

29 Oct 2019 - Ed Houghton, Head of Research and Thought Leadership

Sustainable HR: a 'green' fad, or a realistic model for change?

Thinking beyond the performance imperative of strategic HRM and instead considering a more holistic, multi-stakeholder model is gaining traction in academic circles, but is the profession ready?

'Companies must ask themselves: What role do we play in the community? How are we managing our impact on the environment? Are we working to create a diverse workforce? Are we adapting to technological change? Are we providing the retraining and opportunities that our employees and our business will need to adjust to an increasingly automated world? Are we using behavioural finance and other tools to prepare workers for retirement, so that they invest in a way that will help them achieve their goals?'

Larry Fink, Chairman and CEO BlackRock, in his 2018 letter to CEOs.

When investors ask questions, CEOs tend to sit up and listen. And earlier this year when Larry Fink, the [Chair of BlackRock wrote to CEOs](#) calling for them to take sustainability risks seriously, many recognised a marked difference in tone. His letter wasn't a saccharine or glossy PR statement. Instead, it appears to be a firm call to action to CEOs, arguing for leadership and a renewed focus on the 'right' kind of value creation. And this wasn't coming from just anybody, this was from the Chairman and CEO of one of the largest investment houses in the world, a firm that manages over \$6 trillion of assets globally.

Many sustainability commentators welcomed his letter, recognising that for too long businesses have worked mainly for one type of stakeholder: owners/shareholders, often for short-term gain. Responsible investors (or 'impact investors') have for many years argued that this strategy is deeply damaging, not only to the environment but for many other types of outcomes, notably for workers in the supply chain and those on low wages. In 2019, after many years on the periphery, the most mainstream of investment firms appears to have taken a considerable step. Work and job-quality related issues are no

longer the preserve of technocratic econometricians and policy makers; now those with real power and ability to make change are taking notice.

That many of the issues Larry Fink highlights are within the expertise of the people profession is clearly a good thing. CEOs may come under increasing pressure to quantify important qualities related to work and their workforce, meaning they are likely to come knocking on HR's door. The question is, is the profession ready?

A story of conflicting priorities and shifting power

One of the most powerful academic papers I've read recently is the work of Tony Dundon and Anthony Rafferty at Manchester Business School, provocatively titled 'The (potential) demise of HRM?'. It's powerful not just because it lays out the complex systems in which the profession currently operates, but also because it highlights the exciting opportunities facing leaders of the profession who, whether they know it or not, are actively designing its future. After recently re-visiting the paper, I've had the chance to reflect on where the major opportunities and risks lay for the future. It's clear that we need new models and ideas about how HR creates value, and who benefits.

Among the many effects of the so-called financialization of the world economy, 'the role of financial motives in financial markets, actors and institutions', is a sizeable shift in power from workers and managers to owners, or the investors who act in their interest. Dundon and Rafferty argue that organisations are oriented towards satisfying the needs of owners, whether they be shareholders, private equity investors or private owners, and not workers. The result is that the power of workers to shape work and benefit from it has waned considerably. When reflecting on Larry Fink's statements about the workforce, this concept becomes even clearer Dundon and Rafferty point to several examples to make their point, including:

- **Gig-economy work**, enabled by technology, which portrays a different type of employer-employee relationship that exists 'at arm's length' in which risk is shifted to the worker.
- **Growth in performance metrics** and performance measurement systems, oriented towards outputs, which act to quantify and drive efficiency, to the detriment of other non-performance outcomes (for example job quality).
- **'Predatory raiding'** in corporate mergers and acquisitions, in which investor pressure on HR and management results in labour rationalisation, cost cutting and

heightened management control, to the detriment of sustainable decision-making. This is the opposite of what is commonly framed in the 'business partner' model within HRM.

These are very useful examples which highlight the shifting context in which HR professionals now operate. Not only are well-known trends like technology, ageing workforce and rising education levels shaping the function – we must also note how political and economic philosophies shape the role and impact of HR professionals and HR management (HRM) practices. It's clear that there are important relationships and power dynamics at play.

Redressing the power balance

Within this context of shifting power and economic instability there has been a noted change in social engagement around workforce- and work-related issues. The recent past has also seen rapid growth in rhetoric, particularly from large, listed, multinational organisations, as to their social drive and purpose. Larry Fink's letter is framed as an argument for sustainability and long-term growth, something which has become more apparent through business practices and reporting. Corporate social responsibility statements and 'shareholder springs' associated with executive pay are signals that institutions must consider their purpose and ethical role in society. Key to this is HR strategy and operations that can take account of the views of many stakeholders and utilise these to generate long-term value.

While much is rhetoric, there are some cases in which this rhetoric is matching reality. There are examples of enlightened organisations taking a progressive stance on societal issues (for example [challenging damaging regulation changes](#)), and the most recent changes to the UK Corporate Governance Code highlight a growing interest at the level of regulation for both public and private firms in greater incorporation of multiple stakeholder views when boards are making decisions. There is also much more appetite for insights and data relating to workforce concepts such as culture and behaviour. This is a natural space for the HR profession to step into, to take a lead and to make use of its expertise.

Sustainable HRM: is it a potential solution?

The need for organisations to orient themselves towards different stakeholders is not a new concept, but today's context certainly is. Thinking beyond the performance

imperative of strategic HRM and instead considering a more holistic, multi-stakeholder model is gaining traction in academic circles. This form of HRM is commonly labelled Sustainable HRM.

Sustainable or 'green' HRM promises to encourage greater acknowledgement and understanding of long-term issues relating to value creation and value capture. The sustainable HRM perspective looks to challenge the dominance of 'maximising shareholder value' strategies and business models and instead align with meeting the interests of many stakeholders over the long term. Sustainable HRM recognises performance outcomes, which are broader than financial outcomes (for example, by including environmental and social outcomes) and assumes that in working towards multiple goals there are likely to be contradictory outcomes that must be resolved. In addition to this, sustainable HRM creates and captures value over the longer term and recognises that to be truly sustainable HRM must be able to deal with the internal and external environment and the changing context in which the business is operating (for example rapidly changing economic environment).

As the field matures there is increasing agreement amongst academics as to the characteristics of Sustainable HRM. These are outlined below:

- Long-term orientation: Workforce planning; assessing needs of future employees
- Care of employees: Health, safety, wellbeing management; work-life balance
- Care of environment: Fostering 'eco-career'; rewarding against environmentally sustainable behaviour
- Profitability: Share programmes
- Employee participation and social dialogue: Different forms of employee voice and employee participation
- Employee development: Job rotation; training for skills development; employability
- External partnership: Cooperation with key stakeholders
- Flexibility: Flexible working arrangements; job rotation
- Compliance beyond labour regulations: Involve employee representatives in decision-making where participation is a statutory requirement; financial and non-financial support
- Employee cooperation: Teamwork; good relationships of managers and employees
- Fairness and equality: Fostering diversity; respectful relationships; fairness as regards as remuneration; career

There are, however, key questions in this emergent area: if and how HR functions can transition from a shareholder/owner orientation towards serving multiple stakeholders, how HR functions manage multiple workforce risks and opportunities related to creating shared value, and ultimately the extent to which a sustainable HRM orientation enables the profession to meet the strategic objectives of organisations. These are important

issues in the space and concepts which, if HRM is to become truly sustainable, must be considered thoughtfully and in detail.
