safety measures or efforts to avoid layoffs

In the UK, the call for mandatory ethnicity pay reporting has only grown since the government ran its consultation in 2018, with a recent petition amassing more than 125,000 signatures. A Commission on Race and Ethnic Disparities has since been set up to examine continuing racial and ethnic inequalities in Britain and ways the UK government can address this.





## Public Perceptions

### With calls for a “great reset” gaining traction, investors are now increasingly looking at positive impacts in their screening criteria.

For companies this means not only demonstrating ESG credentials but also having a clear purpose in line with the UN SDGs.

In the UK, several hundred corporate signatories have written an [open letter](#) to the government calling for an economic recovery plan that “delivers a clean, just recovery, that creates quality employment and builds a more sustainable, inclusive and resilient UK economy for the future”.

UN Global Compact’s [Uniting Business and Governments to Recover Better](#) has attracted support from more than 170 companies committing to investment “in recovery and resilience for a systemic socio-economic transformation” and calling on governments to do the same, with an ambition to reach net-zero emissions before 2050.

Investor activism in the US continues to grow with a record number of investor petitions on social or environmental issues won in the first half of 2020, suggesting a willingness on the part of large asset managers to back them. Winning proposals have covered a range of ESG-related issues from sexual harassment policies and board diversity to climate change.

Going forward, the call for greater corporate transparency on ESG issues will only amplify as ESG factors prove themselves not just to be non-financial considerations but material drivers of financial performance and business resilience.





## Addressing Inequalities: Inclusion and Diversity

### COVID-19 has undoubtedly accelerated inclusion and diversity issues.

**Whilst the pandemic has highlighted existing inequalities by hitting the lower paid, black and ethnic communities harder, the Black Lives Matter protests following the death of George Floyd have catapulted racial inequality to the forefront as an issue needing visible and concrete action on the part of society, employers and policymakers.**

The UN PRI is galvanising action on the part of investors and has called for “engagement on ESG issues which directly and indirectly perpetuate inequality”. It goes further to say “to hold corporations and policy-makers to account, we must push for public disclosure on racial diversity and related metrics by which we can assess progress against concrete outcomes.”

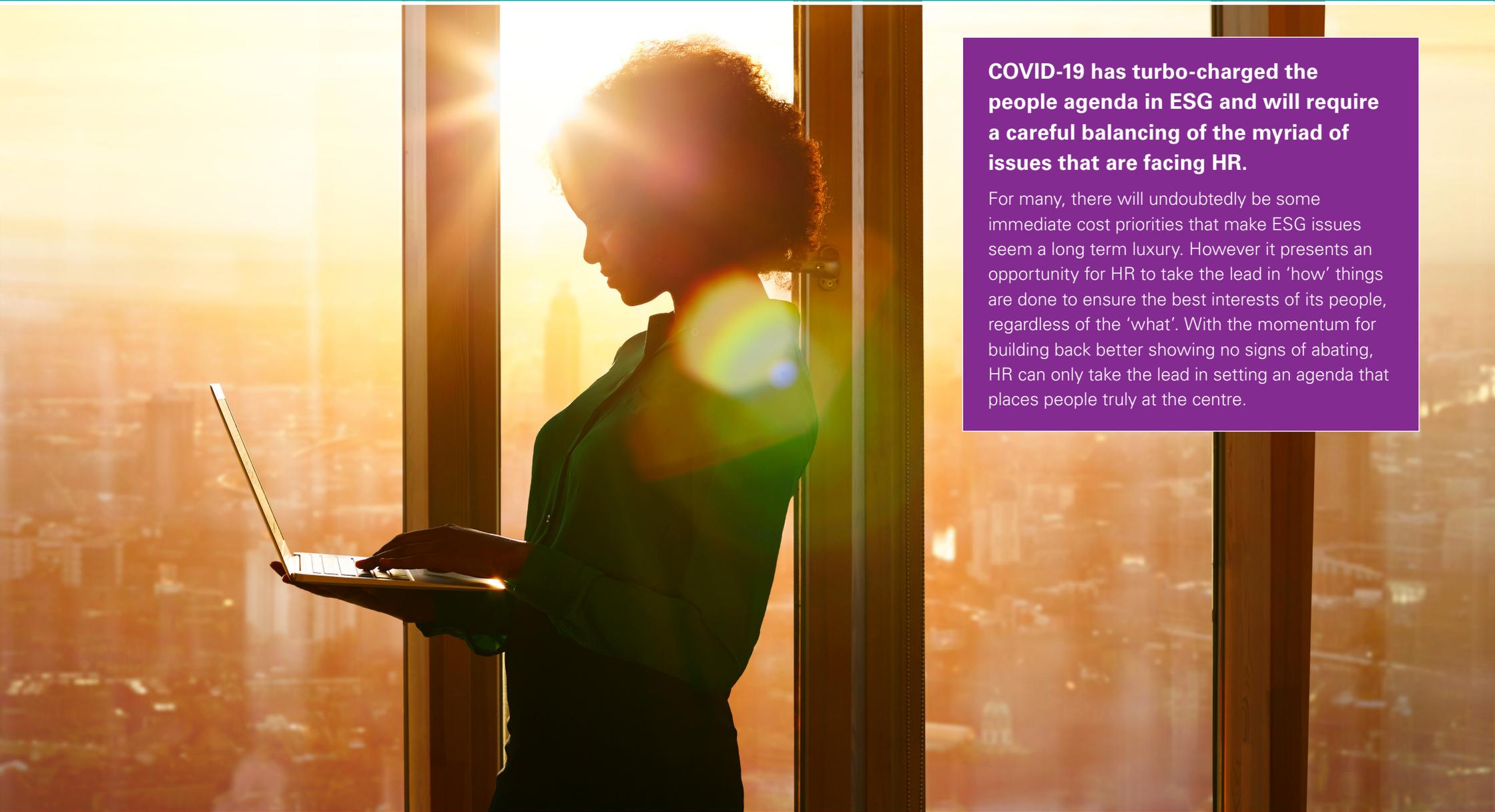
The pandemic has also disproportionately affected women. Not only are working mothers more likely to have assumed extra childcare responsibilities and housework during lockdown, they are also statistically more likely to be hit harder financially, with less job security. Their “traditional” roles are also more vulnerable to advances in AI and automation. Ensuring that advances in women’s interests are not set back by the virus is a challenge companies will need to address, especially as reporting requirements are relaxed in jurisdictions such as the UK on issues such as gender pay.

The trends towards greater remote working may level the field and provide employers with opportunities to improve access for women, the disabled as well as other diverse groups. The prospect of accessing multiple talent pools unrestricted by geographical confines presents an exciting opportunity but how employers attract, motivate and retain that talent will also depend on its employer ‘brand’, in particular with the young as they seek a clearly defined ‘purpose’ in their jobs. As governments invest in schemes to support opportunities afforded to the next generation, employers have a role to play in ensuring the skillset of their talent pool stays relevant and future proof.





## What's Next for HR?



**COVID-19 has turbo-charged the people agenda in ESG and will require a careful balancing of the myriad of issues that are facing HR.**

For many, there will undoubtedly be some immediate cost priorities that make ESG issues seem a long term luxury. However it presents an opportunity for HR to take the lead in 'how' things are done to ensure the best interests of its people, regardless of the 'what'. With the momentum for building back better showing no signs of abating, HR can only take the lead in setting an agenda that places people truly at the centre.





# HR Priorities Pre-pandemic

Earlier this year (before the lockdown), we ran a survey asking for your top three HR priorities from an ESG perspective. We share the results below and would be interested to know how the pandemic has changed those priorities.

## Top Three HR Priorities from an ESG Perspective

**Diversity and Inclusion**  
38%



**Employee Engagement**  
25%

**Mental Health and Wellbeing**  
19%





# HR Priorities Pre-pandemic

## Top Three Business Priorities from an ESG Perspective



### Charitable Work/ Community Impact

25%

### Carbon Emissions

19%



### Board Composition

19%



# HR Priorities Pre-pandemic

## The Main Strategic Drivers of ESG in your Organisation

### Employee Engagement (including Recruitment and Retention)

31%



### Customer Engagement

25%

### Pressure from Shareholders/ Investors

19%



**We have five follow on questions  
and invite you to share your  
thoughts via this link.**



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