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Insights

ESG in the Workplace

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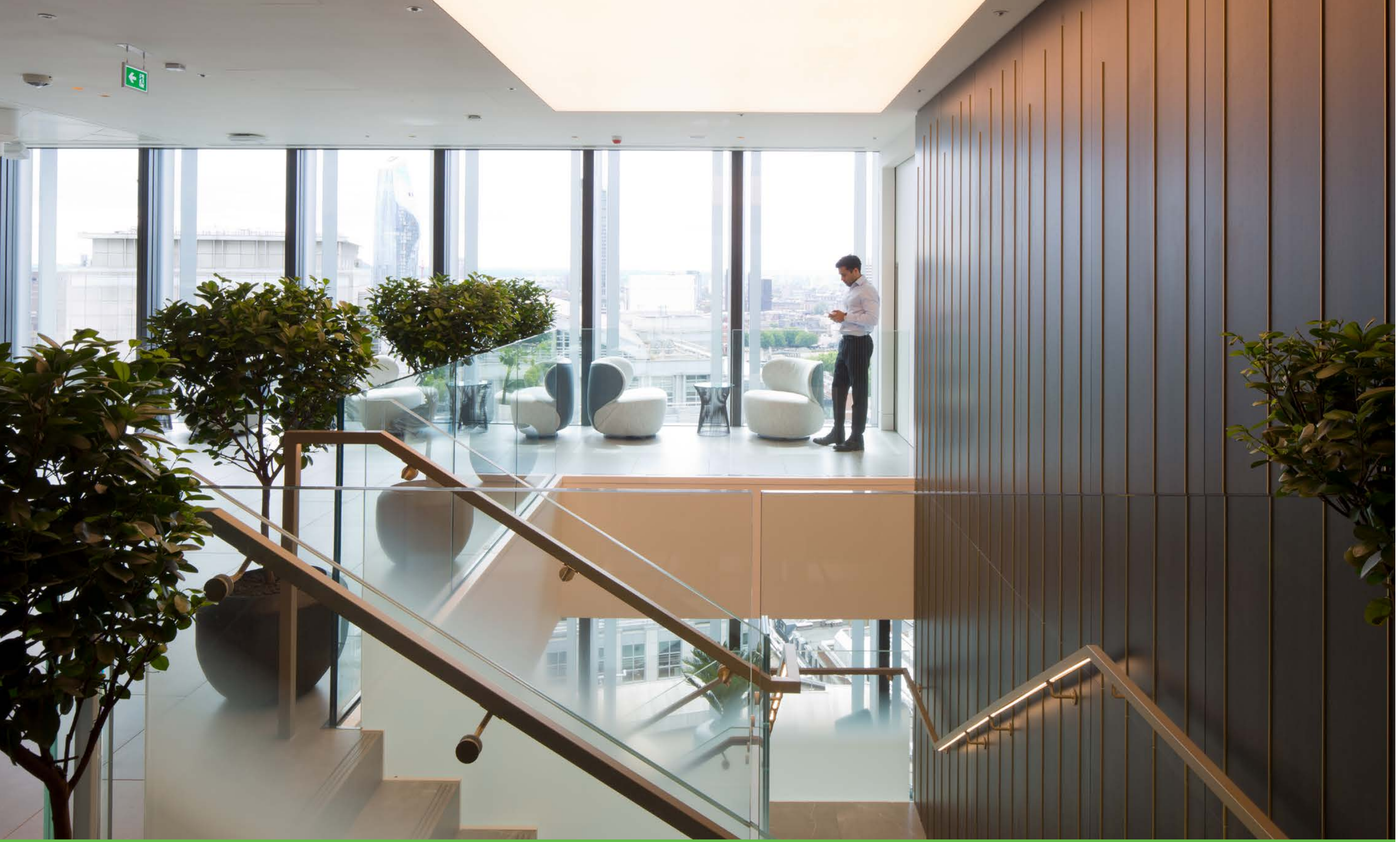

ESG in the Workplace

Sustainability, good community relations and strong corporate governance used to be considered voluntary for organisations – something the best businesses prided themselves on but which may have been a tick-box exercise for others. But as more and more investors apply environmental, social and governance (ESG) criteria as part of their evaluation process to identify risks and growth opportunities, these non-financial factors are now rising up the corporate agenda. ESG criteria help investors to avoid companies which may pose a greater financial risk due to their poor ESG practices. Companies with little focus on these areas are increasingly unattractive investment opportunities.

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And it's not simply about investment. Companies with strong ESG credentials also experience faster growth. A variety of research cited in Harvard Business Review demonstrates that consumers want to buy sustainable products and are often prepared to pay a premium for them. And good environmental, social and corporate governance policies are important to people who work for these businesses. In a survey of 1,000 office workers Overbury conducted with OnePulse in June this year, 62% said it was important that their employer had a demonstrated commitment to ESG. While businesses recover from the pandemic, and the war for talent becomes even fiercer, demonstrable progress to achieving ESG metrics is becoming a business imperative.

As the visible manifestation of a company's brand and culture, the workplace is not only a key way of demonstrating ESG credentials, but also a key tool to deliver them. Buildings account for a high proportion of an organisation's carbon and spend, play a key role in the local community and are where businesses bring their people together and support them to be at their best.

But there remains a widespread lack of understanding as to what ESG actually means in practice. In the same OnePulse survey, a fifth of office workers didn't understand the term ESG at all. This insight paper aims to demystify the concept and explain what it means for your workplace and wider organisation.

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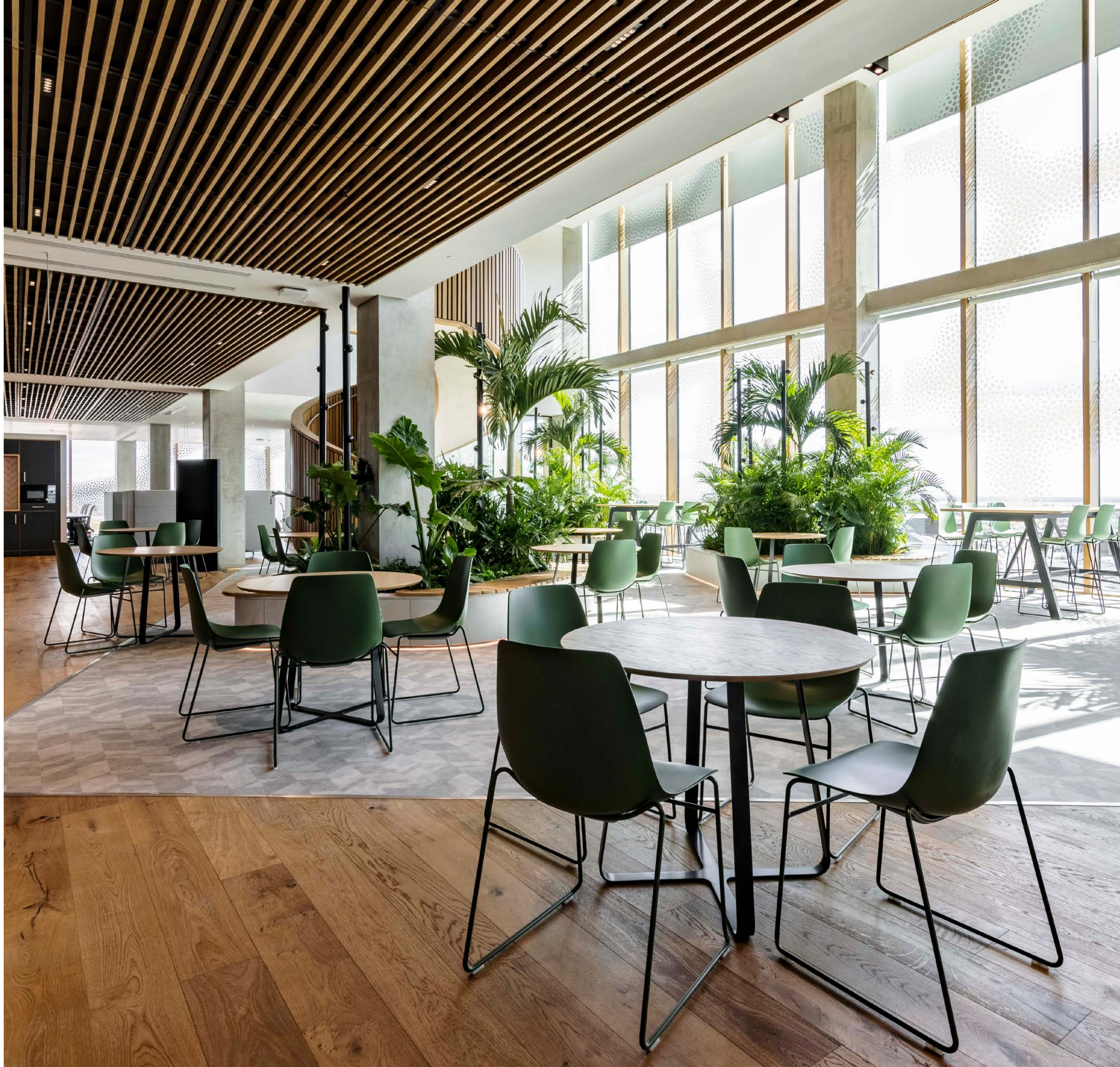
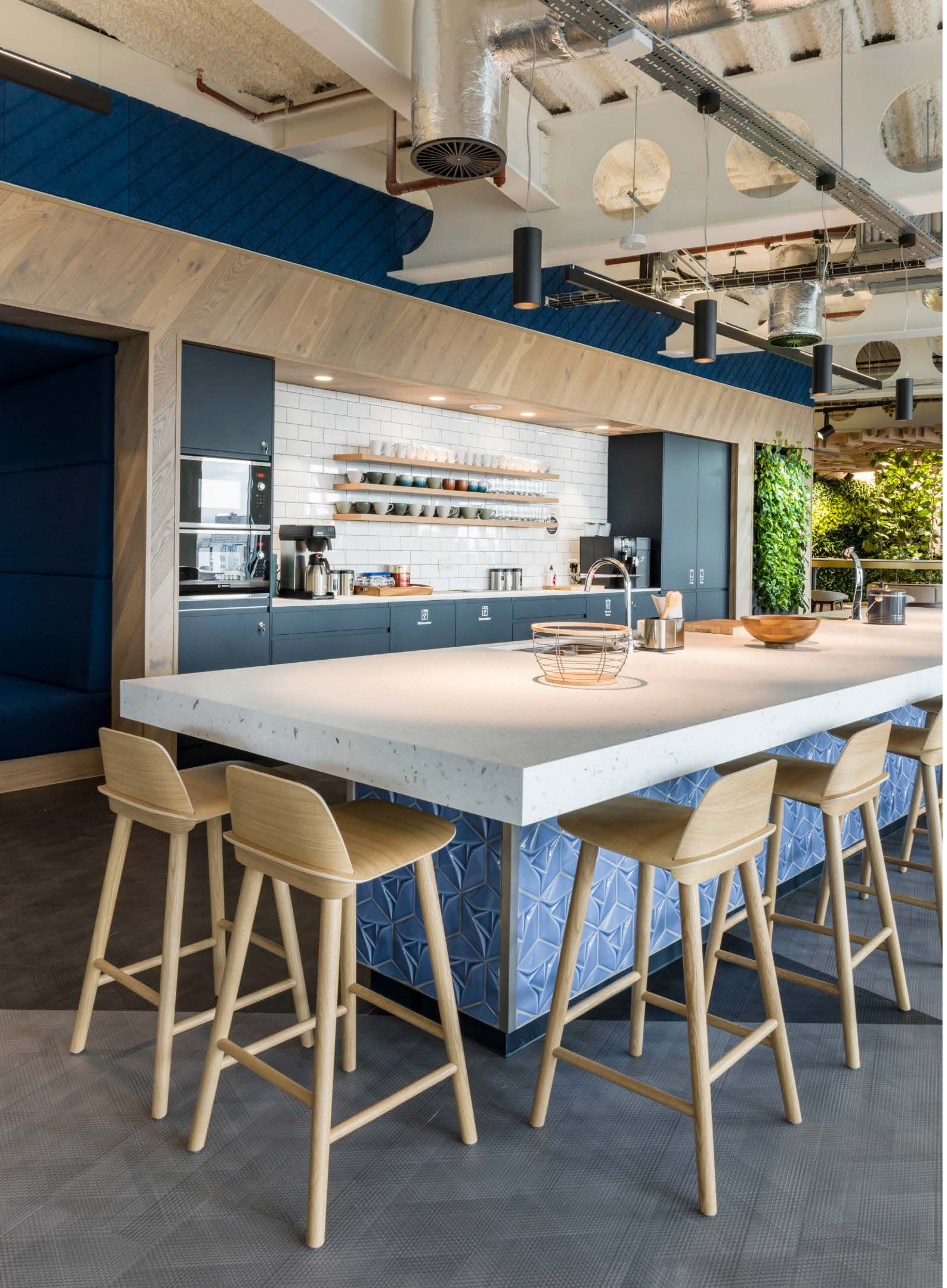
Section 1: Environmental

The Paris Climate Change Agreement in 2015 committed the UK Government to net zero emissions by 2050, while the intermediary commitment in 2020 focused on reducing the UK's emissions by at least 68% by 2030. As a result, corporates are increasingly interested in how they can reduce their carbon emissions – a key part of the E in ESG. More than one in five of the world's largest companies have made some form of commitment to achieving net zero emissions.

With 40% of the UK carbon coming from buildings , there is no route to net zero without significant changes to our built environment. While many commentators focus on the green credentials of new builds, the reality is that with 80% of the 2050 building stock already in existence, the real environmental savings will come from upgrading our current buildings.





There are two types of carbon in relation to buildings.

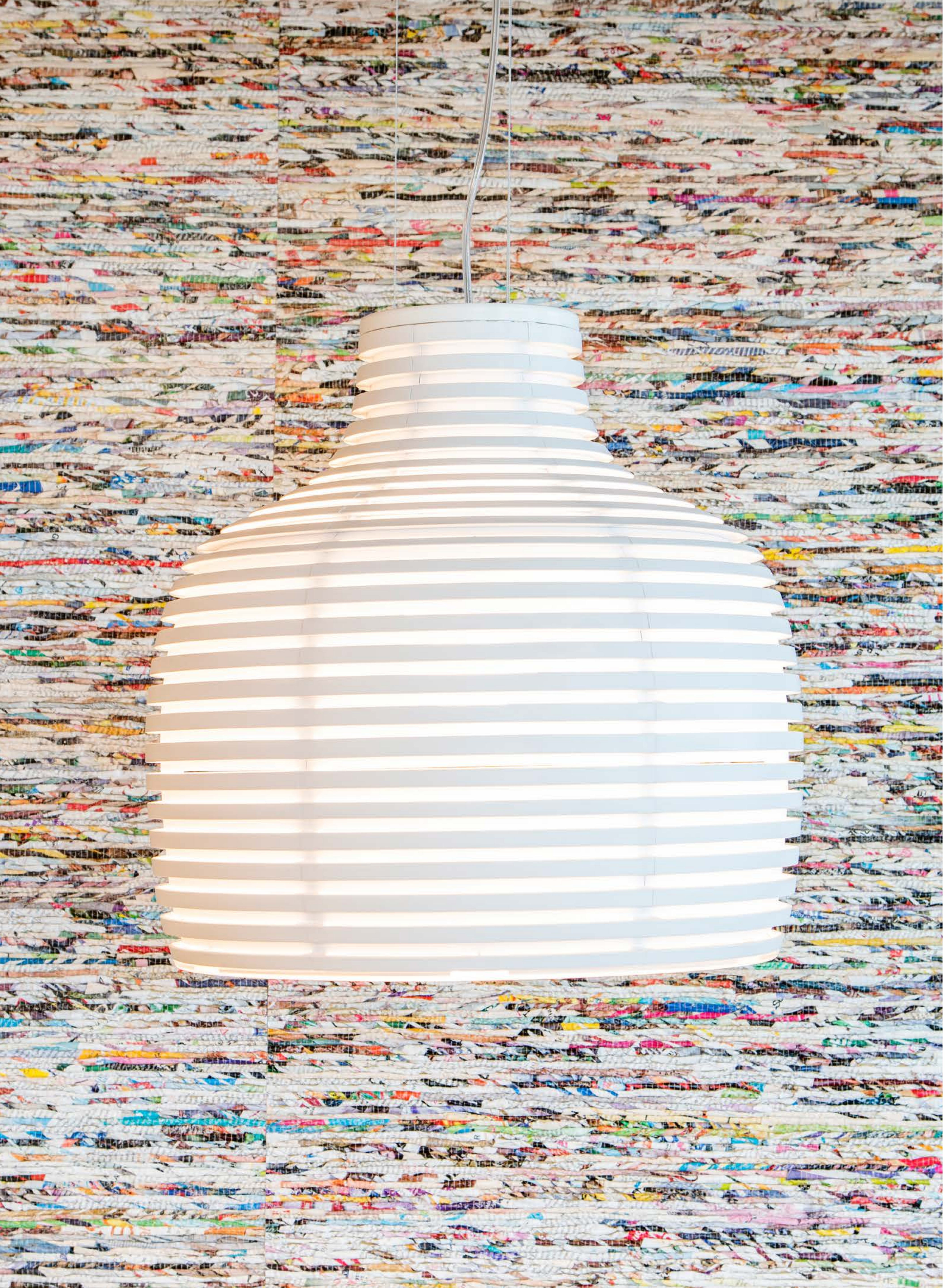
Operational carbon is the energy used to run a building – the lights, heating and IT equipment. New buildings are often very energy efficient with low operational carbon. Reducing operational carbon in existing buildings is easy to understand, measure and achieve through a refurbishment or the introduction of new plant or technology. But every change an organisation makes to its building will come with an embodied carbon cost.

Embodied carbon is the carbon required to produce a product or service. So everything from an air handling unit to a desk will have an embodied carbon cost and that is harder to measure, and therefore reduce, than operational carbon. It is only by focusing on embodied carbon in buildings that businesses can properly understand the full carbon impact of the decisions. Overbury recently launched CarboniCa, a carbon calculator externally validated by Arup, to help visualise, track and measure the whole-life emissions of a project and to support lower-carbon decision making. Tools such as these are invaluable in tracking this hard-to-measure area.

There are numerous ways to reduce embodied carbon during a fit out but all involve a partnership approach between the client organisation and the fit-out partner. These include:

⟶ Minimising the quantity of materials and products used. A smart, more minimalist design with multifunctional products which can be used in a variety of different ways will be lower in carbon.

⟶ Selecting materials carefully. Avoid very high embodied materials such as cement, concrete and steel, instead using rapidly-renewable materials like timber, bamboo and wool. Swap that steel staircase for a timber one. Using products with a high recycled content is preferable, being careful to recognise



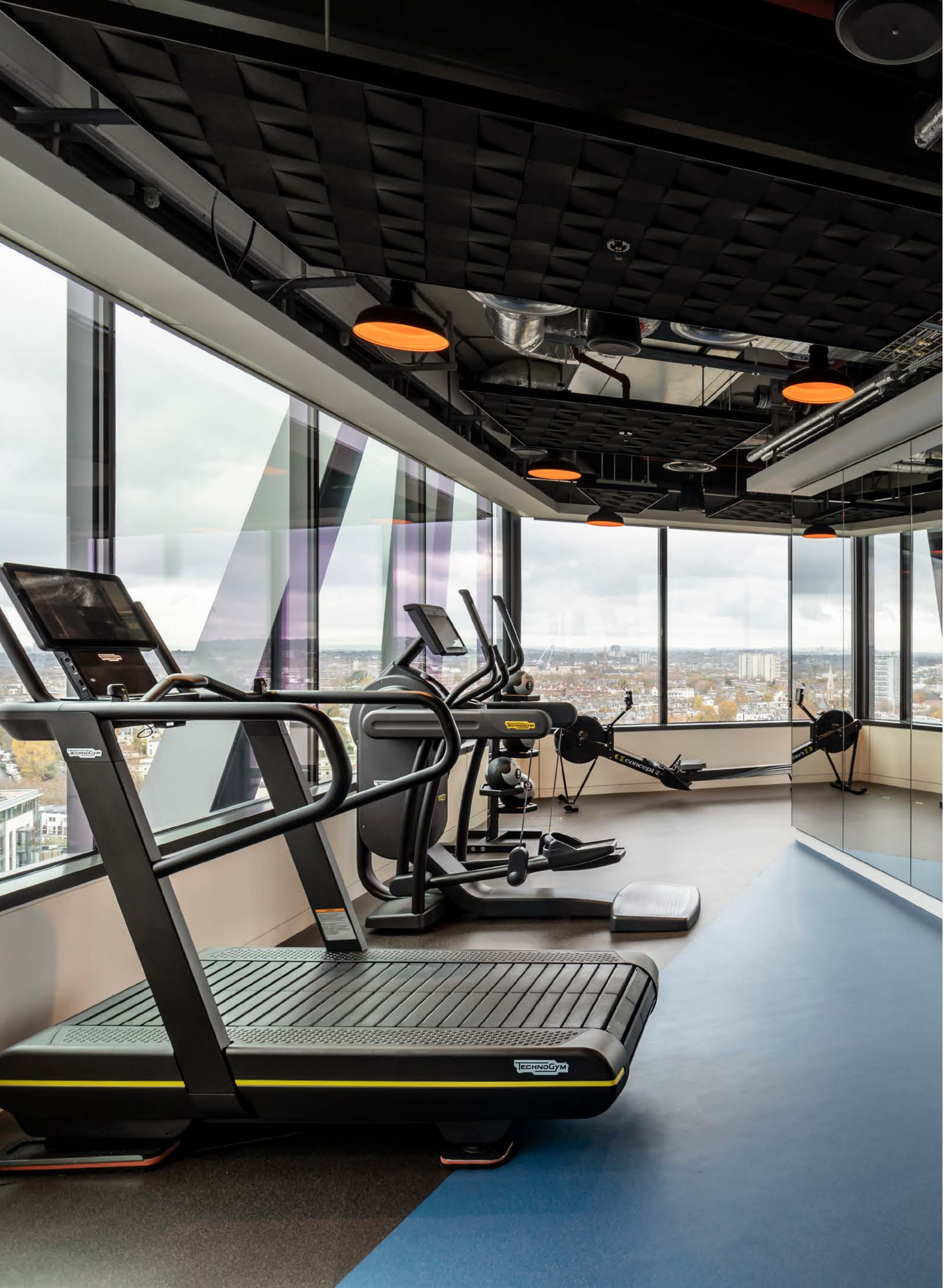
the difference between recycled (a product that includes content from previously-used materials) and recyclable (a product which can be recycled). Manufacturers are often unclear about this. Look for products with an Environmental Product Declaration (EPD) which transparently communicates the environmental performance or impact of any product or material over its lifetime.

- Reusing materials wherever possible. Reusing furniture products whether from that building or elsewhere is an effective way of reducing embodied carbon as the carbon in those products has already been expended.
- Producing less waste. Designing for less construction is a key element of reducing carbon but it's also important to design for deconstruction. Using mechanical fixtures rather than adhesives so products can be separated at end of life is an effective change, so long as a document is produced so the people around at the end of life know how to deconstruct the space and know what reuse and takeback schemes are available for their products.
- Accepting lower resilience. Many organisations specify a high degree of resilience through additional emergency generators, for example. But not all organisations genuinely need this. Accepting a lower resilience will reduce an organisation's carbon.
- Changing expectations. Some buildings are engineered to cope with extremes in temperature – the 35 degree heatwave and the -10 winter freeze. By reducing thermal comfort expectations – accepting a wider margin for error, for example 16-23 degrees rather than 18-21 degrees – will help to save energy.

Section 2: Social

The S in ESG refers to social – how well an organisation manages its relationships with its people, the societies in which it operates and the communities it impacts. Labour strikes, a high employee churn rate or public protests will likely affect a company's profitability and damage its reputation so organisations with turbulent relationships with its people and communities are less attractive for investors.

The office plays a key role for organisations in demonstrating their commitment to their social responsibilities. The workplace is a chance for people to come together, to learn alongside others and to feel part of a greater whole. It's a place where an organisation can welcome all its people, whatever their background and beliefs, and allow people to feel able to bring their whole selves to work and cultivate its social capital.



Research we carried out in both June and December 2020 underlines that importance. It revealed that people have most missed the social contact the workplace offers together with the ability to collaborate easily. Post-pandemic, many businesses are using the opportunity to refocus on the workplace as a collaborative and social hub. A hybrid working model encourages people to come to a workplace when they need to collaborate and stay at home if they want to focus on concentrated tasks. Ensuring that a workplace includes different settings – from quiet zones to break out areas – to support a variety of working styles is important for inclusivity. Providing training and development opportunities for staff is also important as part of this commitment.

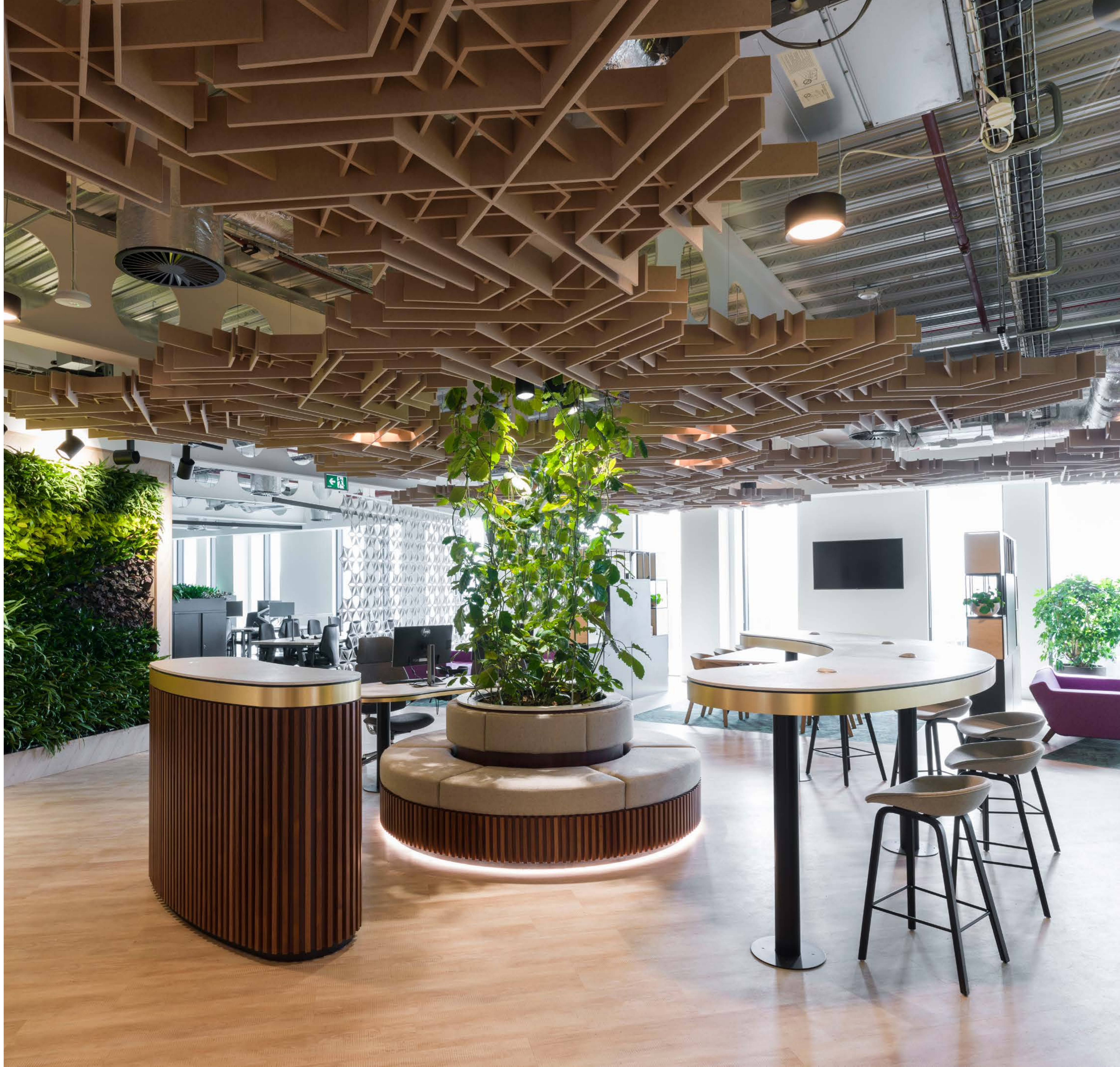
Another change as a result of Covid is the focus on wellbeing. Already of growing importance before the pandemic, it is now at the top of the corporate agenda to encourage people back to the office and rebuild the social capital lost through long-term home working. Creating an environment where wellness is integrated into its design and management improves people's sense of wellbeing, productivity, engagement and reduces absenteeism. It also promotes diversity and inclusion. Wellbeing starts with giving each person the autonomy to choose where they want to work and personal control over that environment and is demonstrated through healthy meals and snacks in hospitality environments, free fruit, Cycle to Work initiatives, gym memberships and exercise/ mindfulness facilities, and cultures which encourage movement through sit-stand desks, walking meetings and outdoor spaces. Natural light and biophilia also play a part.

Most corporates play a central role in their local communities and that is an important part of their social responsibility. Many city centres and charities have suffered enormously during the pandemic and will need corporate and individual support to revitalise them again. Charitable initiatives are also a great way to bring employees together after the pandemic.

Section 3: Corporate Governance

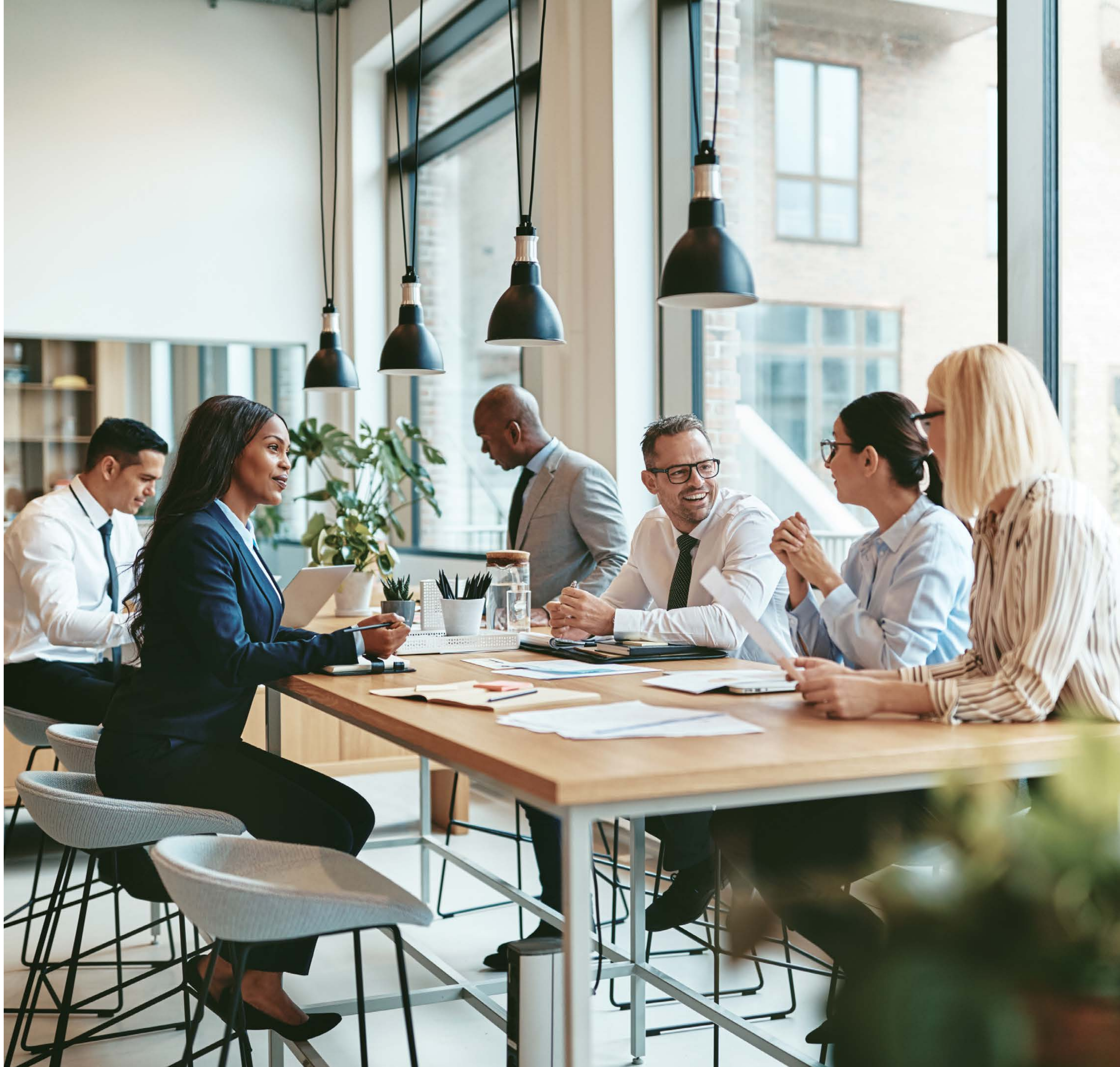
Corporates occasionally hit the headlines for lack of supply chain transparency, particularly around child labour, and this issue is becoming ever more important to people. Some 62% of UK consumers polled in a recent survey say that that a retailer's ethics such as paying staff fairly, contributing to community, or caring about the environment, are more important to them now as a result of the pandemic, while the majority (52%) said that they are more likely to shop with retailers that have ethical suppliers or supply chains.

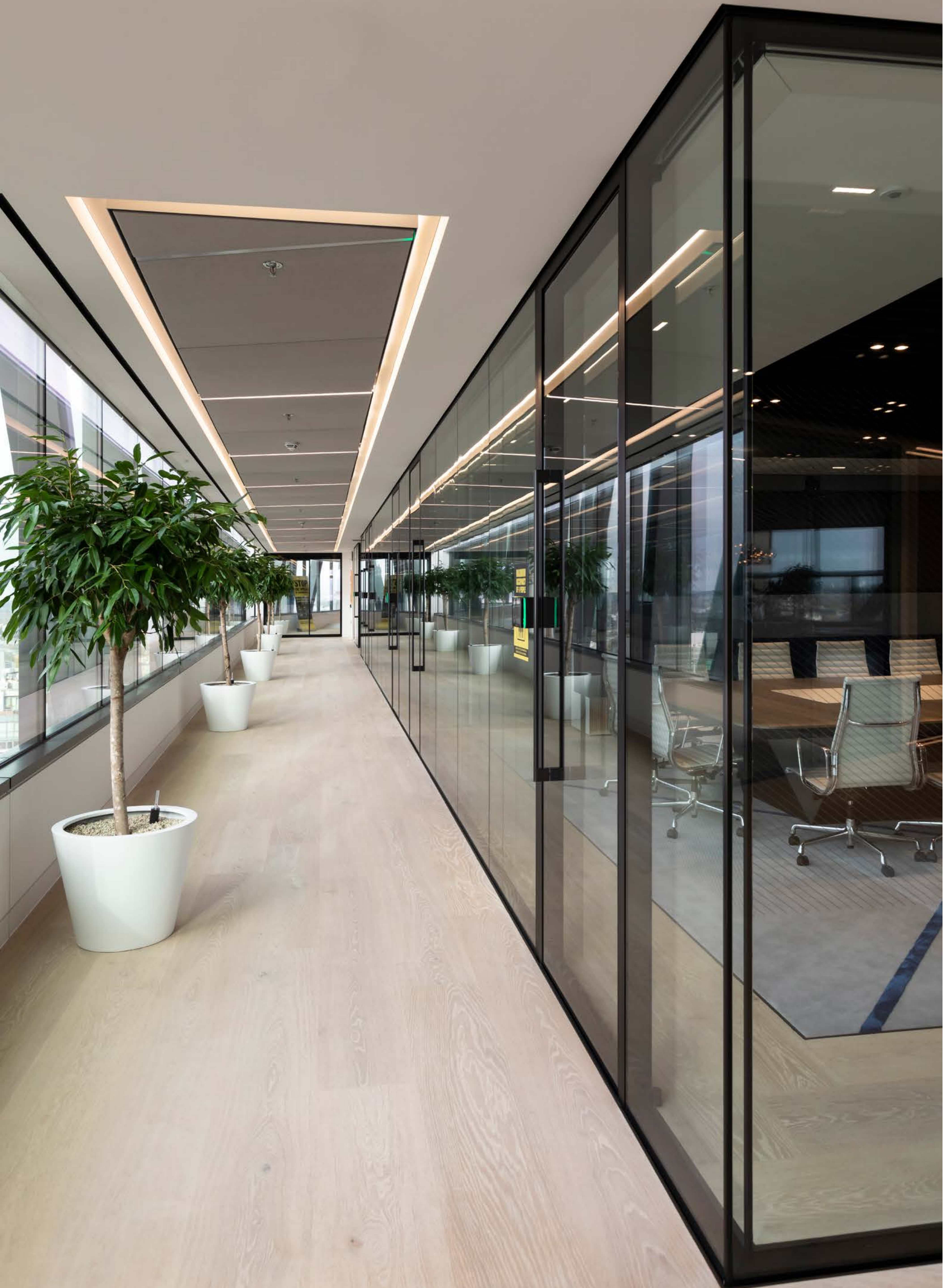
This backs up the results of our recent survey where 95% of office workers said it was important or essential that their company's supply chain – the organisations they buy products and services from – is traceable, diverse, sustainable, and transparent. Clearly this is also a recruitment and retention issue.



When organisations embark on a fit out project, they can work with a supply chain of often hundreds of organisations, even if they only deal with one main contractor. Ensuring that those organisations are ethical and diverse can be a challenge.

While the majority of construction supply chains are made up of small and medium-sized business (at Overbury this is 96%), wider diversity can be more difficult at present. The construction industry is heavily male-dominated, for example. Businesses wanting to have organisations with under-represented groups in their supply chain (e.g. owned 51% by a woman, someone from an ethnic minority, or someone with a disability or who identifies as LGBTQ) should look at programmes like WEConnect and MSDUK which certify organisations owned by women and ethnic minorities respectively. Some organisations may self-certificate but it can be challenging to confirm those details, especially under GDPR rules.





With ownership a challenge – and unlikely to change quickly – it's possible to go a step further and ask about those organisations' diversity and inclusion (D&I) policies. Businesses with strong D&I processes can be celebrated in a supply chain even if they're not owned by someone with a protected characteristic. Again, some SMEs are very small and may not have D&I policies but main contractors can play a role in raising awareness of the importance of D&I within those small businesses.

Supply chain diversity is just one element. Ensuring those organisations are themselves ethical and have transparent supply chains is also key, as is ensuring they pay their supply chain on time. Key areas to focus on include:

⟶ Freedom of employment and association

⟶ The eradication of child labour

⟶ Safe and hygienic working conditions

⟶ Appropriate pay and working hours

⟶ Humane and non-discriminatory treatment

⟶ Anti-bribery and corruption

⟶ Environmental awareness

⟶ Eradication of modern slavery

⟶ Regular auditing of procurement and suppliers policies

The past year has been a watershed in many ways. It's accelerated the trend towards more ethical investing and encouraged people to demand more from the organisations for which they work. Once a competitive differentiator, strong environmental, social and corporate governance policies are now a prerequisite for business success. Nowhere are these areas more on display than in the design, fit out and ongoing operation of the workplace. Organisations which fail to adjust to the new ESG realities will be left behind.

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