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THE NEW E IN ESG

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The way companies approach employee wellbeing is a critical test of their culture. Can they come through the current crisis with a strong and more meaningful workplace culture – or will Covid-19 expose it as an empty gesture?



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‘Our people are our greatest asset.’ Never has a corporate cliché been so tested. When revenues dried up, shops closed and demand stalled during the coronavirus crisis, just how much of an asset were those people?

The response from businesses to the economic shock of Covid-19 was a test not only of their financial durability, but also of their values and culture. Analysis of saints and sinners – their corporate policies, practices and benefits – has been forensic, and includes the work of Just Capital, whose Covid-19 Corporate Response Tracker assesses the response of America’s largest employers.¹

The spotlight has been kinder on some more than others. IBM, for instance, was praised for its Work from Home pledge, penned by CEO Arvind Krishna, which promised to help colleagues adjust to the new situation.² Slack CEO Stewart Butterfield, meanwhile, said in an internal memo to staff: “Take care of yourselves, take

care of your families, be a good partner. It is fine to work irregular or reduced hours. It is fine to take time out when you need it.”³

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Google and Microsoft were among many companies that have been alert to the particular pressures on working parents, offering additional paid leave for parents who had to work without access to their usual childcare arrangements and while home-schooling.⁴ And Google, like many others, also offered additional payments to staff to alleviate any

financial burden associated with working from home, recognising that financial pressures on top of other factors might impact mental health.⁵ Much closer to the virus frontline, NHS staff were given free access to a range of wellbeing apps until the end of 2020 to support their mental health.⁶

“There’s no doubt that there are good actors and less good actors that have been exposed by the pandemic,” says Alan Edington, Co-Head of Research at Walter Scott. “It’s that ‘tide goes out’ moment: who has got really robust models that mean that even through this really difficult time they are doing the right thing? As with green-washing, there is danger that rhetoric does not equate with action when it comes to employee wellbeing.”

That gap can often be great. A company that promises to look after its employee wellbeing one moment talks about cost-cutting and automation in the next. “A company may say, ‘We’ve got an extensive wellbeing programme for

REMOTE WORKING AND PRODUCTIVITY

“Without an office, without a body of people beavering away at the same place and time, it is hard to know how a company could ever create any sort of culture or any fellow feeling – let alone anything resembling loyalty,” wrote Lucy Kellaway in the Financial Times recently.⁷

Many companies are grappling with this potential loss, as they either operate fully from home or manage hybrid models. There are competing voices on how remote working affects productivity. A much-cited randomised experiment by CTrip, China’s largest travel agency, measured the productivity of employees working at home compared with those working in one of its call centres. It found that the home-working group increased its productivity by 13% over the trial’s nine-month lifetime, “with no measurable difference in the quality of calls”.⁸

However, it also found that rates of promotion for home workers were almost 50% lower – “possibly because they were not visible to office-based managers”.

Nevertheless, experts on the topic, including Nicholas Bloom, a senior fellow at the Stanford Institute for Economic Policy Research (SIEPR), who analysed the CTrip experiment, fear a “productivity disaster for firms” and “a slump in innovation”.⁹

“There is something wrong in the way that capitalism works today for those at home versus those in an office,” says Edington. “If we are going to pursue a new model, what do we need to change to ensure that everyone has equal opportunity, that we’re rewarding the right people in the right way? How do you make sure that creativity and innovation are not lost?”

Edington says that businesses have to address these questions now. “You can’t wait three years and find out that your creativity’s gone,” he says. “You’ve got to find out what drives creativity in your business today and make sure that however it’s fostered, it can be fostered in a virtual environment.”

our employees with access, through our outsourced provider, to all sorts of support', says Edington. "That might be meaningful, and it might not." It may even be a way to distract from other serious workforce issues.

The pandemic is a real test for the stakeholder capitalism model, and how well companies define the 'Social' in ESG – in particular, how they treat their staff and protect their physical and mental wellbeing. Recent research suggests that investors are also watching carefully, and a significant majority say that it is important that their money is invested in companies that care about employee wellbeing.¹⁰

UNDER PRESSURE

Such scrutiny comes at a time of heightened anxiety among workers. A survey of 500 employees in the UK conducted at the start of the pandemic¹¹ revealed that a fifth had increased their alcohol consumption, a third were eating a less healthy diet, and over half were exercising less. The majority reported losing sleep because of worry. A survey of more than 2,000 employees in Australia, France, Germany, New Zealand, Singapore, the UK and the US, meanwhile, found that 44% of those who were now working from home said their mental health had declined.¹²

These findings come less than 12 months after the World Health Organization recognised burn-out as an official workplace phenomenon.¹³ And according to a report from the UK Health and Safety Executive, stress, depression or anxiety were the cause of 44% of cases of work-related ill health and 57% of working days lost due to ill health in 2017/18.¹⁴ In August this year, more than 30 businesses signed a pledge to prioritise mental health as employees returned to work.¹⁵

What can businesses do to spot the warning signs of employee burn-out and anxiety? How can management teams, and the investors who place their trust in them, sense a problem with employee wellbeing?

"One of the questions we ask of a company is: is it run just a bit too hot?" says Edington. "When you see margins marching up year over year, when you see a company's operating profit per employee march upwards year over year, you start to ask the question: Is this actually a good thing across stakeholder groups? Are proper procedures being compromised? What does the culture look like?"

EARLY-WARNING SYSTEM

Businesses can look at KPIs, of course, such as the rate of employee attrition,

or how a company is addressing staff turnover. But one of the best ways to get a sense of the culture is to experience the company at every level. "It's one of the great reasons to walk a factory floor or go to a company's store," says Edington. "Is what we're hearing from the management team filtering down throughout the organisation?"

"Everyone will have their own take, but if the response from the CEO, management team and office floor is broadly similar, and delivered with enthusiasm, you can see that it will pervade the culture."

Alan Edington

Often a good litmus test of a coherent culture is the use of language within the organisation. If you ask a range of employees what the company does and what it stands for, you should be able to see signals of a set of shared beliefs. "Everyone will have their own take, but if the response from the CEO, management team and office floor is broadly similar, and delivered with

AN EYE FOR RESPONSIBLE BUSINESS

Fielmann is a German eyewear company and Europe's largest optician. It closed all of its stores as Covid-19 cases increased across the country.

Alan Edington praises its long-term approach to the crisis. "They were very clear," he says. "No one's going to lose their job, because at some point our stores are going to be open again, and we're going to need our employees."

Those employees who were at home on shorter working hours received employee association support. This was topped up by Fielmann to make sure that everyone received the equivalent of 100% of their salary.

"I think this is exactly the right approach to the use of a government subsidy," says Edington. "Ultimately it will create lots of positive responses from your employees, and that will drive shareholder value over time."

"Some other companies are talking about paying back some of their employees' short-time working payments because they've come through this better than they anticipated," he adds. "Is it the right thing to do for a shareholder strictly speaking in the short term? Perhaps not. Longer term, it's absolutely the right thing to do. These companies recognise that they don't operate in a vacuum."

enthusiasm, you can see that it will pervade the culture,” says Edington. “You can use it as a proxy.”

Some say that it is the ability of employees to have their ideas heard that can help create this shared sense of purpose. “Devolving decision-making to the front line and increasing localisation forced leaders [during the pandemic] to trust their people to know what to do,” say Cath Bishop and Margaret Heffernan in the *Financial Times*.¹⁶ “They haven’t been disappointed. Where sharing responsibility might have felt a risk, now it’s an obvious asset.”

This is why it is impossible to separate culture from the financials of a business. “We take a holistic view of a company and if it has a questionable culture, then that feeds into the perspective on how we think about it,” says Edington. “The reason we’re asking these questions is long-term sustainability: is the business building a workforce that will allow it to be

successful in the future? And that comes down to how you treat them.

“Keeping employees healthy and happy and productive just makes business sense.”

¹ <https://justcapital.com/reports/the-covid-19-corporate-response-tracker-how-americas-largest-employers-are-treating-stakeholders-amid-the-coronavirus-crisis/>

² <https://www.linkedin.com/pulse/i-pledge-support-my-fellow-ibmers-working-from-home-during-krishna/>

³ <https://www.cnbc.com/2020/03/26/slack-ceo-to-employees-amid-covid-19-dont-stress-about-work.html>

⁴ <https://www.hcamag.com/us/specialization/benefits/microsoft-and-google-expand-covid-19-leave-benefits/220102>

⁵ <https://www.cnbc.com/2020/05/26/google-will-give-employees-up-to-1000-to-buy-work-from-home-gear.html>

⁶ <https://www.nhsemployers.org/news/2020/03/free-access-to->

[wellbeing-apps-for-all-nhs-staff](https://www.ft.com/content/6a84c3a0-9440-11ea-abcde371e24b679ed)

⁷ <https://www.ft.com/content/6a84c3a0-9440-11ea-abcde371e24b679ed>

⁸ <https://www.nber.org/digest/sep13/w18871.html>

⁹ <https://news.stanford.edu/2020/03/30/productivity-pitfalls-working-home-age-covid-19/>

¹⁰ <https://www.lcp.uk.com/media-centre/2020/02/lcpyougov-employee-wellbeing-tops-list-of-esg-concerns/>

¹¹ <https://www.employment-studies.co.uk/resource/ies-working-home-wellbeing-survey>

¹² <https://www.qualtrics.com/blog/confronting-mental-health/>

¹³ <https://www.who.int/bulletin/volumes/97/9/19-020919/en/>

¹⁴ <http://www.hse.gov.uk/statistics/overall/hssh1718.pdf>

¹⁵ <https://www.thetimes.co.uk/edition/business/mental-health-is-a-priority-1fd27dr3b>

¹⁶ <https://www.ft.com/content/84d92de1-3eff-4178-b070-cd9eb013dba3>

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