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How can CSR activities at Mercer's Lisbon office increase employee motivation?

Nadia Herji

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Abstract

Dissertation title: *How can CSR activities at Mercer's Lisbon office increase employee motivation.*

Author: Nadia Herji

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This study analyses CSR activities at Mercer, and their impact on employee motivation. Mercer is a Human Resource consulting firm with several lines of business. A major line is Wealth, specialized in pension fund management, and composed of three departments: actuaries, investment and performance-reporting analysts. I seek to understand how current CSR activities affect employee's motivation in the Wealth department.

Firstly, I gathered information on the current CSR activities at Mercer, and identified the foremost: volunteering, CSR groups (focused on employees' welfare) and responsible investments. Next, I interviewed two employees of each department and two middle-managers, a total of eight interviews. Findings suggest that the above activities are motivating only to a certain extent:

- Volunteering has little impact in motivating job performance, but employees feel proud to work for a socially-responsible company, hence it is motivating.
- CSR groups show that Mercer cares for its employees thus increasing their organizational identification, hence it is motivating.
- Employees feel that to make sure pensions are well-managed, adequate funds must be chosen for investment purposes, which may or may not be highly ESG-rated. Responsible investments are not a motivational driver.

The implications of this study are coherent with the literature: CSR activities motivate employees but only to a certain extent. Mercer doesn't seem to have the aptitude to engage in transformational CSR, hence shouldn't pursue other CSR activities.

Resumo

Título: Como podem as actividades de Responsabilidade Social na Mercer aumentar a motivação dos colaboradores.

Autora: Nadia Herji

Palavras-chave: responsabilidade social, motivação.

Este estudo analisa as actividades de responsabilidade social na Mercer, consultora de recursos humanos, e o seu impacto na motivação dos colaboradores da linha de negócios *Wealth*. Esta gere fundos de pensões e é composta por três departamentos: actuariado, analistas de investimentos e de *performance*.

Primeiro identificou-se as seguintes actividades de responsabilidade social: voluntariado, grupos de responsabilidade social (focados no bem-estar dos colaboradores) e investimentos responsáveis. De seguida, entrevistou-se dois colaboradores de cada departamento e dois quadros intermédios, totalizando oito entrevistas. Os resultados sugerem que as actividades não são plenamente motivantes:

- Voluntariado tem pouco impacto no aumento do desempenho laboral, mas fomenta orgulho nos colaboradores pelos valores que representa, o que demonstra ser por si motivante.
- Os grupos de responsabilidade social demonstram que a empresa se preocupa com o bem-estar dos colaboradores, logo é um factor motivante;
- Existe a percepção que para a boa gestão dos fundos de pensões, se deva seleccionar “veículos financeiros” que poderão (ou não) ter uma classificação alta ao nível da norma Ambiental, Social e Governamental (ESG). Assim, a escolha de veículos financeiros com alta classificação ESG não é factor motivante.

As implicações deste estudo são coerentes com a literatura: as actividades de responsabilidade social são motivantes, até certo ponto. A Mercer não teve a aptitude de seguir actividades transformacionais, logo não deve seguir outras, senão as que já implementou.

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Introduction

Introduction to the topic

This thesis aims at investigating *How can CSR activities at Mercer's Lisbon office increase employee motivation*. The main purpose of this study is to analyse if current CSR activities on-going at the Lisbon office suffice in maintaining high levels of employee motivation, or if further activities should be pursued to increase employee motivation.

CSR has become a topic of interest to scholars, being a relatively new business arena much unexplored. In the era where corporate impact on society, the environment and the economy is undeniable, we see corporations engage in CSR activities for several reasons such as legitimacy, window-dressing operational activities and benevolence. Therefore, it is nearly impossible to ascertain *why* firms engage in such activities, which is why this thesis aims at questioning *what* impact such activities have on employee motivation, regardless of the reasons that ground their establishment.

This thesis follows Aguinis (2011) definition of CSR: “*context-specific organisational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social and environmental performance*”. One could question which CSR component relates to employee motivation, the second major topic of this thesis. Glavas and Kelley (2014) provided a comprehensive answer to such an issue, which thus becomes the solid foundation of this thesis: “*Social Responsibility, by nature of its definition, takes into account relationships with other human beings. As a result, social responsibility opens itself up to the extant literature on relationships that can be integrated into research on social responsibility to help explain the impact on employees*”. The main goal is to provide readers with answers on how literature on CSR and employee motivation is linked, and how both apply to the specific case of the corporation studied, Mercer.

But why should the broad community be interested in how CSR motivates employees? I would like to address this issue by providing relevant data. According to Net Impact's Talent Report 2012: *What Workers Want*¹, 53% of the working population surveyed has a preference for a

¹ This survey analysed a national – USA – sample of 1.726 individuals spanning 3 generations (millennials, generation X and baby boomers).

job that makes a social impact, but this number grows significantly when asked to students, reaching 72% of the student population surveyed. Additionally, 35% of the student population would accept a 15% pay cut to work for a company committed to CSR and 45% would accept a pay cut for a job that makes a social or environmental (positive) impact. This point that Frey (1997) was correct in stating that “*workers are not only motivated by the need of money, and non-financial elements are also important to motivate workers*”. Indeed, when searching for an ideal job, 53% of workers and 65% of students look for one which positively contributes to society, which is in agreement with Glavas and Godwin (2013) who reiterate that employees strongly associate themselves with their work organisation if it engages in social welfare activities. This survey empirically demonstrates that the 3 generations surveyed take CSR into account when making professional-related decisions. Greening and Turban’s scholarly research (1996, 2000) is in fair agreement with the aforementioned survey, as the authors have provided evidence of payoffs associated with increased CSR, namely that the more socially responsible a corporation is, the more it will benefit from an increasingly committed workforce because “employees will be proud to identify with work organisations that have favourable reputations” (Peterson, 2004, page 299).

Research Aim

I will study the focus question of this thesis - *How can CSR activities at Mercer’s Lisbon office increase employee motivation* - by means of an inductive case study. Mercer is an ideal candidate to study such a topic due to the very nature of its operations: it is a financial firm that acts within capital markets to make client revenue grow, with a very important particularity - client revenues are due to grow to fund their defined-benefits pension schemes, set up on behalf of employees. The very nature of its activity makes this a firm not to be disregarded when analysing CSR, since employees understand how important their jobs are in making sure that pensions are effectively paid. The social component of CSR, and the capitalist component of the economy we live in, are deeply intertwined in Mercer’s operations. Therefore, Mercer is peculiar because it is not a traditional investment firm, rather, it is a Human Resource consulting firm that also operates in capital markets to fund client pension schemes. Service-provider companies, such as Mercer, are usually difficult to analyse in terms of the social and environmental impact they have, but the nature of its core business makes this a company that is well aware of the impact of CSR on its stakeholders. Prior to understanding employees’ motivational drivers, I have identified, with the help of Mercer’s Marketing and CSR manager,

the three main CSR activities that are currently on-going at the firm, and they are: volunteering, CSR groups and responsible investments. After, I interviewed six employees of the three different departments that manage pension funds (two employees of each department) and two managers of the Investment Analysts department. The interviews provided a random sample of each department, with the aim of essentially understanding if motivational drivers in what regards CSR activities are transversal across departments, and if they are aligned with middle-management perceptions.

This study enriches the scientific discourse in four ways: firstly, I analyse Mercer's CSR operations to conclude they satisfy all levels of Carroll's pyramid, but such activities are not embedded in the organisation (as they do not make use of the firm's core competencies), and consequentially such activities cannot be transformational due to absence of benevolence in them. Secondly, I deep-dive into the issue of creating shared-value (according to Porter and Kramer, 2006) via pursuing activities most relevant to the local community and to employees, to conclude that Mercer is unable to successfully capture shared-value. Thirdly, I argue that of all CSR activities previously identified, only responsible investments provide employees with meaningfulness *in* work, even though all activities provide them with meaningfulness *at* work. Last but not least, I answer with an ethical debate to the issue if responsible investments should be presented to clients prior to the design of any other strategy.

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Thesis Outline

In chapter 1 I present the reader with an inductive case study describing Mercer as a firm and its operational activities as well as its CSR activities. The case study deep dives into the CSR activities at the Lisbon office, and how employees are motivated by them. Chapter 2 analyses relevant literature on CSR and motivation, thus establishing a link between both subjects. Chapter 3 provides guidance for in-class discussion. In Chapter 4 I mention the limitations of this thesis and conclude the thesis by attempting to answer the focus question, by determining what are employees' motivational drivers, and how they relate with the literature.

1.0. Case Study

1.1. About Marsh & McLennan

Marsh & McLennan's (MMC) focus is on risk management, strategy and human capital, having one daughter company fully specialized in each of the key areas. Mercer is a wholly-owned subsidiary of the MMC group. MMC ranked 210 in the 2017 Forbes Fortune 500, and is a global enterprise that owns several daughter companies, namely Oliver Wyman, Guy Carpenter, Marsh and Mercer². It is a global enterprise, serving 75% of Fortune 1000 companies, with clients over 13 countries and annual revenue of \$13.2bn in 2016. It currently occupies the number 1 position of the world's largest insurance brokers.

1.2. About Mercer

Mercer is the world's largest Human Resource (HR) consulting firm. It focuses primarily in 3 main segments: Health, Wealth and Careers. This case study focuses on the Wealth department at the Lisbon Office.

Wealth manages pension funds and gives investments advice to clients. According to Pensions & Investments Magazine³, Mercer is the largest Investment Consulting firm in the world, with \$10.174bn assets under management in 2016. It hires over 21,000 employees in 43 countries, and operates in 130 countries by delivering advice and technology-driven solutions to help clients meet the needs of a constantly changing workforce. Mercer's core values are people as well as anticipating future managerial needs⁴ that will enhance the competitive positions of each of its clients. This is well demonstrated in the underlying meaning of its logo.⁵

1.2.1. About Pension Plans: What is Mercer's Involvement?⁶

The Wealth department manages Defined Benefits (DB) plans for its clients, therefore this section follows to explain what are DB pension plans, how they are managed and by whom, within Mercer.

When an employee goes into retirement he expects payment of retirement benefits until death. While in some countries pensions are provided by social security services, in the UK it is

² Please see Figure 2.

³ (Pension and Investments Magazine, 2016)

⁴ Please see Figure 3.

⁵ Please see Figure 4.

⁶ Please see Figure 6.

mandatory by law that every employer enrolls staff into a pension scheme and contributes towards it. When setting up a scheme, the employer appoints a group of people, the *trustees*, who become the legal owners of the pension scheme assets (Government, 2014). The trustees decide how the assets are to be invested and ensure the scheme has enough money to pay benefits owed. If running a DB scheme and before investing in any way, the trustees are required by law to obtain independent investment advice and thus hire professional advisory services, such as Mercer, to support their decision-making.

A DB plan is one where the employer promises to pay a specific amount of benefit to the employee upon his retirement, automatically becoming liable towards meeting the promised benefits once employees retire.

A DB plan can be understood as having two sides: the liabilities side, where actuaries perform, and the assets side, where investment analysts perform. Since the liabilities fall on the company's side, the trustees are responsible to make decisions on how to best manage the plan. The first step for companies to pursue a DB route is to know the size of their liabilities, due to be paid in x number of years. Liabilities are calculated by actuaries to determine the contributions needed to be made by the employer and employees to fund liabilities⁷. Using mathematical and statistical modelling, actuaries will calculate necessary contributions taking into account the employee's life expectancy, normal retirement age, potential shifts in interest rates, annual retirement benefit amount due and potential for turnover. Simply put, the actuaries' main goal is to tell the employer how much to contribute to fund the plan.

After the actuaries have calculated the fund's liabilities, the focus shifts to the asset side of the plan. To fund the plan, the employer will take its current assets of the plan (i.e. the sum of contributions made by itself and employees) and invest in capital markets to grow assets. An investment strategy is designed by investment analysts, taking into account the employer's sensitivity to risk and the plan's funding level. The investment strategy designed is not a static one, and is reviewed as the assets increase, thus covering more liabilities and consequently increasing the funding level. As the funding level increases, the investment strategy is reviewed to become less risky. The shift from high risk to low risk continues until the plan is highly

⁷ An unfunded plan is when the assets held by the plan do not cover the liabilities owed to employees.

funded, i.e. reaches around 95% funding level (meaning that 95% of liabilities are covered by existing assets). When a plan becomes reasonably close to being fully funded, traditionally, the employer sells the plan to an insurance company that ensures to pay due benefits to employees. This is a strategic shift in risk, from the company to the insurer, and Mercer's services cease to be necessary.

1.2.2. Mercer's consulting services

Mercer is hired to give professional independent advice to the trustees, and it does so by analysing the assets and liabilities side. Firstly, a consultant is appointed to the client. The consultant's main role is to bridge the scheme's information from the trust to the actuaries and investment analysts that work for the client (along with the consultant) i.e. the client team. The consultant informs clients on fees charged, hires the asset managers (after defining an investment strategy that best suits the scheme) and provides advice to the trustees, with the help of the investment analysts. Crucial to developing a solid strategy is the actuarial team (whose job has been described above), seeing that the consultant and investment analysts must be aware of the scheme's funding level and predicted liabilities to efficiently build a strategy. Last but not least, the Performance Reporting Team (PRT) is involved. This team produces reports (to be sent to clients) on the performances of each fund that the client scheme has invested in⁸.

⁸ Please see Figure 1.

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The table below clarifies the jobs of investment analysts, actuaries and PRT analysts.

Table 1 - Job descriptions of Investment Analysts, Actuaries and PRT Analysts.

Job	Description	Main Focus
Investment Analyst	Provide quantitative analysis to trustees and strategic advice. Provides fiduciary services. Liaise directly with trustees to understand risk preferences. Direct contact with capital markets. Suggest asset managers and asset classes to trustees. Bridges communication between trustees and other entities (e.g. legal entities) that require scheme information. Produces complex reports. Provides trustees with updates on UK legislation regarding pensions. Employees have similar backgrounds (business, finance and economics). Workflow is constant so employees cannot accumulate extra hours.	<i>Grow the assets of schemes, provide investment advice and perform complex analysis.</i>
Actuary	Calculate liabilities and funding level. Calculate benefits owed to individual pensioners. Employees have a diverse range of backgrounds (psychology, biology, business). Each employee can accumulate extra work hours during peak season, and use them as non-working days during off-peak season.	<i>Calculate the liabilities and funding level of the scheme.</i>
PRT Analyst	Supports client-teams by producing performance-monitoring reports. Aggregates valuations and performance information received by asset managers regarding each scheme. Provides fiduciary reporting. Does not perform investment analysis and are not part of strategic decision-making of each scheme. Artificial Intelligence allows to efficiently produce a significant number of client-specific reports that are trimmed by PRT analysts. Employees have a diverse range of backgrounds (psychology, biology, business). Work intensity fluctuates, being highly intensive at the end of each quarter (peak season). Each employee can accumulate extra work hours during peak season, and use them as non-working days during off-peak season.	<i>Efficiently produce reports.</i>

1.2.3. The Lisbon Office

Mercer's Lisbon office employs c. 230 people, most of them with backgrounds in business, economics, mathematics and actuarial sciences. Services provided range from Health, Wealth and Careers. Most employees pursue job descriptions with high levels of quantitative work. The Wealth department provides investment and pension fund management advice to companies. Employees perceive their job to be of great value to society, and that intrinsic value is tangible, since pensioners ultimately benefit from Mercer's employees' skills. Even though employees work in quantitative fields, they are highly sensitive towards people due to the nature of their jobs which revolves around taking the best decisions to make sure client companies are able to pay pensions in the future. As an investment analyst stated:

"(my job) has a social impact and we see it every day - because my clients are all pension schemes, if we do a bad job there won't be enough money to pay members, so then they won't receive their pensions, and that's a very big problem obviously. So, there is a strong responsible component that is linked to the nature of my clients"

Due to the impact the job has on pensioners, employee's motivation is greatly attached to the *meaningfulness* of the job:

*"I think this social component is an important part of why I value my job, I don't think I could do a job that is **meaningless** to society. I like to feel valid on what I'm doing."* – Investment Analyst

Table 2 - General numbers on Mercer

Number of Employees at Mercer Portugal	c. 230
Number of Employees Worldwide	21,000
Number of Countries where present	130
Number of people affected by Mercer's activity	110 million
Number of clients	28,000 (80% FTSE 100 and 80% Fortune 500)

1.3. An overview of CSR Activities within subsidiaries

This section gives an overview of CSR activities at Mercer. While CSR activities have an impact in the environment, society and the economy, it is important to remind the reader that CSR activities can impact employee motivation.

In guiding its daughter companies, MMC doesn't establish the global objective that all its subsidiaries must engage in volunteering activities, but gives freedom to subsidiaries in establishing a CSR strategy. In that sense, every subsidiary, such as Mercer, has autonomy in deciding which CSR activities will be pursued by employees. This was implemented with having in mind local and cultural preferences. Additionally, senior management at local offices is free to implement whichever CSR-related practices it finds most suitable to further motivate employees. Furthermore, employees, along with senior management, can work in specific CSR-oriented topics, each topic having its own group of people, with the primary objective of benefiting that office where actions take place. This group is called a Business Resource Group (BRG) and aims at giving each subsidiary the possibility of engaging in independent CSR activities that each office feels will fit best with the workforce.

1.3.1. Volunteering

Volunteering is of particular importance at Mercer, since all offices worldwide celebrate May as the Global Volunteering month and apply the Global Volunteer Recognition Program. It is compulsory for all employees to be involved by submitting their Volunteer hours in the time-management platform, thereby proving that they engaged in volunteering activities. Some employees engage in volunteering activities after work on a regular basis, but those that do not, have the chance to engage in such activities organised by Mercer on an annual basis.

1.3.2. Business Resource Groups (BRG's)⁹

BRG's can be understood as CSR departments operating globally. The main goal is to have a global group (the BRG) aid a local group (of the local office). They provide guidance to subsidiaries, aid in budgeting for CSR activities, and establish global protocols with institutions around the world to leverage CSR operations. Each BRG is composed of one leader and several members that work upon the needs of each office. The main objective is for the global group

⁹ Please see Figure 5.

i.e. BRG to aid the local office in achieving better and more effective responses to the needs of employees related to each topic. At least two people of the Executive Board are involved in each BRG, and while the BRG will ask local offices for tangible results on their actions, it is the local office that puts in place the initiatives needed. Each BRG focuses on one main CSR topic with the aim of fulfilling objectives related to that theme. The topics are:

- Racial and Ethnic Diversity;
- Women at Mercer;
- Rising Professionals Network;
- Accessibility and Inclusion at Mercer;
- Lesbian, Gay, Bisexual, Transgender and Allies;
- Mercer Cares.

For example: *Women at Mercer* is a CSR-oriented group, implemented locally, that strives to maintain gender equality within the offices, defending equality of opportunities, rights, salaries, and co-worker ratios. To achieve its objectives, the group will be guided by its BRG guidelines and/or objectives. Not all offices have every CSR group represented.

1.4. CSR Activities at the Lisbon Office

The Lisbon office engages mostly in philanthropic CSR activities such as volunteering, traditional CSR activities in the form of CSR Groups and one BRG, and its most innovative approach to CSR relates to responsible investments. Other CSR activities will also be described in this section.

1.4.1. Volunteering at the Lisbon Office

The Lisbon office follows Mercer's global standards in what regards volunteering, as previously described. In 2017, the Wealth department decided to help underprivileged families by refurbishing their children's bedrooms in poor neighbourhoods located in suburban Lisbon. Previous activities include cleaning the Portuguese woods to prevent wildfires. It is well worth to note what some employees expressed in terms of the impact the volunteering day had on their motivation:

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“During a short-period (after the volunteer day), we remember on a daily basis about the help we gave in the activity. But my motivation is not increased due to that activity... We end up forgetting it in the long-run.”- Actuary

“It did not affect my motivation. It made me appreciate the company that I’m working for – because the company values volunteering and helping the community – but it doesn’t impact how I do my day-to-day job.”- Investment Analyst

The office has one BRG group represented that is Mercer Cares. It also has 3 CSR initiatives, namely: *DICE*, *Fórum Kaizen* and *Community Cares*.

1.4.2. DICE (Diversity, Inclusion, Community and Equality)

DICE is coordinated by a BRG (*Women at Mercer*) but aims at giving activities a wider meaning. The motto is “*Where all faces have equal opportunities*” thus pursuing the main goal of gender equality, and does not identify itself with feminist values but with equal rights and benefits at work. One example of how the BRG acted regarding the Lisbon office, was by warning the HR department that certain lines of business did not have a balanced women:men ratio, which should be improved. The reason why this group is not called *Women at Mercer* is due to the fact that it targets broader goals, for men and women.

1.4.3. Community Cares

This BRG provides orientation guidelines to several countries. The main focus is work *for* the community, and each country defines an action plan. The BRG does not provide a budget for donations (employees may gather donations in the office if they wish to do so) and pressures employees to input mandatory Volunteer hours in the MyTime platform. It is worth noting that every MMC company provides employees with one paid volunteer day per year, and May is usually considered the Volunteering month. Action plans can be related to whatever employees feel will benefit communities the most, such as pro-bonno work, environmental causes, and in the case of the Lisbon office, employees decided to focus on improving the living conditions of underprivileged families.

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“I definitely feel the socially responsible component exists at Mercer, especially as I’m part of a committee called Community Cares - that committee is responsible on deciding which initiatives mercer should be part of. So, I’ve organised volunteering initiatives for the team, I’ve participated in an initiative in Lisbon for the homeless, and we’ve also been fundraising for a colleague of ours that’s had problems with her new-born child - we managed to fundraise for our colleague to pay for medical care”. – Investment Analyst

1.4.4. Fórum Kaizen

Although this group does not answer to a BRG per se, it was created by the HR department in the Lisbon Office with the aim of implementing several points of action in the office, in a holistic approach that can be interpreted as absorbing several BRG’s most important focus points. The first step taken in attempting to implement this holistic framework is to allow employees to submit their ideas online and analyse an employee satisfaction survey, issued by Mercer on a yearly basis, to evaluate employee satisfaction and what measures could be implemented to improve motivation. Several actions resulted from this, such as:

- Casual Friday;
- Work from home;
- Availability of Nespresso coffee partially offered by the firm;
- Metal water bottles given to each employee to reduce the carbon footprint;
- Holidays given to interns as a company practice;
- MyBalance – this is particularly important to employees, as it allows them to cumulate extra hours work after the 8.5 hours benchmark. Extra hours can be used as days off whenever employees aren’t going through peak-period;
- Parents get the day off for their children’s birthdays;
- Strong culture of support towards employees who are going through life-changing, negative events such as an employee going through cancer. Mercer may contribute towards the payment of treatment expenses and employees usually crowdfund for the same purpose.
- Volunteering Day and Global Volunteer Recognition Program i.e. awarding different levels of prizes to different types of volunteers.

So far, traditional CSR activities were described. In recent years, Mercer started exploring the field of responsible investments, a form of CSR, which I will describe in the next section.

1.4.5. Responsible Investment

*“The integration of environmental, social, and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance”.*¹⁰

Responsible investment (RI) is Mercer’s most innovative activity in what regards CSR. RI incorporates ESG factors into decision-making by selecting securities and industries that positively contribute towards the sustainability of ESG factors without disregarding financial growth. While an ethical investment approach screens out securities and industries that do not meet personal moral values, religious beliefs or ethical codes, RI can be pursued by investors who exclusively target growth since this approach argues that ignoring ESG factors is ignoring market opportunities that increase returns. The RI approach is not about negatively screening industries or companies, but about pursuing investment decisions responsibly by taking into account ESG factors.

In March 2017, the UK Pensions Regulator released new guidelines for trustees on the issue of responsible investment, stating: *“trustees need to take environmental, social and governance factors into account if they believe they are financially significant”*¹¹. Therefore, while the law motivates trustees to approach financial returns as the most crucial factor in improving the funding level of a scheme, it is malleable in the sense that it allows trustees to build investment strategies that take non-financial factors into account¹². RI has become important to trustees due to the positive financial returns gained when incorporating ESG factors into investment decision-making, but also due to the risks of not acting responsibly at the eyes of multiple stakeholders, such as damaging reputation.

¹⁰ Source: Mercer

¹¹ The Pensions Regulator. (2017). Investing to fund DB. Available: <http://www.thepensionsregulator.gov.uk/guidance/db-investment-two-strategy.aspx>. Last accessed 20th April 2018.

¹² *“We hope that we can finally remove any misconceptions on this issue: there is no impediment to trustees taking account of environmental, social or governance factors where they are, or may be, financially material”* (UK Law Commission, 2014)

Mercer follows 5 key investment beliefs¹³ to attain client objectives, sustainability being one of them. Before advising clients on the strategies that best suit the scheme, the consultant will hear the trustees' preferences on the assets to be invested in and will look for A-rated funds. Mercer rates funds on two bases: a financial basis and an ESG basis. An ESG rating captures the manager's ability to integrate ESG factors into core investment processes and active ownership¹⁴, by evaluating the manager in four factors: idea generation, portfolio construction, implementation and business management. The ESG rating is therefore an overall rating that takes into account the manager strengths and weaknesses in each of these factors, and serves as guideline to clients that some strategies are more ESG-oriented than others¹⁵.

As previously stated, trustees are required by law to have the necessary knowledge to run schemes. However, trustees may lack knowledge, for example, in a particular asset class that could increase scheme returns. In such cases Mercer provides training sessions on that area they are lacking knowledge. Should trustees find RI an important non-financial factor to take into account when devising a strategy for the scheme, Mercer will provide training sessions with the goal of further educating them on the issue. According to a senior analyst:

"We are starting to see more interest on the topic, but I think there's still room for improvement. I think it has to start with the client as well – so yes, we can bring up the subject and put it on the table for discussion – but clients must be more receptive of it, so we can produce more work on it."

This thesis considers RI to be Mercer's most innovative CSR activity – because it allows Mercer's core services to be guided by a dynamic investment approach without disregarding the weight of CSR. The senior manager of the Investment Analysts' team portrays the situation quite well:

"I think we innovate quite a lot and, in what regards RI, Mercer is at the forefront in terms of client advice. We have a big team in the UK always striving to be aware of these kinds of issues and making sure our advice to clients is in line - or even pushing - the innovation frontier of

¹³ Please see Figure 8.

¹⁴ Source: Mercer. (). *Responsible Investment*. Available: <https://www.uk.mercer.com/about-mercero/lines-of-business/investments/responsible-investment.html>. Last accessed 23rd February 2018.

¹⁵ Please see Figure 9.

this field. It's all about what the client is looking for and what their particular situation is. We have to be very careful in distinguishing investing in socially responsible companies for the sake of investing, from what we would advise our clients to do given their context. So, if it's right for the client, we will advise them to do it - and we have the capabilities to show them how to best do that."

1.5. Conclusion

Mercer's operations are directly linked with increasing social welfare, even if the company carries on such a mission with the aim of growing revenue. Employees are aware of the impact their work has on pensioners, which seems to be a source of motivation.

"Mistakes in our area may mean that people may not receive their pensions in time and that is very serious. We all take joy in knowing that in the end, our efforts mean that people get their pensions on time, they get the money they've been working all their lives for... and in the case of foundations or endowments, it means that scholarships will be given out, so people will have more access to education, because we gave out advice that enabled them to invest in the best way and make their funds sustainable. So, in the end, we are working for the greater good."

Mercer engages in the most traditional CSR activities, such as volunteering activities, and measures their impact in terms of hours dedicated to volunteering. Employees see the impact had on the community because they are involved, but such impact is measured in terms of hours spent. Responsible investment is, arguably, Mercer's most innovative CSR activity and evidently connected with company operations. The possibility of employing RI is given to clients as part of Mercer's broad services portfolio and not due to ethical motivations, as RI will only be applied if clients decide to do so. It can consequentially be argued that the ethical weight (of pursuing RI or not) falls on client shoulders, as Mercer provides such an investment option to remain competitive. Other CSR activities to be pursued will be defined by top management (aligned with employee preferences). It is reasonable to assume that the company is aware of the necessity to practise such activities for legitimacy issues and to increase employee motivation:

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“These types of initiatives (also help) shape the idea people have of the company. People feel they are working for a place that does care and does aim to bring greater good to society. They feel more engaged and things like salary become a detail – you want to work for Mercer not because of pay, but because you feel aligned with the values of the company.” – Investment Analyst’s senior manager.

The big question lies in understanding if these activities are enough or not. If Mercer is helping the community, is it not creating value? The wide umbrella of social responsibility also includes client satisfaction, hence if schemes grow successfully at the hands of Mercer and retirees are paid on time, isn't Mercer incorporating CSR in its operations? If employees are satisfied, if the work they do contributes towards increasing social welfare, and if other stakeholders are also pleased with company conduct, should they do more? And what else can they do? The issue lies in understanding if engaging in other CSR activities will create shared value that will benefit the company as well as society and if employees will be further motivated or not.

2.0. Literature Review

2.1. Corporate Social Responsibility

2.1.1. Corporate Social Responsibility definitions according to different scholars

Scholars have given increasing attention to the concept of Corporate Social Responsibility (CSR) arguably due to the impact it has on the firm's value chain, stakeholders, firm's legitimacy and the environment. Additionally, society has expectations towards firms that are beyond economic, as Carroll (1979, page 500) explained: "(CSR involves the) economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time". The concept of CSR and surrounding discussion provides guidelines to corporate behaviour, allowing firms to refrain from activities harmful to society (Branco and Rodrigues, 2007). A word of warning is relevant because scholars have not yet agreed on a common CSR definition as it can mean different things to different people, and it is undoubtedly a concept that evolves over time as markets change and corporate needs shift, inevitably affecting all factors differently. Some authors, such as Campbell (2007) have used definitions that strive to set minimal behaviour standards for companies to act responsibly, thus giving critics a measuring scale that sets the fine line between corporate irresponsible and responsible behaviour¹⁶. Buchholz (1991) took a step forward into identifying five key components held by socially responsible firms¹⁷ rather than offering a definition. Other authors have used wider-ranged definitions, intended at portraying actions taken by the socially responsible firm with the aim of boosting tri-party¹⁸ welfare. Vastly mentioned by scholars is Aguilera et. Al (2007) who defined CSR as "a set of firm's initiatives that go beyond the notion of profit-making or compliance with the law", and Aguinis (2011) who defined CSR as "context-specific organisational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social and environmental performance". Aguilera's definition seems to be only partially completed for the purposes of this thesis due to lack of specificity. This thesis will take into account Aguinis definition, unless stated otherwise, Aguinis definition

¹⁶ "I view corporations as acting in socially responsible ways if they do two things. First, they must not knowingly do anything that could harm their stakeholders (...). Second, if corporations do cause harm to their stakeholders, they must rectify it whenever the harm is discovered and brought to their attention." Campbell ('g 951, 2007)

¹⁷ Buchholz, page 19, 1991: 1) Companies have responsibilities beyond the production of goods and services at a profit. 2) These responsibilities involve helping to solve important social problems, especially those they have helped create; 3) companies have a broader constituency than stakeholders; 4) companies have impacts that go beyond simple marketplace transactions; 5) companies serve a wider range of human values that can be captured by a sole focus on economic values.

¹⁸ I characterize tri-party welfare as the pursuit of creating welfare by taking into account the economic, social and environmental impacts of the firm.

reflects the notion of *integrated* CSR, which incorporates economic, social and environmental concerns into the corporate strategy. Note that Aguinis definition is intertwined with the concept of one's-self – as Korchun et. Al (2014) explained, CSR “reflects a core belief rather than an attitude about a particular social issue”. This philosophy named social identity theory, will be further associated with the critical view demonstrated along this thesis of why CSR should take on a transformational dimension to truly make a change, rather than a transactional one. Aguinis and Glavas (2013) explore the above-mentioned approach by differentiating *embedded* and peripheral CSR, where the former is explained: “CSR involves an organization’s core competencies and integrates CSR within a firm’s strategy, routines and operations and therefore affects all employees”. Peripheral CSR will be explored in section 3.2.

One could question which CSR component (economic, social and environmental) relates to employee motivation, the second major topic of this thesis. The literature review has shed some light on this query - according to Glavas and Kelley (page 23, 2014): “*Social responsibility, by nature of its definition, takes into account relationships with other human beings (e.g. community, customers, employees, suppliers). As a result, social responsibility opens itself up to the extant literature on relationships that can be integrated into research on social responsibility to help explain the impact on employees*”.

2.1.2. Corporate Social Responsibility and Philanthropic activities

CSR and philanthropic activities seem to have, at first sight, many similarities. Carroll (1979) stated that “(CSR) entails promoting good causes, instituting good practices, and carrying philanthropy, all of which highlight a firm’s ethical position”. When discussing CSR, and in line with Aguinis’ definition of CSR that places high importance in stakeholders’ expectations, scholars usually differentiate between internal and external CSR strategies, which target internal and external stakeholders respectively. According to Verdeyen et. Al (2004), internal CSR describes “the policy and practices of an organization that are related to the psychological and physiological well-being of its employees”, and practices include “respect for human rights, employee health and safety, work-life balance, employee training, equal opportunity and diversity” (Vuontisjärvi, 2006). Michaelson (2005) is a strong advocate that “organizations have a moral or ethical obligation to make workers feel that their work is meaningful”.

According to Carroll (1979), external CSR strategies “relate to the environmental and social practices that help to strengthen the firm’s legitimacy and reputation among its external

stakeholders”. Brammer et. Al (2007) go a step further into identifying what external CSR activities entail, namely “volunteerism, cause-related marketing, corporate philanthropy, and environmental and wildlife protection”. Note that Carroll’s definition is explicit in arguing that external CSR, consisting of many factors that include corporate philanthropy, may be a vehicle used by firms to enhance their *legitimacy* at the eyes of external stakeholders. Suchman (1995, page 574) defined legitimacy as “a generalized perception or assumption that actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions”. Mescon and Tibson (1987) argue that philanthropic behaviors may conceal profit-seeking behaviour and that corporate giving has thus become strategic to fit the firm’s overall goals and mission. The question lies in analysing whether the expression *corporate philanthropy* should be regarded as an oxymoron since it “implies actions motivated by factors other than self-interest” (Young and Burlingame, 1996). This statement should therefore be read with a critical eye to start a Friedmanesque debate on the issue of firms lowering prices to allow consumers to donate to relevant social and/or environmental causes.

2.1.3. Corporate Social Responsibility - Arguments in favour and against

Milton Friedman’s well-known article ‘*The social responsibility of business is to increase profits*’ argues that corporations have no other corporate social responsibility objective apart from increasing profits. In this mission, Friedman argues that firms should not engage in fraudulent and deceptive activities and that the firm’s resources should be used to create wealth for shareholders. His argument lies on the foundation that other social activities prove to be costly to the firm, thus reducing revenue. In reducing revenue, the firm is being disloyal to shareholders i.e. the owners of the company. This argument was strongly refuted by Freeman (1984, 1999), who argues that the firm has the moral obligation to satisfy all stakeholders affected by business decisions, including but not exclusively shareholders, and in doing so firms seek wider legitimacy recognition in society. Freeman further argues that it is not possible to separate business decisions from moral content, a theory known as separation thesis. Carroll (2000), a supporter of stakeholder theory, has rejected the separation thesis on the grounds that economics “is clearly infused or embedded with ethical assumptions, implications and overtones”.

Milton Friedman’s critical view on CSR also applied to philanthropic activities – in his view, a contribution from the corporation automatically takes away an opportunity for the

shareholder to decide how funds should be disposed of. Therefore, if contributions are to be made, they should be made by individual stockholders and not by the company. A relevant assumption underlying Friedman's argument against philanthropic activities is that the firm will not obtain gains from it, and the impact of an individual donor is the same impact of a corporate donor. However, Brammer and Millington (2005) have empirically proven that firms with higher levels of philanthropic expenditure have better reputations, contesting Friedman's assumption that philanthropic expenditures do not benefit the firm. Tokarski (1999, page 34) defined strategic philanthropy as "the process by which contributions are targeted to serve direct business interests while also serving beneficiary organizations", hence it is intrinsic in this definition that strategic philanthropy is to be regarded as a means to achieve business interests. Opposing Friedman and in partial agreement with Tokarski are Porter and Kramer (2002), who argue that corporations can use their benevolent works to improve their competitive advantage, by addressing causes that will also benefit corporations: *"Improving education, for example, is largely seen as a social issue, but the educational level of the local workforce substantially affects a company's competitiveness. The more a social improvement relates to a company's business, the more it leads to economic benefits as well"*. The authors leave a word of warning in the sense that companies should be thoughtful of their philanthropic engagement, as they will only reap benefits of philanthropy when such activities produce simultaneous social and economic benefits. Turban and Greening (1996) argue that in the quest to please external and internal stakeholders, the company will engage in socially responsible practices because those same practices are crucial in forging societal relationships, and will give a competitive advantage to the firm by engagement in philanthropic activities.

2.2. How to use Corporate Social Responsibility to drive a change

This section of the literature review aims at analysing 3 related models that argue how CSR can be leveraged to drive a change in society. Carroll's pyramid will be the first model addressed, followed by Pallazo's study on Transactional vs. Transformational CSR. Last but not least, Porter's theory on shared value will be explored.

2.2.1. Carroll's Pyramid

Carroll's pyramid is a four-layer pyramid that describes the different levels of responsibilities that a business must embrace to fully accomplish Corporate Social Responsibility. The levels are described below.

- **Economic:** business organisations are entities that provide goods and services to society, with the principal aim of making a profit. This level is the solid foundation upon which the responsibilities of the firm rely on to be relevant. Carroll argues that society allowed for businesses to be set up and created, therefore businesses hold the economic responsibility of making sure that positive impacts flow to society. To



Source: Carroll, 2016.

- do so, businesses must be successful in generating profits so all stakeholders benefit from its existence, and to sustain their longevity in the long-run. Economically unsustainable businesses don't reach further levels of the CSR pyramid due to lack of financial resources.
- **Legal:** firms must comply with the law in the pursuit of profit-making. "Legal responsibilities represent *codified ethics* in the sense that they embody basic notions of fair operations as established by law-makers". Simply put, the law codifies what society believes to be acceptable and non-acceptable conduct.
- **Ethical:** ethical responsibilities are the driving force behind rules and regulations. The law is necessary to define boundaries for businesses to operate, but is not sufficient. Society expects corporations to behave ethically in all operational aspects, even though ethical standards or practices are not transcribed in the law. Therefore, society expects businesses

to have ethical conducts in cases where legislation does not provide ethical orientations, as some practices are expected or prohibited by society.

- Philanthropic: according to Carroll (page 4, 2016) “Corporate philanthropy includes all forms of business giving”. Business giving is expected, though it may not be a responsibility in the literal sense. Therefore, what differentiates the ethical and philanthropic categories of the pyramid is that corporate donations are not expected, while an ethical conduct is. Philanthropy gains a voluntary connotation and even though it is highly desirable “it is the less important category of the pyramid” (Carroll, page 42, 1991).

The pyramid suggests that full CSR is achieved once all levels are actioned. The pyramid is not to be seen as a static approach to corporate responsibilities and expectations, but a dynamic one which holds onto the assumption of long-term business sustainability to allow for appropriate representations of responsibilities and obligations that will, inevitably, effect the future generations of stakeholders (Carroll, 2016). The author further states that the pyramid is to be seen as *one*, and not evaluated by its parts separately. Firms should attempt to fulfil the four components simultaneously and not pursue a hierarchical approach.

2.2.2. Transactional vs. Transformational CSR

Palazzo and Richter (2005) analysed the example of the tobacco industry to better understand if firms in typically problematic industries can ever be in the CSR business. This industry has the limitation of legally selling health-damaging products. Therefore, by following standard economic motivations of increasing sales to generate profit, firm objectives run counter social good. Credibility was lost in the past and not re-gained because society recalls how tobacco industry representatives manipulated information to conceal the health risks of their product. Stakeholders agree with Peter Drucker’s definition of CSR, “(CSR) demands that businesses take responsibility for social problems, social issues, social and political goals beyond their core business activities” (Drucker, 1973), and have high expectations regarding firm’s behaviours. If CSR usually aims at legitimizing corporate activities, firms must preserve societal acceptance to drive CSR activities (Weaver et al., 1999). When seeking to engage in CSR activities, be it for “window-dressing” reasons or not, firms should take into account the three levels of CSR performance described by Palazzo and Richter (2005, page 396):

- *“The instrumental level refers to a corporation’s ability. Corporations dispose of the skills and competences that are necessary to deliver products or services in the quality expected by its customers.*
- *The transactional level refers to a corporation’s integrity. The corporation complies with the legal and moral rules of their societal context. Its transactions are transparent, its behaviour is fair. It keeps its promises and acts with consistency.*
- *The transformational level refers to a corporation’s benevolence. The corporation demonstrates that it is willing to transcend self-interest for the sake of the common good. It contributes to the well-being of society.”*

This section tells us that corporations that fully engage in CSR will try to demonstrate that they operate in all three levels described above, and will show further altruistic values by engaging in philanthropic activities as suggested by Carroll (1991).

2.2.3. Porter and Kramer on Shared-Value

Porter and Kramer argue that CSR is a source of opportunity, innovation and competitive advantage, and not a cost or a charitable deed as Friedman’s school of endorses. The authors argue that companies face risk of financial jeopardy if stakeholders hold them responsible for inappropriate conduct. It has become common for companies to produce (in an attempt to demonstrate corporate responsible behaviour) PR campaigns targeting external stakeholders’ perceptions, and CSR reports, the latter which typically describes monetarily philanthropic activities and hours spent in volunteering activities (engaged in during the fiscal year by the firm). Rarely or never do such reports describe activities in terms of impact to society.

Porter and Kramer agree with Carroll (1991) on the principle of sustainability, meaning that “companies should operate in ways that secure long-term performance by avoiding short-term behaviour that is socially detrimental or environmentally wasteful” (2006, page 4). The authors go a step further by criticizing that however correct such a predicament may be, the sustainability school of thought does not offer a framework that allows for balancing long-term CSR objectives and their inherent short-term costs. Additionally, the authors alert that several schools of thought – namely the stakeholders’ school - aim at managing tensions between businesses and society, ignoring that they are mutually dependent. Porter and Kramer start by arguing that any corporation ambitioning success needs a healthy society (one that provides

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access to quality education, healthcare, that has a good government), and any (healthy) society needs successful corporations (that create jobs, wealth, improve standards of living). Having established mutual dependence, “business decisions and social policies must follow the principle of *shared value*, that is, choices must benefit both sides” (2006, page 5).

Businesses should be aware that they cannot solve all of society’s problems, and must decide which ones to address. Choosing a cause of higher worth is less relevant, as it is crucial that the cause “presents an opportunity to create shared value – that is, a meaningful benefit to society that is also valuable to the business” (2006, page 6).

The authors contend that when pursuing strategic CSR¹⁹ both sides will gain, because firms will be catering for the resolution of social issues that strengthen the firm’s competitive position and benefits society, thereby creating a symbiotic relationship. Therefore, strategic CSR is selective, and the closer to the firm’s context a social issue is the higher value will be created, thus improving competitive advantage.

¹⁹ Porter and Kramer define it as: “Strategic CSR involves both inside-out and outside-in dimensions working in tandem. It is here that opportunities for shared value truly lie” (page 10, 2006).

2.3. Corporate Social Responsibility's role in Motivating Human Resources

2.3.1. Why can Corporate Social Responsibility be useful to motivate employees? Establishing a link between Corporate Social Responsibility and Motivational literature.

This section of the literature review aims at finding evidence in the wide literature that CSR activities impact employee motivation.

The Oxford English dictionary defines motivation as “a reason or reasons for acting or behaving in a particular way”²⁰. In line with this definition is Shultz and Shultz (1998) description: “the personal and workplace characteristics that explain why people behave the way that they do on the job”. Following the last description, it becomes easy to understand why sources of motivation are crucial in determining employee behaviour, as feelings and actions of employees will be affected by sources of motivation and demotivation (Spector, 2003). Furthermore, Eeden and Roos (page 55) argue that employees' perception of organisational culture directly impacts work motivation and job satisfaction. This thesis follows from Gouws (1995) that factors which increase work motivation are the same ones that increase job satisfaction, thus a motivated employee is one who is generally satisfied with their work. Several studies (Turban and Greening, 1996; Greening and Turban, 2000) provided evidence of payoffs associated with increased corporate social responsibility, namely that highly socially responsible corporations will benefit from highly committed workforce because “employees will be proud to identify with work organisations that have favourable reputations” (Peterson, 2004, page 299). The literature makes a clear link between motivation, job satisfaction and corporate reputation and how the three factors are influenced by CSR. Previously mentioned social identity theory can be further related to employee motivation: individuals hold individual views of themselves i.e. their “self-concept” which is influenced by the social organisations they relate with, including the organisation they work for (Ashfort and Mael 1999). The strength of association between an individual's self-concept and organisational values depends on corporations pursuing several actions, namely socially responsible ones. According to Maignan and Ferrel (2001), social identity theory postulates that individuals are happiest if they work for organisations with positive reputations, as such a reputation will enhance their

²⁰ Oxford English Dictionaries. (). *Definition of motivation in English*. Available: <https://en.oxforddictionaries.com/definition/motivation>. Last accessed April 2018.

own self-concept. This hypothesis is strengthened by studies that provide evidence for the case that employees and the public pay increasing attention to corporate values and to pursuance of socially responsible activities (Brammer and Millington 2003). Therefore, this thesis agrees with Frey (1997) who stated that “workers are not only motivated by the need of money, and non-financial elements are also important to motivate workers”.

2.3.2. Meaningfulness and Corporate Social Responsibility

Glavas and Pinderit (2009) found a positive relationship between CSR and employee engagement and Glavas (2012) suggested that the reason why a positive relationship exists between employee engagement and CSR is due to work *meaningfulness*. Meaningfulness refers to the amount of significance something holds for an individual (Pratt & Ashforth, 2003). Accordingly, Rosso et al (2010) assert that meaningfulness at work can be found through CSR because employees feel they are contributing towards “the greater good”, a statement supported by Grant et al (2008) whose findings confirmed that when employees feel they are contributing towards the greater good, they improve feelings of their own self-concept thus increasing organizational identification. Pratt and Ashforth (2003) go a step forward in establishing a definition for meaningfulness, discriminating between meaningfulness *at* work and *in* work. The former refers to membership to an organisation and *not* what one’s job comprises (*e.g. my organisation is committed to CSR but my job does not directly contribute to CSR*), while the latter refers to *what one does* (*e.g. my organisation does not contribute to CSR but my job does so*). Basu and Pallazo (2008) state that those employees working for organisations that have specific CSR departments (i.e. CSR is *not* embedded in the organisation), may still find pride in working for such organizations due to enhanced organizational identification, regardless of particular job descriptions. The topic of peripheral CSR plays a role in this debate – it focuses on activities that are not integrated in the organization’s strategy, routines and operations (Aguinis and Glavas, 2013) thus can be pursued by any type of firm. An example of peripheral CSR is raising donations for a cause. Glavas and Godwin (2013) argue that peripheral CSR can have negative effects in organizational identification if meaningfulness *at* work is disconnected from meaningfulness *in* work: “If an organization is projecting an image of being socially responsible but one’s job is not connected to social responsibility, employees might find a lack of congruence and authenticity, which could result in less identification with the organization”.

2.3.3. Under which conditions does Corporate Social Responsibility work to motivate employees?

This section of the literature review aims at describing which CSR vehicles should be pursued to enhance employee motivation. This thesis does not aim at suggesting which problems (that fall under the CSR umbrella) firms should address when engaging in CSR activities.

It was established in the previous section of this literature review *why* CSR is deeply linked with motivation and employee identification, and the aim of this section is to answer *how*. Glavas and Godwin (2013) state that employees strongly associate themselves with their work organisation if the latter engages in social welfare activities. Additionally, Jones et al (2014) argue that firms involved in such activities successfully attract suitable employees, a statement that Jones (2010) further supports with evidence as the study found that employees who received support from their work organisations when engaging in socially responsible activities created stronger attachment bonds with the organisation. In effect, firms must be involved in CSR activities *and* create awareness among external and internal stakeholders of their ongoing efforts, and payoffs of such activities. Once stakeholders become aware of such activities, their identification with the firm will broaden (Sen et al., 2006). External CSR activities reflect firm characteristics that society values (Aguinis and Glavas, 2013) thus when contributing towards community development and philanthropic activities, they will enhance outsider's perceptions of the firm (Brammer and Millington, 2005). Additionally, Bhattacharya et al. (2008) argue that intrinsic CSR activities inevitably provide cues to employees that the firm is engaged in taking good care of employees.

Corporations are increasingly worried about the time employees spend at work and the impact it has on their motivation, hence it makes sense to discuss meaningfulness *at* work and *in* work. An embedded CSR strategy provides both types of meaningfulness (Aguinis and Glavas, 2013). Since employees are not only affected by how the organization treats them, but also by how the organization treats others (Rupp, 2011), employees gain an enhanced sense of purpose when they are given the opportunity to valuably contribute to the community (Grant et al., 2008). This implies that employees' well-being diminishes if work lacks meaningfulness (Hulin, 2014). Furthermore, when involved in CSR activities, firms can expect improved job attitudes, increased productivity and a decrease in turnover (Trevino and Nelson, 2004), positive consequences of enhanced employee motivation.

3. Teaching Notes

3.1. Case Synopsis

Mercer is the world's largest Human Resource (HR) consulting firm, owned by parent firm Marsh and McLennan. Mercer's core values are people as well as anticipating future managerial needs that will enhance the competitive positions of each of its clients. It focuses primarily in 3 main segments: Health, Wealth and Careers. This case study focuses on the Wealth department at the Lisbon Office. Mercer's Lisbon office employs c. 230 people, most of them with backgrounds in business, economics, mathematics and actuarial sciences. Wealth is the segment that manages Defined Benefits (DB) pension schemes and gives investment advice to several clients. Mercer's clients are UK-based firms that set up DB pension plans for its employees. Three distinct departments operate in managing client work: the actuaries, the investment analysts and the performance reporting team. A DB plan can be understood as having two sides: the liabilities side, where actuaries perform, and the assets side, where investment analysts perform. Lastly, the performance reporting team manages the reports to be issued and sent out to clients, with information on their schemes. Mercer is hired to give professional independent advice to clients, and it does so by analysing the assets and liabilities side. There is a strong feeling within Mercer that the job is of great value to people since retirees ultimately benefit from Mercer's employees' consulting and actuarial services. Although employees work in quantitative areas, they are highly sensitive towards people due to the nature of their jobs which revolves around taking the best decisions to make sure client companies are able to pay pensions in the future.

Mercer engages in several types of CSR actions, the most relevant ones being:

- Volunteering: in 2017, the Wealth department decided to help underprivileged families by refurbishing their children's bedrooms in poor neighbourhoods located in suburban Lisbon. Previous activities include cleaning the Portuguese woods to prevent wildfires.
- CSR Groups/Business Resource Groups: BRG's can be understood as CSR departments operating globally. The main goal is to have a global group (the BRG) aid a local group (of the local office). While the BRG will ask local offices for tangible results on their actions, it is the local office that puts in place the initiatives needed.
- Responsible Investments (RI): Mercer's most innovative activity in what regards CSR. RI selects securities and industries that positively contribute towards the sustainability of ESG factors without disregarding financial growth. RI can be pursued by investors who exclusively target growth since this approach argues that ignoring ESG factors is ignoring market opportunities that increase returns.

The case aims at analysing how the aforementioned CSR activities can increase employee motivation, and if the company should pursue other types of activities or not, i.e., if what the firm is doing is already enough to sustain employee motivation.

3.2. Case use and teaching objectives

This case study can be used to aid students in different courses, such as business ethics, corporate social responsibility and motivational practices. The main theme concerns CSR practices and the effect on employee motivation.

3.3. Assignment information

The following questions can be used for potential assignments:

1. To whom does Mercer owe its main ethical responsibilities?
2. What are the reasons why Mercer engages in CSR?
3. Would it be ethically correct for Mercer to *only* suggest to its clients highly-rated ESG funds?

3.4. Class Discussion

This section aims at suggesting approaches to class discussion of the case study. Four critical issues that are deeply connected with the case have been identified.

3.4.1. Introduction

(5-10 minutes) It's essential that students understand Mercer's core competencies regarding pension fund management. Core competencies can be perceived as Mercer's professional ability to provide grounded advice to clients on how to manage their pension schemes, from the assets side – where investment analysts perform – and from the liabilities' side – where actuaries perform. To understand core competencies, students should understand the differences in activities of the three main departments (investment analysts, actuaries and performance reporting team) in the Wealth business line. A brief summary is provided below.

- Investment Analysts: manage the assets side of the plan. Go to capital markets to grow the sum of contributions made by the employer and employees, with the aim of increasing the plan's funding level. Defines a dynamic investment strategy, that is closely reviewed as the funding level of the plan increases over time.
- Actuaries: use mathematical and statistical modelling to calculate the liabilities of the plan. The main goal is to determine the contributions needed to be made by the employer to fund the liabilities.
- Performance Reporting Analysts: produce reports to be sent to clients on the performance of each fund that the client scheme has invested in.

Students will conclude that although job descriptions are different, all departments contribute to the better management of pension funds. Students should identify and describe the main CSR activities at Mercer (Volunteering, CSR Groups and Responsible Investments).

3.4.2. First Critical Issue

(15-20min) A first critical issue to start discussion, after students have named the main CSR activities, is to understand at what levels of CSR does Mercer operate. A good question to ask students would be: *Discuss the characteristics of Mercer's CSR agenda. Is CSR embedded or peripheral? Can its approach to CSR be considered transformational?*

The first part of the question can be addressed by identifying Mercer's 3 main CSR activities (volunteering, BRG's and RI). Using Carroll's pyramid, we can go a step further to analyse if Mercer satisfies all levels:

- ✓ **Economic Responsibilities:** This level is the solid foundation upon which the responsibilities of the firm rely on to be relevant. Carroll argues that businesses hold the economic responsibility of generating profits so all stakeholders benefit from its existence, and to sustain longevity in the long-run. Mercer satisfies this level as it is economically sustainable and has many years of profitable existence.
- ✓ **Legal Responsibilities:** Firms must comply with the law in the pursuit of profit-making. Mercer satisfies this level as well, as it does not engage in illegal activities while pursuing the goal of generating profit.
- ✓ **Ethical Responsibilities:** these are the driving force behind rules and regulations. The law is necessary to define boundaries for businesses to operate, but society expects corporations to behave ethically in all operational aspects, even if ethical standards are not transcribed in the law. The company has an ethical conduct towards internal and external stakeholders (CSR groups, Mercer's code of conduct "The Greater Good"), thus satisfies this level of the pyramid.
- ✓ **Philanthropic Responsibilities:** Philanthropy or business giving is expected although it may not be a responsibility in the literal sense. While some businesses give out altruistically, many will do so to increase legitimacy. Therefore, what differentiates the ethical and philanthropic categories of the pyramid is that corporate donations are not necessarily expected in a moral sense, while ethical conduct is expected. Mercer engages in philanthropy through volunteering activities, therefore this level is satisfied.

The second part of the question asks if CSR is embedded, which translates to questioning if the CSR activities Mercer pursues leverage on the organization's core competencies. According to Aguinis and Glavas (2013), the definition of embedded CSR is: "*CSR involves an organization's core competencies and integrates CSR within a firm's strategy, routines and operations and therefore affects all employees*". Of all the activities previously described at the beginning (volunteering, BRG's and RI) only RI fits the aforementioned definition, as it incorporates Environmental, Social and Governmental factors into decision-making by selecting securities and industries that positively contribute towards the sustainability of ESG

factors without disregarding financial growth. This thesis considers RI to be Mercer's most innovative CSR activity – because it allows Mercer's core services to be guided by a dynamic investment approach without disregarding the weight of CSR. Lastly, students are asked if Mercer's approach can be considered transformational. Of all the activities mentioned, only RI is considered transformational because the firm's core competencies are put into use with the aim of achieving revenues, at the same time as it is transcending self-interest for the sake of benevolence. The literature review is explicit in defining transformational CSR: *“The transformational level refers to a corporation's benevolence. The corporation demonstrates that it is willing to transcend self-interest for the sake of the common good. It contributes to the well-being of society.”* (Pallazo and Richter 2006, page 396). Seeing that only one of the CSR activities is transformational, I consider Mercer's approach to CSR to be transactional: *“The transactional level refers to a corporation's integrity. The corporation complies with the legal and moral rules of their societal context. Its transactions are transparent, its behaviour is fair. It keeps its promises and acts with consistency.”* (Pallazo and Richter 2006, page 396). An extra question which may be asked to students to further boost debate is, if *it is (or not) a problem that CSR activities are transactional*. I suggest that reasons are listed as to whether or not it is a problem.

Table 3 - Is it a problem that CSR activities at Mercer are not transformational?

<i>Why it is a problem</i>	<i>Why it is not a problem</i>
The company does not go an extra mile to transcend self-interest. Stakeholders may view this as window-dressing.	The company satisfies all levels of Carroll's pyramid; therefore, it goes as far as it is able to go to implement CSR.
Employees perception of organisational culture affects motivation. If employees perceive the organisational as not doing anything transformational to society, motivation will decrease.	Employees seem to be motivated with the nature of their jobs at Mercer; therefore, the absence of transformational activities does not seem to affect employee motivation.
Competitive advantage may be jeopardized when competing firms engage in transformational CSR activities, as they will be increasing stakeholder engagement as well as legitimacy.	Mercer is the market leader of its segment – competitive advantage is not affected by lack of transformational activities.

3.4.3. Second Critical Issue

(15-20min) This issue concerns Mercer’s approach in identifying activities to help the wider community, by aligning employees’ preferences and willingness to help, while gaining competitive advantage. The proposed question is the following: *By giving freedom to subsidiaries to pursue CSR activities that are most relevant to employees and local community, is Mercer able to capture shared value? If not, is it a problem?* According to Porter and Kramer (2006, page 6), shared-value is defined as: “(...) *a meaningful benefit to society that is also valuable to the business*”. The aim of the question is to start a debate of strengths and weaknesses in Mercer’s current CSR activities in capturing shared-value.

Table 4 - The strengths and weaknesses of Mercer's CSR activities in capturing shared-value.

Activities	<i>In capturing shared-value</i>	
	Strengths	Weaknesses
Volunteering	<ul style="list-style-type: none"> - Promotes legitimacy - Enhanced sense of purpose increases motivation 	Social issues addressed through volunteering activities are not related to core competencies of the firm, hence do not increase competitive advantage.
BRG's	Increases org. identification, hence increasing motivation.	Benefit employees but do not benefit the local community or society.
Responsible Investments (strengths and weaknesses only apply if trustees follow this strategy)	<ul style="list-style-type: none"> - Promotes legitimacy - Provides competitive advantage 	Most schemes do not follow RI strategy – even if they did, it would only benefit Mercer if the ultimate actors, <i>pensioners</i> , became aware of what the strategy entails and its benefits.

The literature is clear: corporations cannot solve all societal issues, and must choose which ones to address. The symbiotic predicament that society benefits from corporate activities and vice-versa is only truthful if firms choose CSR activities that yield value to them in the future – otherwise, firms will be misusing resources by engaging in causes (however worthy they may be) that do not deliver benefits to the corporation, minimizing whatever consequential benefit

that society could reap. It follows that shared-value is maximized if the activities chosen are related to core competencies of the corporation.

Some students will argue that by aiding the community, Mercer automatically becomes a “person of interest” within it, and will reap benefits in the future (the community will favour Mercer). Although such reasoning is truthful, I regard those benefits as being related with legitimacy, which is why it is important to remind students of Porter and Kramer’s definition of shared value. The definition highlights that some activities (e.g. cleaning the woods after the wildfires in Portugal, or helping under-privileged children by refurbishing their bedrooms) will not benefit the firm in the long-run (do not provide the firm with a source of competitive advantage). It is imperative that students understand why RI could increase legitimacy *and* competitive advantage, if most of Mercer’s clients followed such a strategy: by focusing on RI strategies, Mercer would differentiate itself from its competitors by positioning itself in the sustainable-investments niche market, and use its specialized skills to follow revenue-generating strategies *without* supressing benevolence. Students should also understand that by choosing to support activities that do not capture shared value, the firm is misusing resources. A follow-up question could be: *Can you suggest an activity that would allow Mercer to efficiently capture shared value?* And a possible answer would be for Mercer to advise only on highly-rated ESG funds.

The table above is in line with the literature to conclude that Mercer is not successful at capturing shared-value. It is a non-productive use of resources to focus on such CSR activities because in the long-run, Mercer will not benefit from them. For that reason, it is a problem that the firm is not able to capture shared-value.

3.4.4. Third Critical Issue

(15-20 min) I suggest that this third critical issue focuses on employee motivation and job meaningfulness, and how they are affected by CSR activities. To allow students to understand the differences between meaningfulness *in* work and *at* work, I propose the following question: *How do Mercer's activities signal to employees there is meaningfulness at work and in work?* A first step in conducting the debate would be to remind students of the definitions of meaningfulness *at* work and *in* work: The former refers to membership to an organisation and not *what one's job comprises* (e.g. my organisation is committed to CSR but my job does not directly contribute to CSR), while the latter refers to *what one does* (e.g. my organisation does not contribute to CSR but my job does so). Students would understand that both types of meaningfulness are not mutually exclusive, but may be hard to achieve at the same time without the proper activities. The CSR activities Mercer engages in have been mentioned in previous critical issues, therefore a table pointing out which characteristics of each activity send signals to employees on both types of meaningfulness will help achieve a clearer debate.

Table 5 - The presence of meaningfulness at work and in work in Mercer's CSR activities.

Activities	My organization is committed to CSR	My job contributes to CSR
Volunteering	<ul style="list-style-type: none"> - Helping external stakeholders promotes legitimacy - Enhanced sense of purpose increases org. identification thus increases motivation 	<p style="text-align: center;">Activities do not provide meaningfulness <i>in</i> work as they are not related to job descriptions of employees or daily operational procedures of employees.</p>
BRG's	Helping internal stakeholders increases motivation, engagement, employee well-being.	
Responsible Investments (strengths and weaknesses only apply if trustees follow this strategy)	Promotes CSR <i>at</i> work because Mercer would advise on this strategy to have clients employ it.	Job contributes to CSR by helping clients reach their objectives without disregarding benevolence/the greater good.

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None of the main activities mentioned in the previous answers provide with meaningfulness *in* work, except RI. This activity augments the significance of meaningfulness *in* work because employees would be following highly-rated ESG strategies to grow returns, therefore their own jobs contributes to CSR. Students may also argue employees find meaningfulness *in* work simply due to the nature of their jobs - that just by making sure pension schemes are well funded, managed and that pensioners are paid on time, the job itself contributes to CSR via its social-welfare segment.

3.4.5. Fourth Critical Issue

(15-20min) Since the case argues that RI is Mercer's most innovative CSR activity, it becomes critical that students debate the pros and cons of whether Mercer should provide clients with training sessions on RI, even if they don't request such sessions. A good question to ask students would be: *When designing an investment strategy for clients, RI will only be considered if trustees find it relevant. What are the pros and cons of educating clients on RI before any strategy is designed? Would such an approach enhance employee motivation?*

A table of pros and cons is ideal to answer the question.

Table 6 - The pros and cons of educating clients on the issue of Responsible Investment before designing a strategy.

Pros	Cons
Attempting to implement the idea of transformational CSR i.e. make trustees benevolent in their mission and transcend self-interest for the sake of the common good.	Can it be considered ethically correct to follow RI if other investment options guarantee higher returns (thus increasing odds that pensioners will be paid in due time?)
Only CSR activity that is truly embedded / involves the firm's core competencies. Higher potential to create shared-value.	RI may not be the most appropriate strategy, attending to client-specific needs.
When commencing conversations with Mercer, trustees may not take RI into account for lack of memory. Now they will be reminded that such an investment option exists.	If trustees don't act upon the knowledge they gained on TI, it would have been a waste of time and resources for Mercer.
Higher meaningfulness <i>in</i> work.	Employees feel their jobs are intrinsically related with doing the greater good, regardless of RI.

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It was previously argued that RI is the only truly embedded CSR activity that could simultaneously enhance meaningfulness *at* work and *in* work. Therefore, when educating clients prior to developing a well-suited investment strategy, the firm would be opening a window of benevolence in its clients' mind-set. The big debate aims at finding a middle-ground between following an RI investment approach and questioning oneself if it is ethically correct to not follow other investment options that provide client schemes with higher returns (thus increasing the odds of pensioners being paid at retirement age). Additionally, students will note that employees find their work meaningful due to its very nature, regardless of RI strategies. Hence, a question mark remains as to whether employee motivation would be highly (positively) affected.

4. Conclusion

4.1. Findings

The purpose of this thesis was to conduct a practical analysis to explore if CSR activities motivate employees. I aimed at answering the following question: *How can CSR activities at Mercer's Lisbon office increase employee motivation.* To answer this question, I firstly analysed the current CSR activities at Mercer's Lisbon office with the primary objective of clearly describing them to the reader. After, I interviewed six employees of the three different departments that manage pension funds (two employees of each department) and two managers of the Investment Analysts department. The interviews provided a random sample of each department, with the aim of essentially understanding if motivational drivers in what regards CSR activities are transversal across departments, and if they are aligned with middle-management perceptions. Additionally, it was a primary objective to understand if employees perceived such CSR activities as motivational towards their own jobs. Findings suggest that the previously mentioned CSR activities at Mercer *do enhance* employee motivation, but only to a certain extent.

- In what regards volunteering activities, employees found such activities to have little impact on their day-to-day job performance, opposing the middle-manager's views that volunteering activities were a source of motivation. Employees admitted to feeling a sense of pride and positive impact, that lingered for some time, but which did not impact their performance at work. All believed the activities signal to stakeholders that Mercer holds socially responsible values, and that is a source of pride for employees. Such pride translates into motivation to work for Mercer, as the company demonstrates concern for the greater good. This finding agrees with Basu and Pallazo (2008), who state that employees working for organisations where CSR is *not embedded*, will find pride in working for such organisations due to enhanced organisational identification, regardless of particular job descriptions.
- All understood BRG's to be an effective way in which Mercer shows it cares for its employees. It was not so much a matter of successfully identifying BRG's by their name, as the relevant aspect for employees was the initiatives undertaken by BRG's to promote well-being and satisfaction at work. All employees mentioned several activities to be motivational, such as the MyBalance hours system, the investment by the firm on

employees' education (paying for CFA exams, for example, and providing study days), and the firm's overall support to employees who are going through negative personal events. This finding agrees with Frey (1997): "workers are not only motivated by the need of money, and non-financial elements are also important to motivate workers"; and with Bhattacharya et. Al (2008), who argues that intrinsic CSR activities provide cues to employees that the firm is engaged in taking good care of them.

- Last but not least, investment analysts do not view responsible investments as a source of motivation to their jobs. All employees perceive their jobs as impactful and meaningful due to its very nature, but investment analysts in particular hold the view that client schemes have different particularities that require investment in the most appropriate funds, whether they have high ESG ratings or not. A high ESG rating is viewed as a bonus – the client is increasing revenues *responsibly* and *benevolently* – but it may be the case that the most appropriate investment strategy does not include responsible investments.

Therefore, Mercer's CSR activities do motivate employees, even if only to a certain extent. Seeing that Mercer has been unable in engaging in transformational CSR activities (it pursues transactional CSR activities), the firm should not engage in more activities, as what it currently does is already motivating.

4.2. Literature Contribution

The literature allowed me to deepen my knowledge on the overall topic of CSR and its effect on employee motivation. It was a personal interest to demonstrate that firms which engage in CSR activities are able to further motivate employees. The literature showed that corporations may pursue CSR for a variety of reasons (legitimacy, benevolence), but consequential effects are broad, and they include demotivation (Glavas and Godwin [2013]: "If an organization is projecting an image of being socially responsible but one's job is not connected to social responsibility, employees might find a lack of congruence and authenticity, which could result in less identification with the organization") or motivation of employees.

4.3. Limitations and further research

This study has several limitations. First of all, the study would benefit from either interviewing a much wider sample of employees, or from a quantitative survey. A quantitative survey would

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allow the study to define a linear regression, where the dependent variable – employee motivation – would be affected by CSR activities and other factors, thus determining the weight of CSR activities in motivating employees. Secondly, the study focuses on the impact of CSR activities on employees of a specific sector – the financial one. Future research could study how different employees from different sectors are motivated by CSR activities – what they value and what they do not. Last but not least, I suggest that future research focuses on answering *to what extent* do CSR activities motivate employees. The utility (of CSR activities) in what regards enhancing employee motivation seems to be limited – employees will feel motivated by the activities, but only to a certain extent. Therefore, studying which CSR activities are most effective in motivating employees, with the aim of providing sound knowledge to corporations, would allow firms to discriminate between activities, potentially allowing firms to more easily capture shared-value (as suggested by Porter and Kramer, 2006).

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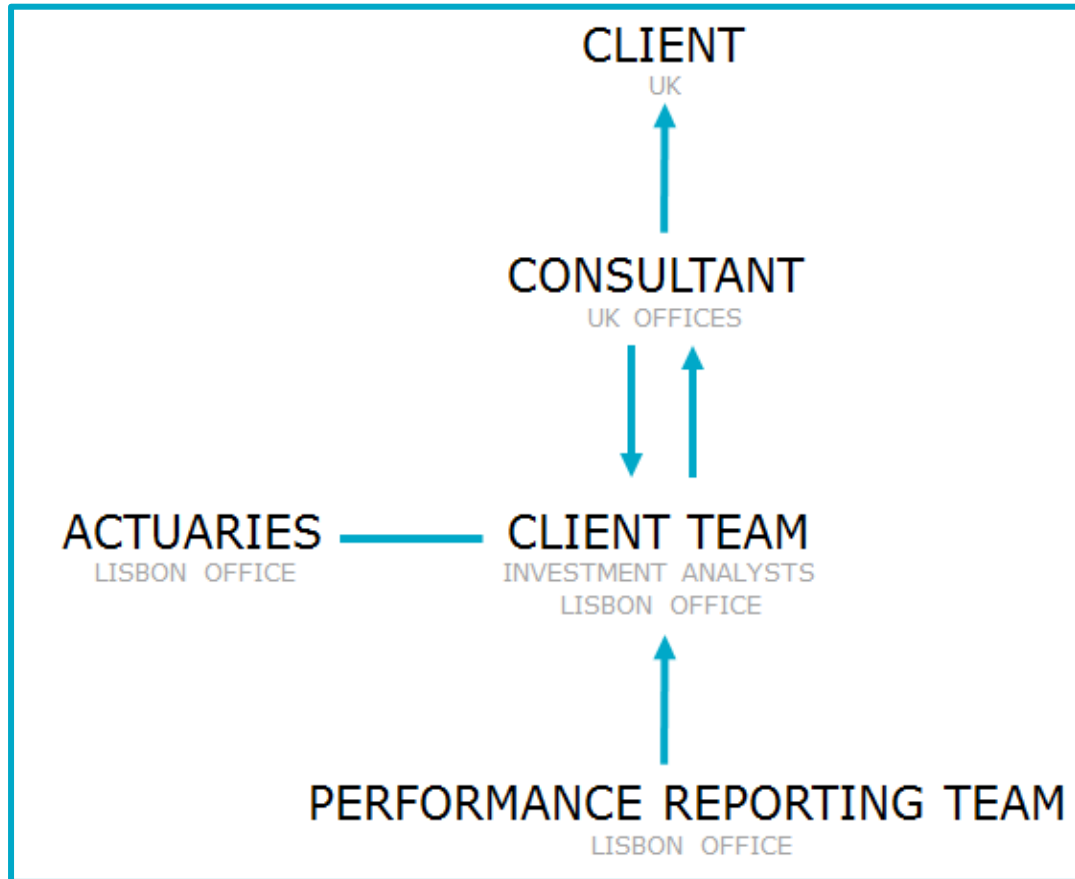
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Appendices

Figure 1 - DB Pension Plan's work structure at Mercer



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Figure 2 - Marsh & McLennan: "What we do"

WHAT WE DO

We offer clients advice and solutions in the areas of risk, strategy, and human capital.

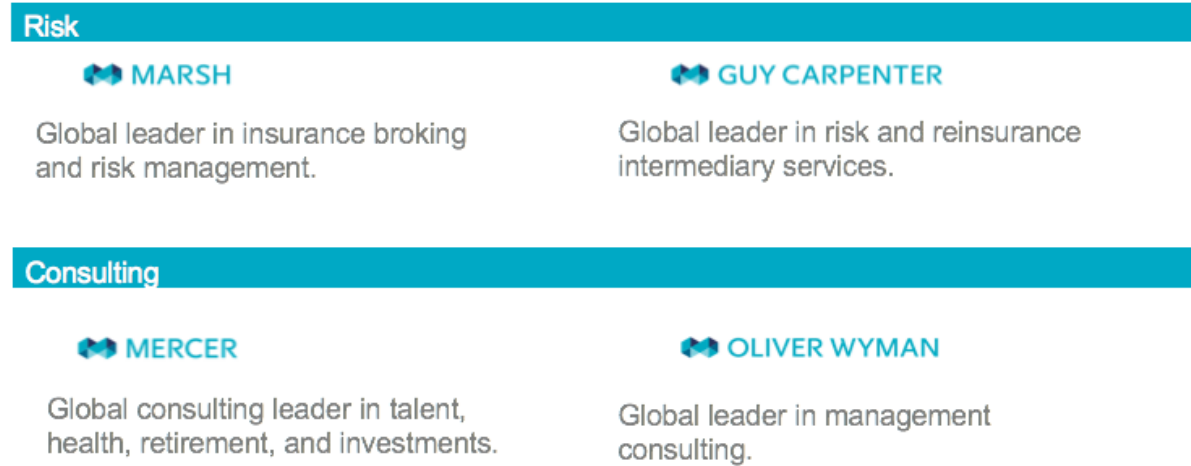


Figure 3 - Mercer's Purpose and Mission



Figure 4 - Mercer's Logo



Figure 5 - Business Resource Groups (BRG's)



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Figure 6 – Arrow flow showing the steps from setting up a Trust fund to hiring Mercer

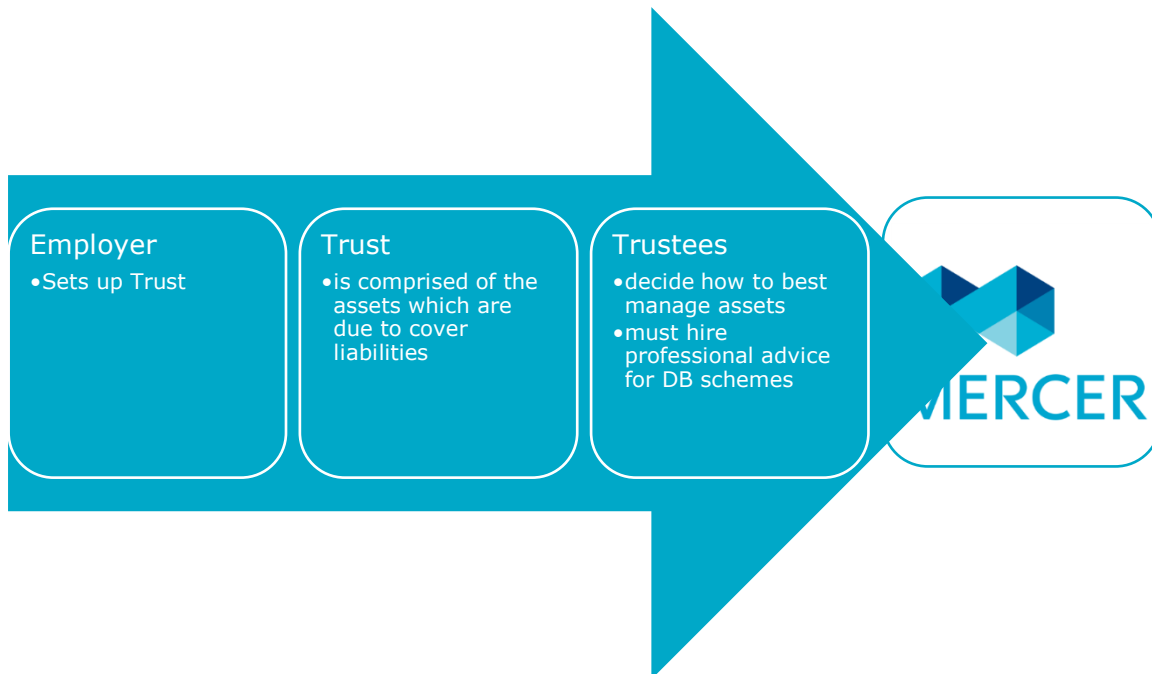


Figure 7 - Mercer's 5 Key Investment Beliefs.

MERCER'S INVESTMENT BELIEFS

At Mercer we have classified our beliefs according to the five areas shown in the diagram since 2014. The sustainability beliefs were recently, formally updated in May 2017 as follows:

We believe a sustainable investment approach is more likely to create and preserve long-term investment capital and more specifically that:

1. **Environmental, Social and Corporate Governance (ESG)** issues can have a material impact on long-term risk and return outcomes and these issues should be integrated into the investment process.
2. **Taking a broader perspective on risk**, including identifying longer-term sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities.
3. **Climate change** poses a systemic risk and investors should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts.
4. **Stewardship** helps the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.
5. **Accessing long-term streams of returns**, rather than focusing on short-term price movements, can add value.



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Figure 8 - Mercer's Manager Ratings: 4 Factors of ESG Ratings.

RESPONSIBLE INVESTMENT MERCER'S ESG MANAGER RESEARCH

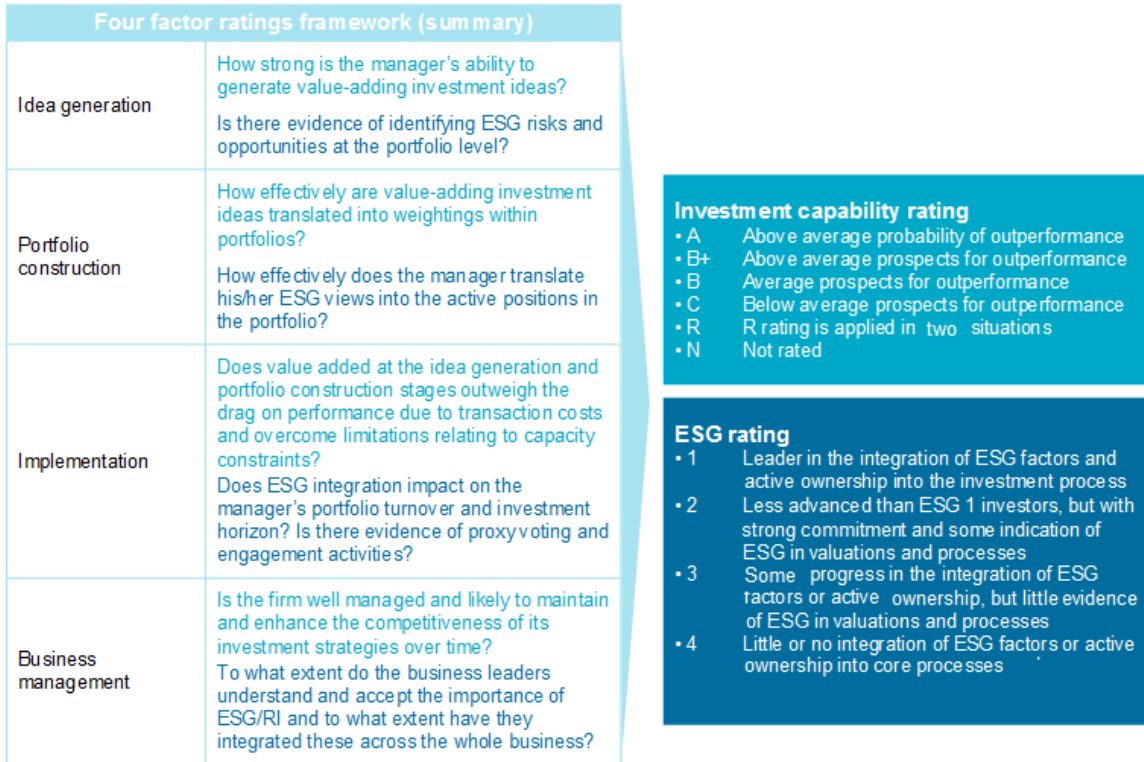


Figure 9 - Carroll's Pyramid of Corporate Social Responsibility. Source: Carroll, 2016.

