Company purpose and sustainable human capital
Shareholders, stakeholders, and value creation

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The recent announcement from the Business Roundtable that nearly 200 CEOs from major U.S. corporations have declared shareholder value creation is no longer a corporation's sole purpose created quite a stir in the business community and, if adopted broadly as policy and/or philosophy, has clear implications for human capital management.

Instead of a singular focus on investors, the CEOs have, in their statement: signaled the importance of purpose-driven organizations; indicated the need to focus on all key stakeholder groups, including shareholders, customers, suppliers, communities and employees; and have given a nod to Environmental, Social and Governance (ESG) concerns. All of this begs the question as to whether this heightened focus on purpose, sustainability and ESG is a flash in the pan or here to stay. We think “all of this” translates to an argument for human capital sustainability and we do believe the focus is here to stay, not necessarily because it makes for popular social policy, but rather because it drives differentiated business outcomes and above-market value creation.

Why Sustainability Matters

Three key stakeholder groups (investors, consumers and employees/other workers) consider financial and organizational sustainability to be particularly important gauges of a company's long-term outlook. In this volatile, uncertain world, for businesses to achieve financial sustainability, remain competitive, achieve desired results and remain relevant, it's imperative to implement and maintain sustainable human capital practices. For measurement, these key stakeholders increasingly are focusing on Environmental, Social and Governance (ESG) criteria to hold organizations accountable for/driving value and delivering results responsibly.

As industries and the competitive landscape are being disrupted by multiple and evolving factors, organizations find it necessary to transform their speed and “speak” to both the market and their talent to ensure a competitive edge. There is little debate that the world will continue to advance at unprecedented rates, and organizations will need to evolve their mindset and strategies to keep pace. A sustainable human capital model is one that employs the programs, practices and culture that are most important to talent today, and simultaneously evolves with investors, customers, employers and employees alike to jointly meet the needs of tomorrow.

Our Perspective

A sustainable human capital model requires alignment, balance and measurement.

- **Alignment**: between business and human capital strategy; risk exposure and tolerance; governance and goals; culture and values; experience and value proposition/promise; cost and affordability
- **Balance**: between employer and employee perspectives; cost and risk; performance and behaviors; purpose and profit
- **Measurement**: of progress towards goals for wellbeing, engagement, productivity, business results and alignment with ESG principles

Human capital sustainability also requires ensuring that leadership is effective, that a company's human capital strategy is aligned with business strategy; that an
organization has a **healthy company culture** and that two key facets of human capital program design and delivery are preserving and creating value:

- **Operational excellence**, which focuses on achieving the optimal mix of people, processes, and technology
- **Talent experience**, which focuses on how purpose, people, work and total rewards combine with culture and leadership to create the way in which employees and other workers experience the organization and brand promise every day

**Leadership**

Effective leaders envision the future, build the strategy for the company and then inspire and align others to deliver on the strategy. They lead business transformation, adapting agilely to changes among their customers, changes in the markets where they conduct business and drivers of disruptive change such as digitization, artificial intelligence and Robotic Process Automation (RPA). Effective leaders build the culture required for success by living the company’s values, role model desired behaviors and hold others accountable for doing both. They create certainty in an uncertain world, visibly support wellbeing, enable employee engagement, drive customer satisfaction and loyalty, and optimize productivity and human capital performance to deliver desired business results.

**Human Capital Strategy**

Sustainable human capital strategy is about achieving alignment and execution between the company’s business strategy and its human capital programs, policies and practices. It is about solving for how works gets done, the composition of the workforce, and the management of human capital risk.

- How work gets done – Companies need to arrive at an organization design that supports efficient execution of work. Through workforce analytics and planning, HR teams can determine workforce segmentation and the optimal mix of talent between traditional full-time and part-time employees, contractors and other contingents. These analyses also support determining what work can best be accomplished through offshoring or outsourcing and which repetitive, routine tasks and processes are best completed by robots or through RPA.
- Composition of the workforce – Studies repeatedly have shown that organizations with diverse workforces outperform those without them. Beyond gender diversity, human capital sustainability requires diversity by age, race, ethnicity, sexual orientation, disability, religion, national origin and veteran status, as well as diversity in cognitive style and communication style.
- Human capital risk – Sustainability requires the effective management of both the downside risks and upside opportunities to human capital (e.g., poor management, safety, ill-being, low engagement) and from human capital (e.g., cyber risk, productivity, quality).

**Culture**

In Peter Drucker’s now famous quote, he declared that “culture eats strategy for breakfast.” Nothing will more quickly erode an organization’s purpose or its talent experience than an unhealthy culture. A critical component of sustainability, then, is a healthy company culture. What exactly does that entail? It means a work environment that is inclusive, allowing employees to bring their “whole selves” to work. It means a culture that supports resilience, agility, and the attraction, retention and engagement of a diverse workforce. It means leadership and company mindset that ensure workers are treated with dignity and respect. It means promoting physical, emotional, social, and financial wellbeing. It means a culture that promotes psychological safety, collaboration, ideation, a tolerance for reasonable risk-taking, and innovation. And, importantly, it means creating a culture that mandates ethical conduct and behaviors.

**Operational Excellence**

Operational excellence means preserving value by achieving an optimal balance of people, process and technology, and is made possible through effective risk management practices, governance, compliance, financing and data analytics. We see five components necessary for sustained operational excellence:

- Optimized human capital financing and spend through, for example, the design and implementation of fair and competitive compensation and benefits programs
- Risk exposures that are known and align with the company’s risk tolerance, for example, understanding risks related to defined benefit pensions and medical cost inflation, and ensuring they fit within the company’s framework for risk tolerance
- Efficient administration and operations, including compliance with regulations and laws
- Effective governance that ensures outcomes are aligned with intent, and
- Data driven analytics and insights for agile, informed decision making related to human capital strategy.
Talent Experience
Delivering a superior talent experience is critical to sustainable human capital, and is driven by company culture combined with the company’s Talent Value Proposition (TVP). At Willis Towers Watson, we have long-defined TVP as the deal between employers and their talent, be they traditional employees or contingent workers, and includes what the employer expects in terms of affiliation and performance, and what employees get in return. Likewise, for over ten years, we have organized TVP into four components: Purpose, People, Work and Total Rewards.

- **Purpose** – We start with purpose because in order to achieve sustainability, companies need to be clear about their organizational purpose. Organizational purpose includes mission – the reason why businesses exist – as well as vision and values. Purpose creates a sense of meaning and personal connection for employees. It explains how people can make a difference, creates an opportunity for individuals to recognize their individual contributions and ultimate impact, and increases employee focus, commitment and collaboration.

- **People** – Examines the relationship of employees to their colleagues, from senior leadership to direct managers to peers. Our research has shown the employee experience of senior leadership is the top driver of engagement. Employees need to have trust and confidence in leaders, and they need to believe leaders are acting ethically and with the best interests of the company in mind. Managers need to provide clarity about goals and progress against them; communicate frequently on performance; remove obstacles that hinder good performance and communication; and encourage new ideas and ways of doing things. In terms of peers, employees need to see their peers embracing the desired culture of the company and living its values; they need to feel supported, socially connected and part of a team.

- **Work** – Encompasses considerations such as the physical work environment and the availability of contemporary tools and resources to perform one’s job. A recent Willis Towers Watson study of employee opinion found that physical work environment was a leading driver of attrition, and there is a need to act on dimensions such as access to light and ability to collaborate (and not be isolated), as well as to provide healthy choices in the cafeteria and on-site/nearby fitness options.

- **Total Rewards** – The most frequently-cited and front-of-mind component of TVP, Total Rewards, requires modernization to meet employees where they are and where they want to go, and ultimately achieve sustainability. If leaders haven’t reviewed their Total Rewards strategy in several years, and/or checked for alignment of plan designs to the preferences of their specific workforce, they are likely not optimizing their substantial investment in this area. A run-through of practices that support sustainable human capital can serve as a “mini-audit” of Total Rewards practices through the sustainability lens.

- **Pay** – Are you delivering pay that is equitable and fair? Are diverse employees rewarded comparably to others for the same level of work and performance? Are pay practices transparent? A pay equity study is often a good place to start in terms of a broader assessment of sustainability.

- **Benefits** – Do your benefits programs meet the needs of your company’s current workforce (as opposed to the broader workforce-at-large)? What percentage of your workforce has access to quality health care? How many will be retirement ready? How many are burdened by student loans or other personal debt? Have you implemented family-friendly benefits such as paid parental leave and fertility services? Do you offer voluntary benefits which provide flexibility and choice and contribute to a consumer grade experience for your employees? Are you communicating benefits in the context of a broader purpose-driven benefits message?

- **Careers** – Is your organization still focused on traditional, upwardly focused career paths or have you also enabled broader career experiences through lateral moves, horizontal “promotions,” and moves across job families, business units and geographies? As selected jobs may no longer be needed due to AI and RPA, is your company committed to upskilling and reskilling your workforce to keep them employable and employed?
Wellbeing – Do you support a culture of wellbeing with programs aimed at driving physical, emotional, social, and financial wellbeing? Is your workforce physically thriving, financially secure, socially connected and emotionally balanced? Does your company have a wellbeing strategy and what steps have you taken to support a holistic sense of wellbeing in your workforce? A recent Willis Towers Watson study indicated that 42% of employees in North America experience such significant financial and health worries that they affect their productivity, contribute to presenteeism and are linked to absenteeism. Integrated wellbeing is key to sustainability, and needs to address not just physical and financial wellbeing, but also social and emotional wellbeing. Perhaps this also explains why Willis Towers Watson research shows that 86% of employers consider it an important priority to enhance the employee experience with their health and wellbeing programs over next three years.

Outcomes
As we mentioned at the outset, sustainability is important to investors, customers, and employees, not only because many believe is the “right thing to do,” but because it turns out those companies that get it right actually achieve superior outcomes. Said differently, the decades-old debate about purpose versus profits created a false choice – data now support the notion that purpose and profit are highly aligned. In the case of sustainable human capital, a superior talent experience drives more favorable human capital outcomes which, in turn, drive long-term company performance. Therefore, investing in the sustainability of talent ultimately will help drive sustainable organizational outcomes. Willis Towers Watson research shows that companies engaging in such practices are 93% more likely to outperform their industry peers. The Conference Board Global Leadership Forecast shows that purpose-driven organizations outperform the market by 42%. Morningstar found that two-thirds of ESG and Responsible Investing equity funds edged their way into the top half of fund performance for the 2018 calendar year. In short, this stuff really works.