

# Employment and ESG: five reasons why it matters

## Overview

Over the last decade, we have seen a significant shift in the way that businesses approach social responsibility and an unexpected new item has recently made its way up the priority list – environmental, social and governance criteria or 'ESG'.

ESG is a tool for businesses to measure sustainability using environmental, social and governance factors. Businesses are now being scrutinised by their ability to drive and shape policy changes that promote a positive environment for the entire workforce. The benchmark has also moved into the global arena as international standards of fairness and equality are used. Getting it wrong can have a huge impact, in terms of both profitability and reputation.

Here are our top 5 reasons why ESG should be on your priority list for 2021:

### 1. Reputation

Businesses which are failing to meet the expected ESG performance standards should expect to see a knock on impact on their reputation. There have been numerous reported examples of ESG employee issues such as modern slavery, sexual harassment and race discrimination having a substantial adverse impact on the share price and market value of large and well-known companies. As a workforce strategy, ESG has become a competitive advantage in attracting and retaining talent; numerous studies have shown that, when weighing up potential employers, millennials are hugely influenced by how a business responds to and tackles social issues.

### 2. Productivity

Companies with a strong ESG and labour relations proposition have better productivity. Addressing the widening gap between executive and workforce pay is also directly linked to productivity. Fairer incentive structures can help drive an inclusive culture and employee engagement, which in turn, can boost productivity.

### 3. Value

There are many examples of how poor ESG performance can sink share prices and lead to significant costs. Almost all investors and stakeholders are now alive to ESG performance, and want to see not just short-term plans but also how the core business model incorporates and deals with these issues in the long term. Businesses that do not have an ESG and labour relations agenda will find themselves struggling to find investment from savvy backers, who recognise the need to manage these risks and promote compliance.

### 4. International standards

While many countries operate in markets with labour laws that provide relatively low levels of protection to employees,

businesses will no longer be able to rely on their geographical location. There are international frameworks that set out expected employment standards across the world by which non-governmental organisations, investors, other stakeholders and the media are now judging businesses. This includes: the UN Global Compact (a sustainability initiative with around 12,000 corporate participants and stakeholders from nearly 160 countries); the International Labour Organisation Conventions and Declarations; the International bill of Human Rights and the OECD guidelines.

## 5. Legal compliance

The ability to investigate ESG breaches and issue fines has significantly increased. For example, gender pay gap reporting is now compulsory for companies in the UK with more than 250 employees and similar legislation applies in Australia and California. While the level of penalties vary considerably from country to country, the willingness to impose top-level fines has increased across the board.

### What can employers do?

Proactive employers who want to reshape their workforce and develop a more sustainable business model have an opportunity to look at their employment framework and labour relations agenda.

Some of the key issues they can consider include:

- Shaping an inclusion and diversity model to enable recruitment and retention of more diverse talent;
- Shaping employee terms and benefits to incentivise sustainability, lower carbon emissions and inclusivity and diversity;
- Looking at variable remuneration and linking it with ESG driven goals;
- Placing employee welfare and I&D at the heart of procurement decisions; and
- Reshaping some employer policies and procedures with a greater focus on ESG.

Businesses that analyse how ESG principles affect their workforce, and take steps to anticipate and control associated risks, will be better placed to improve profitability and reputation in the long run.