



MARSH & McLENNAN
ADVANTAGE

ESG as a workforce strategy



Part I: Overview and Results

SUMMARY

Environmental, social, and governance (ESG) issues are no longer treated as an afterthought by companies—they are increasingly central to a firm’s reputation and financial performance. But there’s been little discussion or attention paid to how a company’s ESG performance affects one set of internal stakeholders: its employees.

In a world of high workforce turnover and intense competition for talent, executives recognize the importance of attracting and engaging young employees – but few have figured out how to achieve this in practice. Indeed, Mercer’s [Global Talent Trends 2020](#) found that 46 percent of C-suites believe their organization is ill-equipped to acquire and retain the right talent. Emphasizing ESG is a way for employers to address these workforce challenges.

The *ESG as a Workforce Strategy* study offers insight into the link between companies’ ESG performance and workforce sentiment.

The study draws on data from the MSCI ESG portal, a database containing ESG scores and related data for more than 7,500 companies around the world, and summarizes these five key findings:

- **Employers with highly satisfied employees score higher on ESG performance** (14 percent higher) than global average employers. Satisfied employees work harder, stay longer, and seek to produce better results for the organization.
- **Employers with an attractive image among young talent have better ESG performance** (25 percent higher) than average employers. Eager young employees strengthen a company’s talent pipeline.
- Compared to their peers, **top employers (as measured by employee satisfaction and attractiveness to young talent) tend to:**
 - Have lower carbon emissions
 - Make a greater effort to understand employee feelings
 - Be more diverse
- **ESG performance will become increasingly important to attracting and retaining talent** as Millennials and Gen Z come to make up most of the global workforce, given the importance they place on environmental and social issues.
- **As a workforce strategy, ESG performance has become a competitive advantage** – both in engaging today’s employees and attracting tomorrow’s talent.

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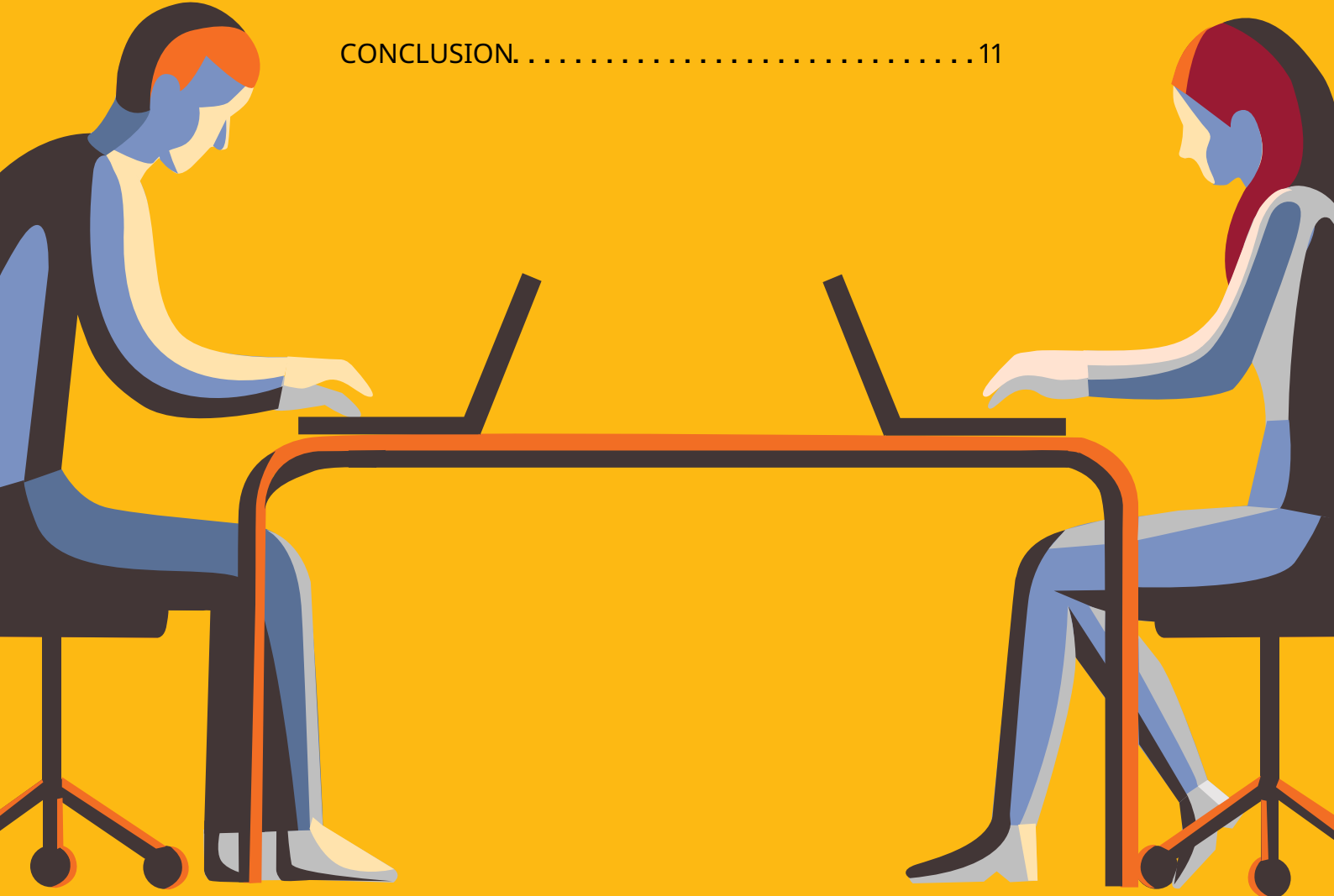
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The results of the *ESG as a Workforce Strategy* study are illustrated on our [interactive webpage](#), which can be found on the Marsh & McLennan Advantage Insights website.

There, readers can explore the analyses in an interactive manner and access links to other relevant Marsh & McLennan materials.

This document supplements the main webpage by providing more detailed information on the ESG landscape, our study findings, and our methodological approach.



OVERVIEW: THE ESG LANDSCAPE

CHARACTERISTICS OF ESG

[Environmental, social, and governance \(ESG\)](#) are the three key dimensions in which corporate sustainability and ethics are evaluated. While there's no definitive list of ESG issues, they tend to exhibit some blend of the following characteristics.

Environmental criteria examine a company's impact on the planet. Some of the areas include the firm's total emissions as a measure of its commitment to addressing climate warming, and whether or not the company has a plan for transitioning to low-carbon usage as a means of ensuring energy security. Pollution and waste practices and making efficient usage of key resources such as water are additional gauges for measuring a company's environmental credentials.

Social criteria examine how a company treats and values people. For example, what are the organization's labor management policies? Is it committed to product safety and quality? What impact does it have on the communities where it operates—are the effects beneficial or adverse to the local community? And do its suppliers adhere to high labor standards as well?

Governance criteria examine a company's corporate governance practices, focusing on board structure (particularly board diversity), audit quality and transparency, and issues surrounding remuneration, such as a company's risk management and executive compensation.

THE RISE OF ESG

ESG criteria, traditionally embraced by impact investors to evaluate companies' behavior and potential financial performance, are gaining increasing acceptance among other stakeholders:

- **Institutional investors** like [BlackRock](#) are using ESG as a framework for evaluating financial risks and opportunities.
- **Lenders** are issuing a growing number of sustainability-linked loans, where the interest rate is linked to the borrower's performance on a set of defined ESG criteria. Global sustainability-linked loans [amounted to](#) \$122 billion in 2019, up 168 percent from 2018.
- **Regulators** have stepped up scrutiny of ESG disclosures. The European Commission's [Action Plan on Sustainable Finance](#), for instance, aims to bolster the transparency of companies' ESG policies.
- **Credit-rating** agencies are [racing](#) to provide ESG scores.
- **Consumers** are paying attention to ESG performance, with [64 percent](#) of them choosing, switching, avoiding, or boycotting brands based on their stance on societal issues.

But how important is ESG performance to the modern corporation's key asset – its people?

RESULTS: ESG PERFORMANCE AND WORKFORCE SENTIMENT

Employers with highly satisfied employees have better ESG performance than global average employers.

Companies with highly satisfied employees have, on average, 14 percent higher ESG scores than the global average (see Exhibit 1). Additionally, t-test results prove that the difference between these two groups is statistically significant at the 95 percent confidence level ($P < 0.05$).

When comparing the average ESG pillar scores between these two groups, companies with highly satisfied employees stand out on their environmental performance, suggesting that the higher ESG scores of top employers are driven by superior environmental scores.

Prior research shows that [satisfied employees](#) work harder, stay longer with employers, and seek to produce better results for the organization.

Exhibit 1: Average ESG and pillar scores of top employers by employee satisfaction and average employers

0-10 scale, 2019



Source: MSCI, Marsh & McLennan Advantage Insights analysis

Employers with an attractive image among young talent have better ESG scores than global average employers.

Companies with the most attractive image to students and young professionals have ESG scores 25 percent higher than the global average employers (see Exhibit 2). The t-test results also show that at the 95 percent confidence level, the difference between these two groups is statistically significant ($P < 0.05$).

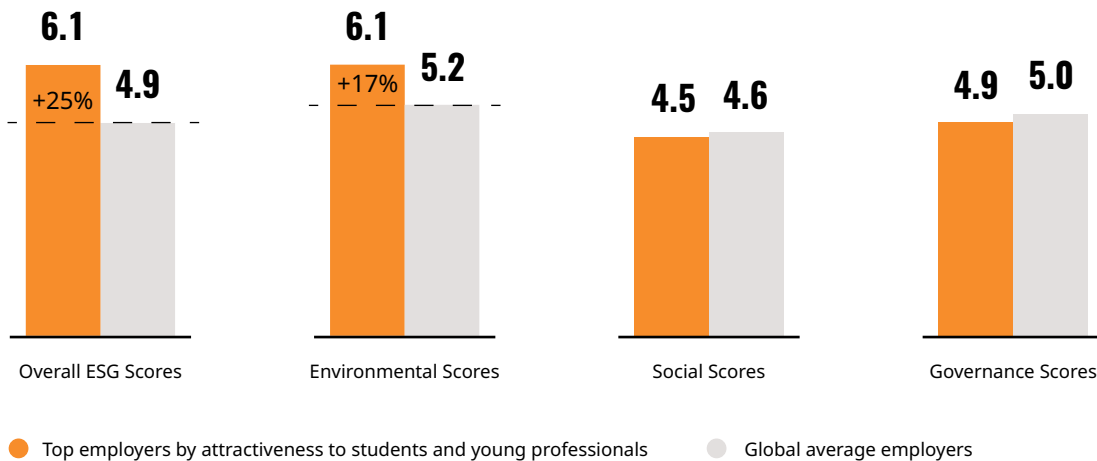
Similar to what we saw in high employee satisfaction, firms that are most attractive to young talent also have stronger environmental scores as compared to global average employers. This suggests that higher ESG scores are driven to a great degree by superior environmental scores.

Enthusiastic prospective employees strengthen a company's talent pipeline, helping ensure the availability of human capital.

On the heels of these preliminary findings, we dug deeper to analyze the relationship between specific ESG issues and workforce sentiment.

Exhibit 2: Average ESG and pillar scores of top employers among young talent and average employers

0-10 scale, 2019



Source: MSCI, Marsh & McLennan Advantage Insights analysis

ENVIRONMENT: Leading employers in terms of employee satisfaction and attractiveness to young talent have lower carbon emissions than their peers.

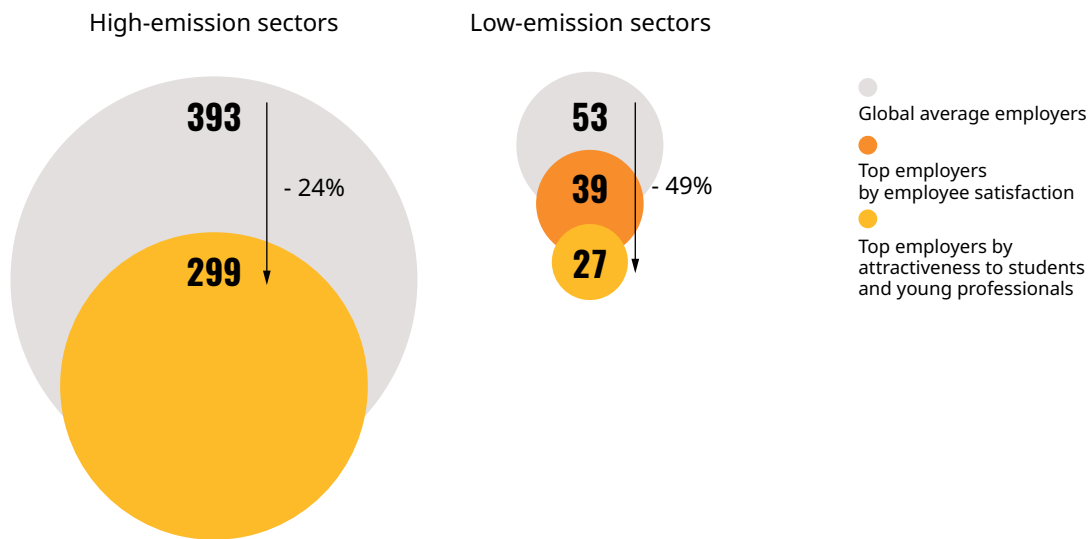
Within the environmental pillar, we compared the average carbon emissions intensity – greenhouse gas emissions normalized by sales – across all three employer groups¹ to see if workforce sentiment is affected by a company’s carbon footprint.

Companies with high employee satisfaction and attractiveness to young talent produce lower emissions than global average employers, according to our analysis (see Exhibit 3). We used the [Global Industry Classification Standard](#) to classify companies into specific sectors, and our findings apply across both high-emission² and low-emission sectors.³

No companies from high-emission sectors are to be found among the top firms by employee satisfaction. Meanwhile, within high-emission sectors, the most attractive companies to young talent have emissions intensities 24 percent below the average. And in low-emission sectors, the difference in attractiveness between average and low emitters is even greater, at 49 percent.

Exhibit 3: Average employer carbon emission intensity

Metric tons per USD million sales, 2019



Source: MSCI, Marsh & McLennan Advantage Insights analysis

1 The employer groups used in this study can be found in the Part II: Methodology Document of this study
 2 High-emission sectors have a carbon emission intensity above the global average. These include the energy, materials, and utilities sectors.
 3 Low-emission sectors consist of sectors whose carbon emission intensity is below the global average. These include industrials, real estate, consumer staples, information technology, telecommunication services, consumer discretionary, healthcare, and financials

SOCIAL: Leading employers in terms of employee satisfaction and attractiveness to young talent make greater efforts to understand employee sentiment.

Within the social pillar, we compared employer efforts toward understanding employee feelings to see whether companies with better human capital management have greater employee satisfaction and attractiveness to young talent. Each employer's 0-10 score is based on the frequency and scope of employee engagement surveys, as well as whether employers set employee engagement targets and regularly report on progress against these targets.

Companies with high employee satisfaction score 26 percent higher in understanding employee sentiment than the global average, according to our findings (see Exhibit 4). Moreover, those with an attractive image among young talent score even better: 50 percent higher than the global average.

Exhibit 4: Average employer effort in understanding employee sentiment

0-10 scale, 2019



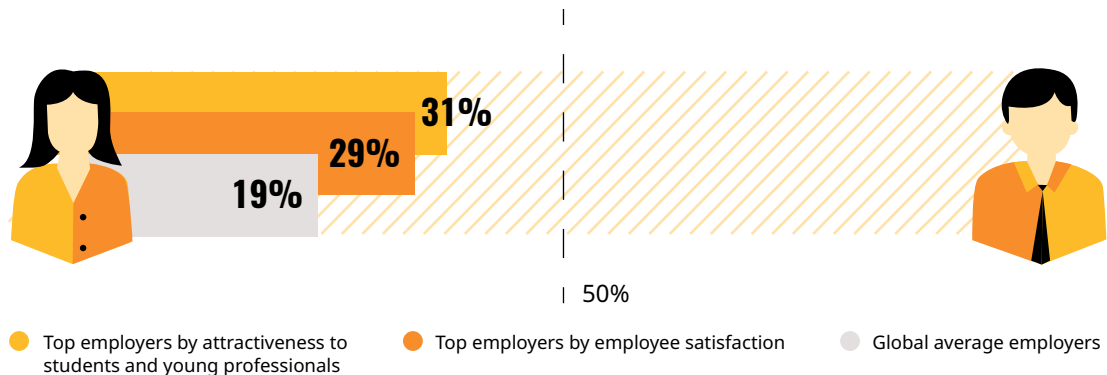
GOVERNANCE: Leading employers in terms of employee satisfaction and attractiveness to young talent tend to have more diverse leadership.

We analyzed gender diversity across companies' boards to see if there is a link between board diversity and workforce sentiment.

Companies with higher employee satisfaction and greater attractiveness to young talent have, on average, 30 percent female representation on their board. By comparison, board membership at global average employers exhibits less than 20 percent representation from women (see Exhibit 5).

Exhibit 5: Average Proportion Of Female Board Members

2019



Source: MSCI, Marsh & McLennan Advantage Insights analysis

CONCLUSION

The trends are clear: companies that best satisfy and attract talent rate higher in ESG performance than their peers, both at an aggregate level and the more granular level of specific ESG issues.

Looking ahead to the next decade, ESG performance will become even more important in attracting and retaining talent, as Millennials and Gen Zs come to make up most of the global workforce (72 percent) by 2029.⁴ These generations place even greater importance on environmental and social concerns than their predecessors⁵ – and will expect even more from employers on these issues.

It is clear that ESG performance will function increasingly as a competitive advantage to companies, serving to engage today's employees and attract tomorrow's talent.

⁴ Analysis uses ILOSTAT data from Q4 2019. Generation definitions are from Pew Research Center.

⁵ "The Global Shapers Risk Landscape 2020" in The Global Risks Report 2020.

To explore the interactive results of the
ESG as a Workforce Strategy please visit our [website](#)

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