

Organizations must prioritize environmental and social risks

Organizations that value their reputations must make tackling environmental and social risks a priority



After years characterized by pandemics, climate change disasters, political upheaval, and social unrest, businesses are facing more complex risks, more frequently than ever before. The world is changing, and there is a societal expectation that businesses will look after their own people as well as the wider global community in which they operate. HR and risk managers must work together to help their organizations face these challenges and find opportunities to thrive.

The events of the past few years have shown a marked shift in societal expectations of the role that businesses play. Firms that fail to support diversity, equity, and inclusion or that neglect to tackle climate change face reputational risk, legislative challenges, and even share price reduction.

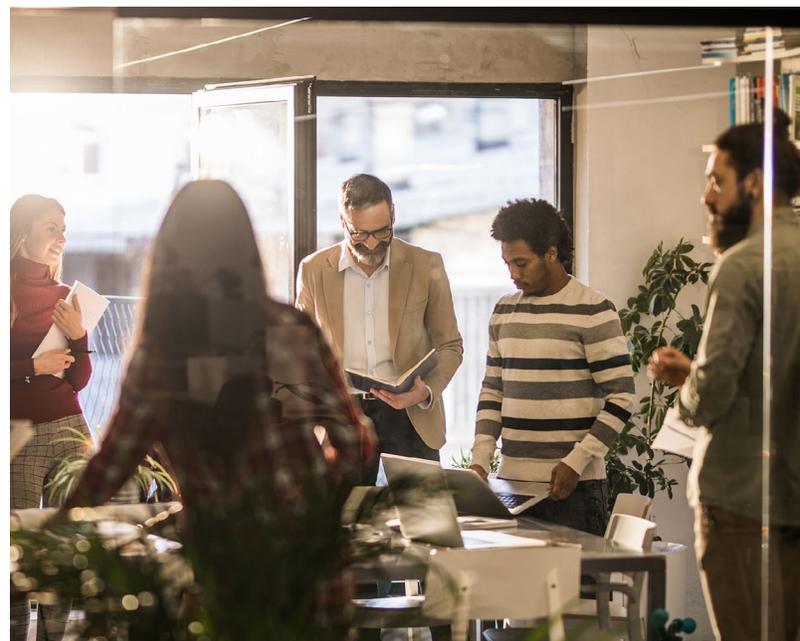
Given this backdrop, it is hardly surprising that environmental and social threats are top of mind for boards, with many organizations thinking carefully about what they stand for and how this should be communicated. Simultaneously, risk managers are under increasing pressure to map, analyze, and mitigate core people-related challenges.

HR departments also have a significant role to play. Business responsibility starts at home and it is critical that firms make sure that their employee practices reflect their external statements. Those that fail to do so risk a backlash from stakeholders including investors, consumers, the media, and their own employees.

At Mercer Marsh Benefits (MMB), we have created a framework which breaks environmental and social risks into five core areas. These are the challenges that HR, risk teams, and boards must embrace if they want to maintain the health and reputation of their businesses.

Diversity, equity, and inclusion

Employers play a pivotal role in remaking our society into a fairer place. There has been a recent push for firms to build programs that provide equal access, opportunities, and development for every employee. However, although 70% of Canadian employers are focused on improving diversity and inclusion (D&I), just 30% actually have a multi-year strategy in place to achieve this.¹ The lack of an inclusive workplace



can result in reputational risk amongst employees, customers, and other stakeholders.

Firms must ask themselves:

- Did the pandemic highlight health disparities and benefit program gaps in meeting employee needs?
- [Are we offering benefits that meet the diverse needs of the workforce?](#)
- Am I exposed because of gaps in our benefit plans, especially for any lower wage workers?
- Is DEI a top concern at my company?

Environment



Climate change and environmental degradation can lead to a weakened brand and damaged reputation. Investors are pushing firms to publish their net-zero transition plans and punishing those that do

not. Meanwhile, new legislation in many parts of the world means that institutional investors must in turn report on how they are tackling environmental and social issues. Consumers are voting with their wallet and flocking to businesses that walk the talk.

Climate change also impacts both the severity and likelihood of natural catastrophes. For multinationals that operate in many different geographies, their workforce is being impacted by this in many different ways. For instance, climate change is causing more frequent and severe flooding, which damages business and residential properties, overwhelms fragile water and sanitation services, and claims many lives. There's also a greater incidence of droughts, which can lead to hunger or famine, while pollution leads to respiratory illnesses, allergies, and asthma. Employers are challenged to adopt new employee supports to manage these health concerns.

Labor and employee relations



A high volume of labour grievances, or lack of a desirable company purpose, can lead to a perception of an uncaring culture, higher operational costs, suboptimal customer experience, and social responsibility issues.

We found that 65% of workers globally say that their employer doesn't balance empathy and economics when it comes to decision-making.² Firms must ask themselves: what are we doing today to maintain this balance?

The pandemic has exposed many inadequacies in the typical employee benefits landscape. In particular, areas such as mental, physical, and financial wellbeing, access to retirement provisions, debt management advice, and savings help were all found lacking. This strains the workforce and ultimately hinders business performance. A renewed focus on these areas can help improve employee relations leading to greater engagement, productivity, and retention.

Social unrest



Factors such as political instability, racial injustice, and youth disillusionment often lead to productivity losses and brand damage. Organizations must acknowledge this and deliver against the expectations of multiple

groups (including shareholders, employees, customers, and the community) to ensure their strategy can positively drive economic, social, and welfare agendas without fear of backlash. Over the coming years, it will be interesting to see how progressive employers target employment value propositions for Gen Z.

Growing disparities between different segments of the workforce can also cause issues for employers. The spread of COVID-19 has highlighted the health and wealth protection gap inherent in many organizations. Meanwhile, inequities for disadvantaged groups, including education, employment opportunities, digital technology, and financial wellbeing plans have widened the protection gap further. Firms must urgently examine their HR policies, benefits, and programs to ensure that they are serving the needs of the entire workforce or face reputational challenges.

Catastrophic personal life events

Catastrophic personal life events such as death, critical illness, or disability often highlight organizational gaps in employer-sponsored benefits. This can lead to incredible personal loss, which in turn results in reputational issues for organizations.

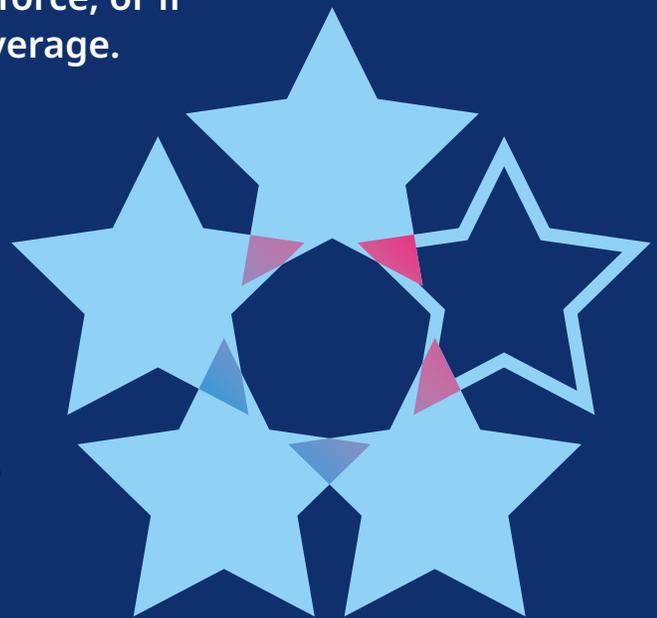
Sadly, during the COVID-19 crisis we have seen many examples of where employee needs were unmet. We encourage firms to check to ensure that all staff members – regardless of employment status or seniority– have adequate protection in the form of life, disability, accident, or medical insurance.



Conclusion

The greatest risk for firms that do not tackle environmental and social risks is reputational. Organizations can find it more difficult to attract talent or customers if they are not making strides to support a diverse workforce, or if their benefit plan is missing an important coverage.

Across the world, benefits are used to build a competitive employee value proposition, meet commitments to unions, and deliver tax-effective compensation. But, at the end of the day, benefits ultimately mitigate risk for the employer and its workforce. By using the people risk framework, business leaders can examine policies, benefits, and insurance through the lens of each of these five key threats and ensure that they ultimately support business success.



1 Mercer. [When Women Thrive](#), 2020

2 Mercer. [Global Talent Trends](#), 2020

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About Mercer

At Mercer, we believe in building brighter futures.

Together, we're redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being. We do this by meeting the needs of today and tomorrow. By understanding the data and applying it with a human touch. And by turning ideas into action to spark positive change.

For 75 years, we've been providing trusted advice and solutions to build healthier and more sustainable futures for our clients, colleagues and communities.

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Welcome to brighter.

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Continuously rethinking purpose and priorities drives HR transformation. Shaping the future of work requires improved strategies around investment and retirement, health and wellness benefits, talent and communications. We believe in the value of investing in the future to build resilience for your business and your employees.

As part of our forward-thinking approach, we provide strategies to foster healthy lifestyles with innovative health and wellness benefits. Mercer Marsh Benefits consultants help you provide personalized benefits options that suit a range of employees' needs. We understand that today's workforce is multi-generational and diverse, and we're prepared to create solutions with you that support employees, wherever they work.

