

OUTCOMES  
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PERFORMANCE

# THE (NEW) WORKING WORLD

## Part I: Getting to work on SDG 8

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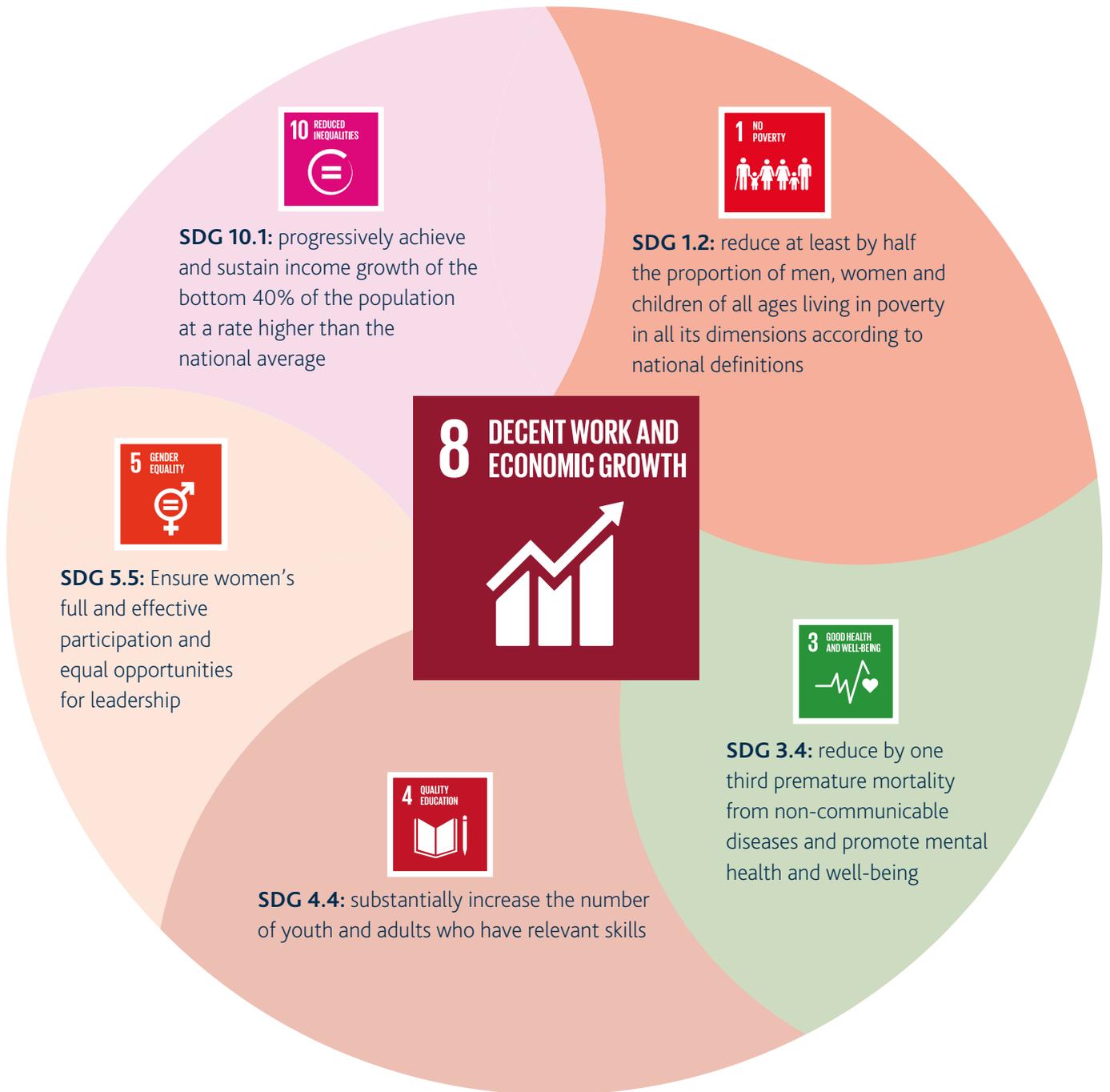
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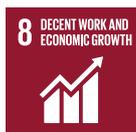
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Figure 1. SDG eight is inextricably linked to other goals





## Part I: Getting to work on SDG 8

In this four-part series on SDG eight, we will demonstrate how we are engaging with companies on four key questions on the provision of decent work. In this first instalment, we tackle the question of who companies are employing.

### Key points:

- Our investment focus on SDG eight intersects with a number of other SDGs and we engage with companies on four key questions.
- We believe some of our portfolio companies have potential to embrace an 'Opportunity Employment' mindset, by targeting their frontline recruitment and retention efforts to reach under-tapped talent pools.
- Companies also have the power to look beyond their own direct workforces by ensuring that there is no exploitation taking place among their suppliers and favouring suppliers with inclusive recruitment policies.

### Welcome to the (new) working week

"Welcome to the working week,  
"I know it don't thrill you,  
"I hope it don't kill you."

So sang Elvis Costello in 1977 in a lyric that still resonates more than 40 years later. Despite enormous changes in the nature of employment over the intervening four decades, work for many people today remains dull and dangerous – and not just in developing countries.

Indeed, across the developed world, governments, corporations and think-tanks are debating 'the future of work' in an epoch where technology threatens to disrupt jobs from the factory-floor to the professional ranks.

Undoubtedly, forces such as automation and the shift to a low-carbon economy will radically transform the employment landscape. And although the fear that robots will render us all unemployed is, perhaps, overblown (an analysis by Morgan Stanley found that Amazon has been "both a net job creator and a catalyst for stronger job growth"<sup>1</sup>), there is a clear risk that digitally-displaced workers will end up in lower-paid, lower-productivity, less fulfilling jobs.

Today, however, companies operating in various regions and industries are reporting that they simply cannot find enough labour to employ. For example, portfolio holding AptarGroup, a global supplier of dispensing systems, highlighted this problem in its 2018 Sustainability Report: "Currently, the labour market cannot provide enough skilled technicians for manufacturing jobs."

There is a growing acceptance that dangerous working conditions and exploitation do not belong in a modern global economy. But, as per the UN Sustainable Development Goal (SDG) eight, it is not enough that jobs don't kill you; if not thrilling, work should, at least be 'decent'. And providing decent employment will have positive effects for the economy, society, individual employees and, ultimately, for those corporations that take the lead.

### SDG 8: engaging on four key questions

SDG eight sets a lofty target for improving the lives of workers while simultaneously lifting economic growth. But as the UN Development Programme notes, the 17 SDGs "are interconnected – often the key to success on one will involve tackling issues more commonly associated with another" (see figure 1).

<sup>1</sup> "Amazon, derided as a 'job killer,' actually boost local employment and business, Morgan Stanley says," published by CNBC in December 2018.

Inevitably, our investment focus on SDG eight intersects with a number of the other UN goals but we welcome the new working world by engaging with companies on four key questions:

- 1 **Who are companies employing** – are there opportunities to provide mutually beneficial employment opportunities to individuals from deprived communities or from higher unemployment constituencies?
- 2 **How much do they pay** – are companies paying a fair and 'living' wage ensuring that workers are able to live dignified lives and does this extend to indirect employees too?
- 3 **What additional financial and non-financial benefits are provided** – are employees coming to work healthy, motivated and productive?
- 4 **Development and training** – with human capital a rented asset, are companies sufficiently developing their people by investing in opportunities for employees to advance their skills and careers?

Since the inception of the Hermes SDG Engagement Equity Fund, we have been engaging on the issue of decent growth. An illustration of the above challenges is epitomised by one of our holdings, **Clean Harbors**, a leading hazardous waste management company in the US, with whom we have had multiple interactions on this topic.

Given its reliance on logistics, the company has struggled, like others, with the US trucking industry's persistent driver shortages owing to the aging workforce, turnover rates, reduced capacity and lifestyle priorities. Clean Harbors' drivers need to perform other skilled duties, which requires a number of qualifications. To that end, the company has invested in training programmes for employees.



During a difficult period in 2015, Clean Harbors made cuts to its 401k (an employer-sponsored retirement savings plan) and other employee benefits. Perhaps unsurprisingly, morale suffered, and employee turnover increased, exacerbating recruitment and retention challenges. In 2018, the company announced plans to reinvest in its workforce – increasing average wages and bonus compensation as well as reinstating the 401k and enhancing healthcare benefits. Further progress is being made this year. In addition, the company is undertaking an engagement survey and establishing clear internal targets to reduce voluntary turnover. These steps should boost workforce productivity and reinforce the company's strong record on employee safety.

In recognition of the particularly tight labour market conditions, Clean Harbors has proactively identified particular pools from which to recruit. It established a formal programme which guarantees job interviews to soldiers and veterans – and as a result, it gains priority access to exiting service members. By the end of 2018, veterans accounted for 6% of the company's workforce, compared to 1% of the general population.

## Who are companies employing

Job creation and access to employment underpin many of the SDG targets, lifting people out of poverty and bringing previously under-represented groups into the workforce. Today, the challenges presented by increasingly tight labour markets present opportunities to rethink hiring practices for mutual benefit (see Figure 2).

Providing disadvantaged populations with formal employment and decent work opportunities offers one of the most impactful routes to meeting those goals: as well as the immediate benefit of higher income, the ability to acquire a career helps individuals, their families and communities avoid a long-term poverty trap.

Businesses can also benefit from tapping into these under-utilised pools of talent, which can include highly-skilled (or easily-trained) people. Given the fierce war for talent, employers would benefit from thinking differently about both jobs and the people who can fill them.

The broader global economic growth in recent years hasn't necessarily spilled over into more jobs for those in the under-employed cohorts that include: women; youth; older workers; and, other vulnerable groups such as persons with disabilities and ex-offenders.

While these circumstances are creating challenges for businesses across industries and regions, companies competing for entry-level talent may be able to respond more quickly. That's because, while these companies continue to invest in automation to achieve more output with less human input, they are also cognisant that entry-level talent is critical to their customers and overall brand. For example, McDonalds has established a global goal to reduce barriers to employment for 2m young people by 2025, while Starbucks has committed to hiring 10,000 refugees and 100,000 opportunity youth by 2020.

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**Given the fierce war for talent, employers would benefit from thinking differently about both jobs and the people who can fill them.**

## Sustainability in the workplace

We have investments in travel concessions retailer **SSP** and cinema chain **Cineworld**. Both companies are large employers of relatively low-pay, entry-level roles. While our engagement on decent growth is still at a nascent stage with both companies, we believe they have significant potential to embrace an 'Opportunity Employment' mindset, targeting their frontline recruitment and retention efforts to reach under-tapped talent pools, such as opportunity youth (the

disproportionate population of young people who are out of school and out of work), persons with disabilities or ex-offenders. Proactive and systematic efforts in this direction by both companies could improve engagement and boost productivity levels while reducing costs and creating economic opportunities.

SSP, which operates food and beverage retail outlets in airports and railway stations across 30 countries, employs well in excess of 37,000 people, mostly in entry-level positions. As such, labour represents a significant fixed cost for the business (about 30% of sales). The high level of employee turnover and reviews on Glassdoor – which are based on workers' direct feedback – suggest that there is scope for improvements to be made.

Encouragingly, some of the national Human Resources teams have already established partnerships with local organisations to offer career opportunities to people from deprived communities. For example, SSP America's Phoenix location has a strong relationship with St. Joseph the Worker, a local charity working with people from deprived communities to give them the resources necessary to gain and maintain employment.<sup>2</sup> We believe that this is an illustration of the type of partnership that could be replicated systematically across the group.

In addition, SSP works with the Corporation of Rehabilitative Enterprises in Singapore to provide permanent jobs to 40 ex-offenders each year, while in the UK, the company works with Launch Group to offer young and disadvantaged people a two-week 'into work' programme.

## The decent work agenda for supply chains

Companies also have the power to improve the employment market beyond their own direct workforces by ensuring that there is no exploitation taking place among their suppliers and favouring suppliers that have inclusive recruitment policies.

### How we engage with company management teams and boards on SDG eight:

We highlight the challenges and opportunities associated with more impactful employment models

We ask:

- Does the company understand the relationship between employee morale and productivity and has it analysed the costs associated with unnecessary turnover?
- Can the company seek opportunities to provide employment to those within high-unemployment constituencies? Similarly, can it do so via its supply chain?
- Is the company, as a result of unconscious biases, unintentionally limiting its talent pool and can it do more to address systemic gender under-representation?



That there remains a vast number of children (152m according to the ILO)<sup>3</sup> in child labour, despite the very welcome decline since 2000, is a shame that we must all remain focused on addressing.

More positively, by selecting supply chain providers that offer career advancement prospects to disadvantaged groups can have a powerful multiplier effect – generating far-reaching societal and economic benefits to local and national economies while reinforcing the company's commitment to the community. To that end, we are members of the Global Impact Sourcing Coalition – a collaboration between leading companies to build more inclusive global supply chains.

Our current holding **Tullow Oil** is a multinational oil and gas exploration company that operates in countries where the oil industry is just developing with limited relevant skills or expertise available in local populations. Nonetheless, Tullow is committed to hiring locally and has set internal targets for increasing the proportion of staff represented by the nationals of host countries. Importantly and more impactfully, it also requires its international suppliers to employ local staff as well as source goods and services locally. Furthermore, it requires these suppliers to set out their commitment to developing local companies within their own supply chains in their tender documents.

## Moving towards sustainable work

SDG eight provides a useful framework for assessing how employers are adapting to the new conditions for the good of the people they employ, the wider society and – importantly – their own ongoing profitability.

We will continue to engage on SDG eight, encouraging companies to do more to improve the diversity of their workforces. After all, it is a strong indicator of long-term corporate health.



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<sup>2</sup> "SSP Group plc Annual Report and Accounts 2018," published by SSP Group.

<sup>3</sup> Global Estimates of Child Labour, ILO, 2016

Figure 2: Who companies are employing: challenges and opportunities



4 "World Employment Social Outlook: Trends 2018," published by the International Labour Organisation in 2018.  
 5 Source: UC Chamber of Commerce as at June 2016 and Workforce Inst as at February 2008  
 6 "Female doctors make \$105,000 less than male peers, review finds," published by Bloomberg on 13 March 2018.  
 7 "World Employment Social Outlook: Trends 2018," published by the International Labour Organisation in 2018.  
 8 Source: ILOSTAT and UN World Population Prospects as at 2017  
 9 "Business Champion for Older Workers: Strategy and 2022 Target," published by Business in the Community

## THE FACTS

- The **global youth unemployment rate** stands at **13%** – three times higher than the adult rate<sup>4</sup>; one in seven young people are unemployed in the US
- **Emerging economics** have seen an explosion in their youth population growth rates in recent years, but in some areas almost **30% are unemployed**
- Research suggests that people who experience unemployment between 16 and 24 years **earn \$400,000 less over the course of their careers**

- In the US, **women earned about 80% of what men made** in 2016, according to the US Census Bureau<sup>6</sup>
- In **Northern Africa and Arab States**, women are **twice as likely to be unemployed** as men<sup>7</sup>
- **Reducing the labour participation gap** between men and women by 25% (a stated G20 goal) would **lift global GDP by 3.9%**, including 4.8% in emerging markets, according to the International Labour Organisation

- Globally, the proportion of the **65-years plus cohort** will rise from the current 9.3% of the total population to **11.7% by 2030** and 15.8% in 2050<sup>8</sup>
- The **average age** of those in the **global labour force** is set to rise, particularly in the **Asia-Pacific region**
- Once **older workers** become unemployed it typically takes them **longer to return to work** (Heywood and Siebert, 2009)

- 1bn people, or **15% of the world's population**, experience some form of **disability**. They are **less likely to be employed** and more likely to be in **low paid jobs** with poor working conditions and promotional prospects<sup>10</sup>
- **One in three working-age Americans** have a **criminal-record**
- In March 2014, the Wall Street Journal reported that **85% of autistic people** in the US are **unemployed or underemployed**<sup>11</sup>

## OPPORTUNITY

- Unplanned turnover costs between \$3,000-\$8,000 per front-line worker (considering explicit costs alone)<sup>5</sup>
- The private sector can offer work, training and education opportunities to young people
- Helping young people enter and stay in work helps promote economic growth and better living conditions

- Companies can clearly play an important role through recruitment and employment practices even in sectors previously deemed as male-only preserves

- Older workers bring decades of vital, often hard to replace, skills and depth and breadth of experience
- If the employment rate of people aged 50-64 matched that of those aged 35-49, it would add more than 5% to UK GDP<sup>9</sup>
- McDonald's reports 20% higher performance in their outlets where workers aged 60+ years are employed as part of a multigenerational workforce

- The average cost for making accommodations for a disabled employee is just \$500<sup>12</sup>
- Evidence suggests that people with criminal records often exhibit higher levels of firm commitment (due to the scarcity of other opportunities), thereby reducing employee turnover levels<sup>13</sup>
- Research suggests that creating a neurodiverse<sup>14</sup> workplace significantly boosts productivity (for example, JPMorganChase found that a neurodiverse team achieved 48% higher productivity than a neurotypical team)

10 "Disability inclusion," published by the World Bank.

11 Source: Untapped Group

12 "Workplace accommodations: low cost, high impact," published by Job Accommodation Network in September 2005.

13 See, for example, "Five bottom line reasons why employers should hire ex-felons," published by the Huffington Post in August 2015 or "Demonstrating the benefit of hiring individuals with a criminal background," published by TalentReWire.

14 Neurodiversity is a way of thinking about neurological variations (such as Autism Spectrum Disorder, Attention Deficit Disorder and Dyslexia).

15 Source: Untapped Group

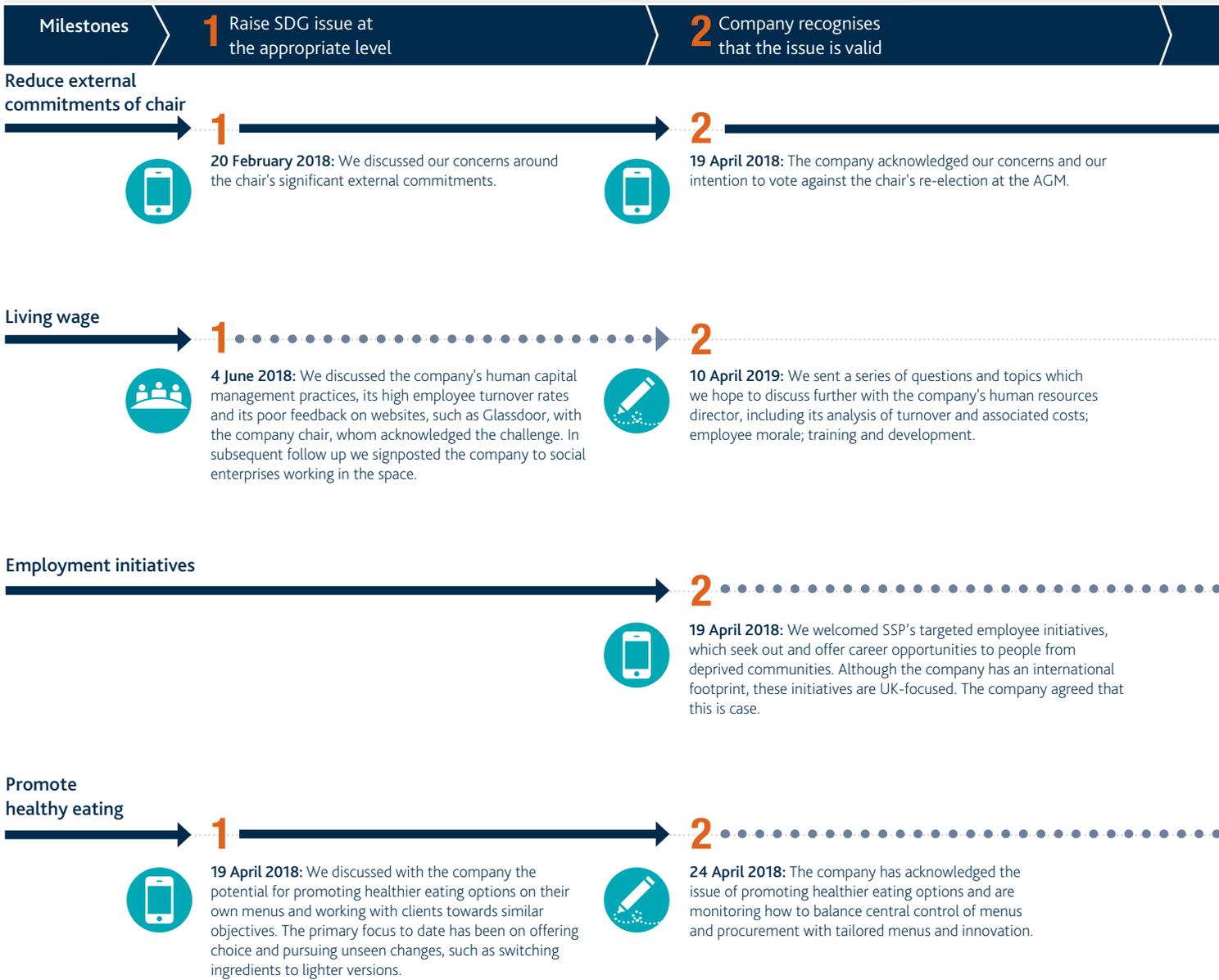
**CASE STUDY**  
**ENGAGEMENT PROGRESS: SSP**

SSP, a holding in our portfolio, is the second-largest concession caterer in the world, with more than 2,000 outlets in airports and railway stations in over 30 countries, principally in Europe, Asia and North America.

**Engagement context**

■ SSP employs well in excess of 37,000 people, mostly in entry-level positions, in over 30 countries. Labour represents a significant fixed cost for the business (about 30% of sales). Given its significant workforce, SSP directly influences the quality of work and living standards of its employees, and, through employment initiatives in the UK, it provides employment to underemployed cohorts.

**Engagement timeline: 2018 to June 2019**





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