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ESG – Workplace Developments in the UK

Labor & Employment Workforce Watch

WRITTEN BY

Nick Elwell-Sutton

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ESG or Environmental, Social, and Governance aspects of the workplace have become an increasingly hot topic over the last few years in many UK workplaces. Driven by a combination of a tight labour market, heightened environmental concern around climate change, expectations of Gen Z employees, client demand, and in some cases, investors examining ESG credentials as part of any investment decisions, there are few UK workplaces that have not taken at least some steps to implement ESG measures.

Some UK employers implement ESG measures out of the belief that it is the “right thing to do,” others to stay within the pack of their competitors who already have ESG programs, some out of self-interest to be an employer of choice to those who support ESG, or some to attract or retain institutional investors who favour ESG. While there are few, if any, legal requirements to adopt such measures and it is largely voluntary, UK employers appear to be taking only one direction of travel and, in this respect, the UK differs from many other jurisdictions.

The importance of the environmental aspects of ESG to institutional investors in the UK is difficult to understate. Five of Britain’s biggest pensions schemes have recently publicly announced they are planning to vote to remove Helge Lund as chair of BP in protest at its watering down of green commitments. In addition, the Law Society, the English professional body for solicitors, has recently issued guidance that law firms can refuse to act for clients if the client’s activities “inhibit progress towards net zero” or “conflict with the firm’s values” on climate change. In doing so it noted that firms should themselves assess the impact on staff of their own stance on climate change and particularly its effect on young lawyers.

At the heart of this though is a change to the expectations of younger employees beyond the traditional pay and benefits vs. work bargain and to the broader proposition an employer provides. Recent research by KPMG concluded that one in three aged 18-24 in the UK had actually turned down a job where an employer’s ESG commitments were not in line with their own values.

Environmental aspects

With a UK governmental commitment to achieve decarbonisation to net zero by 2050, there are a range of measures an employer can adopt in the workplace to meet this aim. While there are no explicit penalties for not doing so, as time progresses towards 2050 it would seem probable that a carrot and stick approach will probably be implemented possibly through the tax system or naming and shaming to encourage employers to adopt

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greener workplace practices. Even now, many of the steps UK employers can take are low or no cost or actively involve costs savings. In this respect, limiting business travel, particularly by air, is an easy win, and with the almost universal adoption of video conferencing prompted by the pandemic, the days of arguably unnecessary foreign trips seem largely over. While there will always be a need to travel in some circumstances, defaulting to video meetings and properly scrutinising travel requirements, rather than approving them as a matter of course is a straightforward step.

Part of the challenge is the individual employee mindset that everybody can make a difference however small. So some UK employers now include in their induction process an expectation that all employees will individually do what they can. This can be as straightforward as avoiding printing, turning off office electrical appliances, using recycling facilities, or encouraging green commuting methods to avoid or reduce greenhouse gas emissions. To help facilitate this, some UK employers operate a cycle to work scheme (which has tax advantages) or if they provide a car allowance, requiring that only EV or hybrid vehicles can be used. For businesses that require a uniform or dress code, arranging corporate bulk discounts from sustainable clothes suppliers is another option. Another move has seen UK employers selecting pension providers that allow employees to access green pension funds.

It should also be remembered that belief in climate change is a recognised and protected philosophical belief in the UK. This means that UK employees who do hold that belief benefit from legal protection in much the same way as they would do for being treated detrimentally (including dismissal) because of race or sex.

A recent survey by the BBC found that 39% of UK students see climate change as one of the top issues for their generation, and anecdotally Gen Z employees attending job interviews are now regularly starting to ask about green credentials.

Social aspects

Social aspects of ESG in the UK covers a wide variety of measures from Community Social Responsibility (CSR) programs to workplace Diversity, Equity, and Inclusion (DEI) and often covers employee health and welfare. The former can take many forms but common ones include allowing work time to be used for book reading programs (or other similar measures) in underprivileged schools or initiatives to pick up litter in the office locality or from local leisure areas such as parks.

Most UK businesses have a DEI program to some degree, but those tend historically to be heavily focussed on the characteristics of race and sex. There is a small but significant shift in market practice in the UK to consider those with economic and socially underprivileged backgrounds as benefiting from additional support, and particularly for professional and business services firms. Apart from monitoring the economic and social background of applicants and employees around interview, appointment, promotion, remuneration and retention to provide base line statistics and identify barriers, some employers are going further to enlarge the talent pool by dropping or reducing the requirement for certain minimum qualifications or degree requirements.

Notably PwC removed its 2.1 degree requirement for its graduate intake in 2022 in the UK. In addition, many UK employers are implementing apprentice or trainee programs as part of, or alongside, traditional graduate intakes to allow those with an underprivileged background entry opportunities. The use of contextual recruitment methods to

identify applicants from underprivileged backgrounds who perform well, but not as well from those with a privileged background, is another method being adopted by UK employers in order to identify a broader pool of talent.

Land Securities, the UK's largest listed commercial property company, has recently announced a £20m social impact fund that will finance a number of initiatives aimed at improving its mix of employees from different socioeconomic backgrounds. This includes offering paid six-month work experience opportunities and university bursaries in an attempt to rebalance its workforce. Currently 45% of its employees attended private school compared to the national average of 6.5%.

Employee health and wellbeing is yet another aspect of the social component of ESG, and while employers should on the whole be wary of straying too far into an employee's life outside of work, there are a number of steps that can be taken to support his. Employee Assistance Programs (EAPs) have been around for a number of years, but an increasing numbers of UK employers are also providing access to life coaching services as part of a more holistic approach to wellbeing. This is seen as a method to help support mental health and avoid burn out, which is an increasing issue and one of significant concern to Gen Z employees.

Many of the social programs associated with ESG are experimental to an extent, and there is so far little hard evidence of the longer term success (or otherwise). However, with many UK buyers of goods and services requiring hard evidence of steps taken by suppliers in support of CSR and DEI, and UK employees being choosier about employers, it seems that these ESG efforts in the UK are here to stay in one form or another.

Governance aspects

For the governmental aspects of ESG, while there are few mandatory UK reporting requirements outside gender pay reporting and modern slavery statements for those businesses that qualify, many UK employers are choosing to opt for much greater levels of transparency to demonstrate responsible and ethical business practices. At an operational level, this can include publishing pay ranges or family related pay policies so prospective employees who may otherwise be reluctant to ask can see the full picture before joining or applying.

At a more corporate level, these efforts can involve appointing a board member as a governance sponsor and linking executive remuneration to environment targets or diversity objectives. Other aspects used by UK employers include publishing details of codes of business conduct, supply chain transparency, corporate tax policies, and statistics on the workforce composition around race, sex, disability, and other protected characteristics, and concerning social economic background. Increasingly, UK clients are also asking for data of this nature as part of tender or pitch processes, and so that is another reason a UK business may wish to start adopting some of these measures.

These ESG matters are largely apolitical in the UK and have broad support, such that most medium to large employers will typically have implemented at least some of them already, with a probable trickle-down effect over time to smaller businesses. There is, however, no one size fits all or binary "right" approach, and enthusiasm across the workforce will inevitably vary considerably. But with the broader employer proposition being considered by many UK Gen Z employees coming into the workplace, it seems only a matter of time before UK employers not having some form of ESG program will become outliers.

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