ESG as a workforce strategy

Part II: Methodology document
JOURNEY THROUGH OUR STUDY

The research question for our study was: what is the relationship between companies' environmental, social, and governance (ESG) performance and their workforce sentiment?

The workforce is defined as comprising both existing and prospective employees. We assume the workforce is generally aware of their current or prospective employer's ESG performance, either due to explicit corporate communications or through an individual's own research efforts in this area.

WORKFORCE SENTIMENT

In this study, we compared the ESG performance of employers with different workforce sentiment. Companies were categorized into three groups:

- Global average employers
- Top employers by employee satisfaction
- Top employers by attractiveness to students and young professionals

As illustrated in Exhibit A.1, available data proxies were used to group these companies accordingly.

**Exhibit A.1: Selection criteria for each employer group**

<table>
<thead>
<tr>
<th>Employer group</th>
<th>Data proxy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global average employers</td>
<td>Companies included in the MSCI ACWI Index</td>
</tr>
<tr>
<td>Top employers by employee satisfaction</td>
<td>Companies included in both:</td>
</tr>
<tr>
<td></td>
<td>• MSCI ACWI Index</td>
</tr>
<tr>
<td></td>
<td>• Fortune's 2019 “100 Best Companies to Work For”</td>
</tr>
<tr>
<td>Top employers by attractiveness to students and young professionals</td>
<td>Companies included in both:</td>
</tr>
<tr>
<td></td>
<td>• MSCI ACWI Index</td>
</tr>
<tr>
<td></td>
<td>• Universum's 2019 “World's Most Attractive Employers”</td>
</tr>
</tbody>
</table>
ESG PERFORMANCE

Three types of data from the MSCI ESG database (Exhibit A.2) were used to quantify the ESG performance of companies across the three employer groups and evaluate their ESG performance at different levels of granularity.

The data points from levels 1, 2, and 3 in Exhibit A.2 were averaged for each employer group and then compared across employer groups. In this way, we evaluated the ESG performance of employers with differing workforce sentiments.

### Exhibit A.2: Types of MSCI ESG data points used for sample of employers

<table>
<thead>
<tr>
<th>COMPANY-LEVEL DATA POINT</th>
<th>DESCRIPTION</th>
<th>EXAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Overall ESG score</td>
<td>Represents a company's <strong>overall aggregate</strong> ESG performance</td>
<td>An overall ESG score of 5.6</td>
</tr>
<tr>
<td>2 E, S, and G pillar scores</td>
<td>Represents a company's performance in the <strong>respective dimensions</strong> of Environmental, Social, and Governance criteria</td>
<td>A Governance score of 4.8</td>
</tr>
<tr>
<td>3 Underlying indicators within each E, S, and G pillar</td>
<td>Represents a company's performance on a <strong>specific issue</strong> in the Environmental, Social, or Governance dimension</td>
<td>The proportion of female board members is 20 percent</td>
</tr>
</tbody>
</table>

Source: MSCI, Marsh & McLennan Advantage Insights analysis
SELECTING OUR ESG AND WORKFORCE DATASETS

In our analysis, datasets were taken from four sources:

1. The MSCI ESG database: ESG scores and related data

The MSCI ESG database contains ESG scores and related data for more than 7,500 companies around the world.

MSCI measures a company's ESG performance, in the form of ESG scores and ratings, based on the MSCI ESG Ratings methodology. This methodology is designed to identify the most significant environmental, social, and governance risks and opportunities for each industry and provides an overall rating based on companies' exposure to and management of those risks and opportunities.

MSCI's overall ESG scores for each company, shown as level 1 in Exhibit A.2, represent the industry-adjusted weighted average of a company's E, S, and G pillar scores. This industry adjustment ensures that a company is evaluated against the standards and performance of its industry peers. The resulting score ranges from 0 to 10, with 0 being the worst and 10 being the best; this corresponds to an ESG rating between CCC (worst) and AAA (best).

MSCI's E, S, and G pillar scores for each company, represented as level 2 in Exhibit A.2, are derived from the weighted average of issue scores, which are calculated based on the results of the underlying ESG indicators.

Data for the underlying indicators within each pillar, shown as level 3 in Exhibit A.2, are comprised of raw data collected by MSCI. We used these underlying indicators to further evaluate a company's performance on specific issues within each pillar, allowing us to analyze the more granular relationship between specific ESG issues and workforce sentiment. Underlying ESG indicators were selected for analysis based on the following criteria:

- **Transparency**: An issue for which information is available to current and prospective employees
- **Universality**: An issue that is applicable across all industries
- **Measurability**: An issue that is measurable and, therefore, comparable between companies

As a result, the following indicators for analysis were chosen (Exhibit A.3):
Exhibit A.3: Underlying ESG indicators chosen for analysis

<table>
<thead>
<tr>
<th>ESG indicator</th>
<th>Environmental</th>
<th>Social</th>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon emission intensity</td>
<td>A calculation representing a company’s most recently reported or estimated Scope 1 + Scope 2 greenhouse gas emissions normalized by sales in USD, which allows for comparison between companies of different sizes</td>
<td>Employer effort in monitoring employee satisfaction</td>
<td>Percentage of female board members</td>
</tr>
<tr>
<td>Percentage of female board members</td>
<td>The percentage of board members who are female. For companies with a two-tier board, the calculation is based on members of the Supervisory Board only.</td>
<td>A 0 to 10 score indicating the strength of a company’s initiatives to monitor employee satisfaction through mechanisms such as regular engagement surveys, open door policies, etc.</td>
<td></td>
</tr>
<tr>
<td>Example</td>
<td>A company emits 50 metric tons of carbon per US$ million in sales.</td>
<td>A company has a score of 6.2 for its efforts in monitoring employee satisfaction.</td>
<td>A company’s proportion of female board members is 30 percent.</td>
</tr>
</tbody>
</table>

Source: MSCI, Marsh & McLennan Advantage Insights analysis

2. The MSCI ACWI Index: Global average employers

The MSCI ACWI index represents the performance of large- and mid-cap publicly listed companies across 23 developed and 26 emerging markets. As of fourth quarter 2019 when we conducted our analysis, the index covered more than 2,700 companies across 11 sectors and approximately 85 percent of the free float-adjusted market capitalization in each covered market. The index is commonly used as a benchmark to evaluate the overall performance of the global stock market.

To represent global average employers, we chose companies that both:

- Were included in the MSCI ACWI index
- Had ESG data available as part of the MSCI ESG database

This resulted in a study sample of 2,764 companies, representing global employers. For the selected sample, three levels of ESG data were extracted from the MSCI ESG database as of October 2019: Aggregate ESG scores; E, S, and G pillar scores; and the three underlying ESG indicators (Exhibit A.2).

3. Fortune’s “100 Best Companies to Work For”: Top employers by employee satisfaction

Fortune’s “100 Best Companies to Work For” is a list featured annually in Fortune magazine. Most of the evaluation (85 percent) is based on employee responses to a 60-question survey created by people analytics firm Great Place to Work. The survey covers topics such as employees’ experiences of trust and reaching their full potential as part of their organization. The remaining 15 percent of the evaluation is based on Great Place to Work’s assessment of factors such as employees’ daily experiences of the company’s values, people’s ability to contribute new ideas, and the effectiveness of company leaders. To prevent any potential bias, Fortune is not involved in the employer evaluation process.

From our 2,764-company sample of employers, 33 are included in Fortune’s 2019 “100 Best Companies to Work for” list.
4. *Universum’s “World’s Most Attractive Employers”: Top employers by attractiveness to young talent*

The “World’s Most Attractive Employers” is an annual study conducted by market research firm Universum, based on the survey responses of hundreds of thousands of college students from the world’s largest economies. Based on the survey results, Universum each year releases two ranked lists of the “Top 50 World’s Most Attractive Employers”, one from business students and the other from engineering/IT students. The rankings chart the success of individual companies’ talent-attraction efforts and document students’ shifting ideas about what defines an ideal employer.

For the 2019 “World’s Most Attractive Employers” ranking, Universum surveyed 247,235 business, engineering, and IT students in the world’s 12 largest economies, and asked two questions:

1. Which employer characteristics are most influential as you consider future employment?
2. Which employer brands do you most admire?

From our 2,764-company sample of employers, 55 are included in *Universum’s “World’s Most Attractive Employers” lists.*

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1 *Universum* conducted their 2019 survey in Brazil, Canada, China, France, Germany, India, Italy, Japan, Russia, South Korea, the UK, and the US.
RECOGNIZING OUR LIMITATIONS

As with other research studies, limitations exist due to constraints on research design, methodology, or data availability at the point of study. Here we discuss the limitations in our research with the hope that future researchers can consider these when undertaking similar studies:

- Our study assessed companies’ ESG performance using ESG scores from the MSCI ESG database. We recognize, however, that ESG data providers each have a unique methodology for calculating company ESG scores – and a company’s score from one data provider often differs from that of other providers. Therefore, for more robustness, it would be valuable for future researchers to include ESG data from multiple data providers when conducting the same analysis.

- To quantify workforce sentiment, our study categorized companies into top employers – either by employee satisfaction or attractiveness to young talent – and average employers. As such, the workforce sentiment variable in our study was categorical rather than continuous, potentially obscuring any more granular trends. It would be valuable for future researchers to quantify a company’s workforce sentiment on a continuous scale, thus assessing if the relationship we observed between ESG performance and workforce sentiment is continuous.

- Our study did not control for other variables that may affect workforce sentiment, such as country GDP, company size, and company revenue, among others. It would be valuable for future researchers to control such variables and thus further evaluate the relationship we observed between ESG performance and workforce sentiment.
To explore the interactive results of the
**ESG as a Workforce Strategy** please visit our [website](https://www.mmc.com/insights/publications/2020/may/esg-as-a-workforce-strategy.html)

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