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Well-being: A new cornerstone for ESG strategy and reporting

Part one

Creating accountability and transparency around employee well-being is no longer a nice-to-have. It's a vital part of doing business in the modern world. Leaders understand that the physical and mental wellness of their people has a direct impact on organizational performance. But are companies collecting and reporting on enough relevant data to demonstrate that initiatives designed to support employee wellness are working? Many have struggled to answer this question, having focused on policy frameworks rather than measuring impact.[1] Our markets reward transparency around human capital risk. So, how should employee well-being be measured, reported, and reviewed by investors?

Reporting on workplace well-being has been challenging due to its broad definition. Well-being cuts across various aspects of the business, its impacts are difficult to isolate, and the related data is lost or ignored as a material emerging risk. Pursuing and reporting on lagging well-being indicators is not enough for investors to trust that these risks have been managed or reduced.

The evolution of well-being in the workplace

Historically, workplace well-being has been either managed broadly under human resources[2] departments or not at all. In the 19th century, the focus was on reducing biological, chemical, and physical hazards from the workplace.[3] Fast forward to 2021, the United States' Occupational Safety and Health Administration has added psychosocial hazards to its standards[4] and the International Labour Organization relates workplace well-being to all aspects of working life. This ranges from the quality and safety of the physical environment to how employees feel about their work.[5]

Organizations have traditionally viewed well-being as a nice-to-have rather than a necessity. It wasn’t considered an employer's responsibility but as something managed by the employee. Expectations have begun to shift now. Organizational leadership has become accountable for proactive well-being promotion and interventions. The impact of the COVID-19 pandemic on the global workforce has accelerated this transformation.

It's also become evident that a healthy, engaged workforce can positively impact a company's bottom line. Research shows that when organizations support the well-being of their people, they can experience lower turnover and burnout, as well as greater productivity and engagement.[6, 7, 8]

Corporate leaders are beginning to make long-term commitments to well-being strategies. C-suite leaders, board members, and executive teams play a critical role in driving policies, procedures, and practices that promote well-being, changes that can positively influence workplace culture, management practices, and the employee experience. Leaders in all functions and levels of an organization should have collective responsibility for and influence over well-being initiatives, moving the conversation from reactive interventions at the individual level to proactive approaches and investment across the organization.

The impact of ESG on employee well-being

The World Health Organization defines health as a state of complete physical, mental, and social well-being.[9] However, well-being-related metrics under environmental, social, and governance (ESG) reporting frameworks tend to focus on incidents related to injury, infirmity, and disease. This measure is insufficient to capture the impact of an organization's well-being programs. There is also growing evidence an organization's environmental, social, and governance pillars can directly impact employee well-being, particularly in the context of the COVID-19 pandemic.

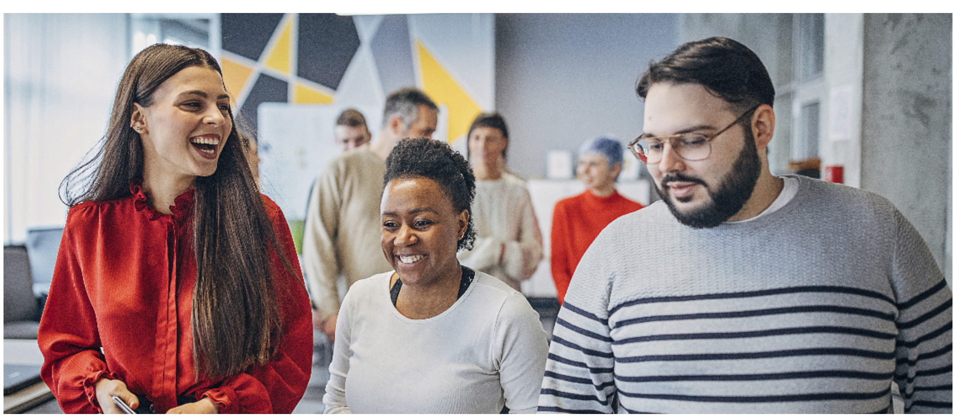
The Principles for Responsible Investment, a United Nations-backed network of investors, is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors. Known as the PRI, it listed mental health and access to health care among the top four priority social issues emerging from the pandemic.[10] The Robert Wood Johnson Foundation recently published a report arguing that improving well-being is central to building a culture of health. It further argues that the term *well-being* has an expanding definition, encouraging businesses to track and use the term to:

- Align with government commitments (for example, New Zealand's well-being indicators)
- Allow a more comprehensive approach to tracking
- Enable organizations to track leading indicators, like measures of stress/despair, and compare them to lagging indicators, like economic decline and joblessness
- Align with definitions of health equity and the ability for all to thrive in all aspects of life
- Capture subjective experiences
- Elevate the role of community interconnectedness[11]

Climate change has undeniable impacts on human well-being. Record-breaking heatwaves in Australia and California led to severe drought, hazardous air quality, and the burning of more than 11 million Australian hectares (27,181,591 acres) and more than 12,000 Californian hectares (three million acres) of parkland, forest, and bush,[12, 13, 14] which intensified the hazardous air conditions.

Race-based discrimination in the workplace can lead to anxiety and depression, as well as lower productivity, trust, morale, and job satisfaction, and higher absenteeism and turnover.[15] Promoting gender equity and reducing gender-based discrimination is also imperative to a functioning workplace ecosystem.[16]

Well-being can also cut across the pillars of ESG concurrently. For example, an organization's approach to diversity, equity, and inclusion—which might include addressing discriminatory practices—can be reported through both social and governance channels. The COVID-19 pandemic has shed more light on health equity, making it clear that it's part of an employer's responsibility to provide all employees with equal access to well-being benefits and ensure that health care plans and organizational policies go beyond addressing basic employee needs.



Well-being: a changing regulatory environment

Several recent peer-reviewed studies using simulation and past market performance support the theory that businesses with good employee well-being programs significantly outperform companies listed on the S&P 500 index. For example, portfolios composed of companies that scored highly in the Corporate Health Achievement Awards, which recognize North American companies, appreciated by 204% to 333% compared to the S&P 500 index appreciation of 105%.[17] In another study, 45 companies that received high scores on a health and wellness assessment appreciated by 235%, compared to the S&P 500 Index appreciation of 159% over a six-year simulation period.[18]

While comprehensive well-being is increasingly important to investors, the reporting requirements of major ESG frameworks—the Sustainability Accounting Standards Board[19] and the Global Reporting Initiative[20]—are rooted in traditional thinking on disease and injury prevention in the workplace. These frameworks ask employers to report on occupational health and safety management systems and the number and rate of work-related injuries.

In the last year, we have seen legislative and regulatory bodies elevate the importance of well-being through policy interventions. For example, the Hong Kong Stock Exchange's ESG Reporting Guide provided a new ESG disclosure framework. Since July 2020, there are mandatory requirements for reporting, including complying with or explaining disclosures on specific ESG matters related to four environmental and eight social pillars.[21] These include requirements to disclose details on policies and compliance related to working hours, rest periods, and equal opportunity under employment and labour practices. These social requirements accompany and extend beyond the more traditional requirements to disclose health and safety information concerning workplace hazards.[5]

More recently, in the United States, the Workforce Investment Disclosure Act of 2021 requires public companies to disclose basic human capital metrics, which are all direct or proxy measures of workplace well-being. The act states that due to the rise of service and intellectual property-based businesses, the Security and Exchange Commission's current disclosure requirements are insufficient to provide investors with the clarity they need to evaluate modern businesses.[22, 23]

The expectations related to well-being in the workplace and the employer's role are increasing. It's time to advance a common language and a comparable set of metrics that can be used to report on ESG management and impacts.

Using the physical workplace as a lever for well-being

Given that we spend approximately 90% of our time indoors and 90,000 hours of our life at work, the spaces we inhabit have a profound impact on our well-being.[24] This relationship has intensified during the pandemic. As we transition to a new normal, the workplace may look and feel different for many people.

Buildings have been largely overlooked as a lever to deliver, measure, and report well-being outcomes. Categorical thinking—our tendency to group aspects of life into comprehensible categories—limits our definition of *environment* to the buildings where we live, work, and play. This has effectively created a void rather than a bridge between the environmental and social segments of ESG. Globally, many companies address climate change through investments in sustainable building certifications. Over the last two decades, green building certifications such as Leadership in Energy and Environmental Design and the Building Research Establishment Environmental Assessment Method—to name just two—have allowed organizations to address the impacts of buildings on our external climate. Many businesses now focus on creating energy-efficient and low-carbon-footprint buildings. These efforts need to continue and accelerate as we transition to net-zero emission initiatives. However, the physical workplace holds tremendous opportunity to affect human well-being.

Currently, well-being data related to the physical workplace isn't really collected or monitored, let alone identified on a meaningful scale. Recognizing how a physical workspace can contribute to improved well-being through design and operation strategies is key. This can range from air and water quality to catering services and facilities that support mental health. Internal real estate teams should be central players in creating a space for workforce well-being. Leaders need to educate themselves on how to create an optimal work environment.

Over the last decade, the emergence of new certifications has demonstrated the changing perception of the physical workspace and well-being. The first and most widely adopted of these, the WELL Building Standard (WELL),[25] is a performance-based system for measuring, certifying, and monitoring features of a built environment that affect human health and well-being. As standards like WELL continue to evolve and strengthen our collective management of well-being in the workplace, real estate professionals are uniquely positioned to lead and advance the adoption of well-being indicators, particularly in the workplace.

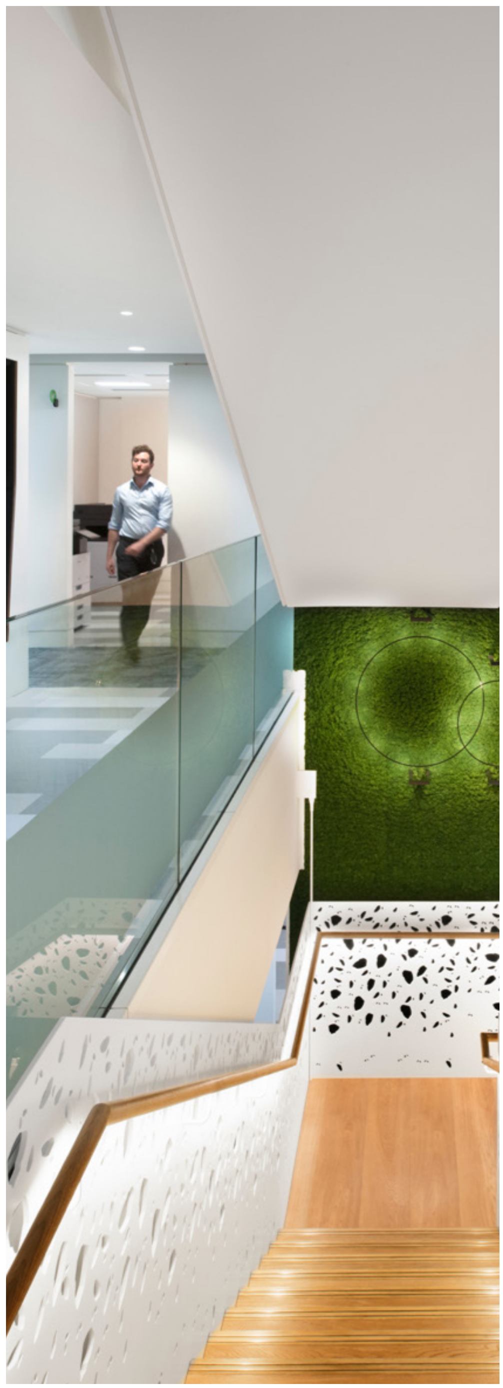
The COVID-19 pandemic fundamentally shifted the conversation around well-being, particularly in the workplace. Pre-pandemic issues around burnout, diversity, and pay equity were already on the rise. Psychological and physical safety concerns have only heightened as offices start to reopen and adjust to the next normal.[26] We may have taken weeks to switch to a virtual workplace, but it will take much longer to navigate a safe return to the workplace.

Workers have a better understanding of where they do their best work. Hybrid workplace strategies have become more commonplace. This, however, has also highlighted the importance of in-person social connection and collaboration. People need community, meaning visits to the workplace will be more intentional.[27] Now is the time for leaders to use buildings and workspaces to deliver well-being outcomes and create a resilient workforce.

Moving the well-being agenda forward

It is time for human resources, information technology, sustainability, risk, and real estate functions to develop an integrated approach that sustains a culture of well-being.[28] Organizational managers will need to use best-in-class policy, technology, and real estate tools to create and maintain it. An integrated approach to physical and virtual spaces, bolstered by policies and programs, can be developed as a strategy to advance a culture of well-being.

A robust wellness strategy should blend well-being across three domains to effectively bridge environmental and societal factors: work design, the workforce, and the workplace. Through this framework, leaders can focus on performance-driven strategies to track and validate their investment.



Source of image: WELL Certified Gold (v1) - UK, Deloitte.

Creating a culture of well-being through work, the workforce, and the workplace[29]

Keeping up with shifting expectations of well-being in the workplace will require a holistic and agile approach that integrates well-being into the very culture of an organization.

At the organizational level, there are three pillars on which employers can build and support a culture of well-being. Within each of these pillars, employers can reimagine and redesign domains to create a work environment and culture that is open, caring, and supportive.

Table 1: Building the pillars for a culture of well-being

WORK

Integrating well-being into the design of work.[30]

Example

1. Flexible and/or predictable scheduling
2. Systems for collecting and communicating feedback
3. Using technology to promote collaboration
4. Giving workers more autonomy in how they do their work
5. Avoiding short-staffed teams

WORKFORCE

Providing the right mix of benefits, programs, and policies that support workforce well-being. [27]

Example

1. Employee and family assistance program
2. Health insurance
3. Psychological care benefits
4. Corporate purpose
5. Equity, diversity, inclusion, and belonging initiatives
6. Leadership training
7. Enhanced return-to-work programs
8. Enhanced leave policy
9. Skills training programs

WORKPLACE

Providing access to physical spaces and remote work policies designed with people's well-being at the centre.[31]

Example

1. Physical spaces that address behaviour, operations, and design, optimizing:
   a. Air quality
   b. Water quality
   c. Light
   d. Sound
   e. Movement and ergonomics
   f. Thermal comfort
   g. Community
   h. Nourishment
   i. Mind
   j. Materials
   k. Accessibility
2. Remote work policies and support

**This framework expands the Deloitte consulting model on Future of Work™*

Organizations should take an integrated approach when establishing a culture of well-being, making sure their strategy cuts across domains and considers the spectrum of well-being (See Table 1). This approach includes protections that address risk factors, promotions of positive well-being outcomes, and support for employees with health conditions.[32] To create a robust well-being strategy, leaders should build well-being into work and the workplace itself, creating a fully human experience for the workforce. To do this, organizations must identify what matters most to their workforce, what causes stress, and what drives purpose and meaning in their work.

There's been substantial progress made on the workforce pillar. Employers are investing in diverse programs and benefits that protect employee health, social, and emotional well-being.[33] Leading organizations are investing in innovative tools to create end-to-end well-being programs, which could include integrated mobile applications that help employees manage productivity or track sleep.[34]

Technology and location are the two main enablers for work. So the level of investment in these two areas has a direct bearing on productivity and performance. Investment in workplace well-being initiatives can yield benefits that include increased employee engagement, brand recognition, productivity, retention, and reduced health costs.[35, 36, 37, 38] When the employee’s well-being is the foundation of an organization, it systemically supports the team and organizational performance.

Whether organizations use these controls to mitigate risk, realize gains, or both, they should always know that well-being is material. Our next paper will take a closer look at identifying metric competency and leading indicators. Using both can help leaders create a roadmap for their well-being strategy.

There has never been a more important time to invest in well-being. As we return to the places where we work, play, and obtain services, companies' main stakeholders—employees, customers, investors, and regulators—will be expecting better.

Endnotes

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