Business brief for EBMOs

July 2024

Sustainability unlocks opportunities
How ESG sets EBMOs up for success

A growing body of evidence shows that a business can do well and good at the same time. As the pressure on businesses to embrace ESG (Environmental, Social and Governance) standards increases, there is a growing role for employers' and business membership organizations (EBMOs) to help their members reach new heights and reap benefits along the way.

This brief sets out the business case for EBMO action on ESG.

- EBMOs are exceptionally well-placed to drive ESG.
- Sustainability presents significant opportunities for EBMOs, from increased influence to improved member resilience and performance, increased income generation, and more.
- In driving ESG, EBMOs can build on existing knowledge, experience and skills.
- ILO support can help EBMOs advance more effectively and efficiently with their ESG initiatives.

EBMOs are well-placed to drive ESG

EBMOs are well suited to support firms to navigate the ESG space. They can help companies to make the most of the opportunities on offer, and to avoid any pitfalls. EBMOs are key actors when it comes to making sustainability a reality on the ground.

- **Multi-spectrum perspective**
  EBMOs have a cross-cultural and country-wide perspective. They also have the ability to view sustainability-related issues through a multi-stakeholder lens garnered from a global networks of leaders in government, business, trade unions, civil society, media, academia and more.

- **Technical understanding of ESG**
  EBMOs have the necessary technical understanding of how social, economic, political, and environmental issues relate to sustainability in both individual firms and the wider ecosystem they operate in. EBMOs also have a deep understanding of the international frameworks that underpin sustainability, often having been directly involved in the corresponding negotiations.

- **Global technical expertise**
  EBMOs not only have their own global technical expertise on the full range of sustainability issues, their international networks mean that they can mobilise and convene an array of international technical experts.

- **Effective and far-reaching communication**
  EBMOs are able to reach the entire business community, from small enterprises to large multinationals, across all regions and sectors. They have the ability to communicate solutions to business leaders in a language they can understand and action.
- **Comprehensive understanding of policy processes**
  EBMOs know how policy processes at international, national, and local level work, and how to influence these positively.

What is ESG?

ESG is a framework used to assess an organization's business practices and performance on sustainability and ethical issues.

- **Environmental (E):** Conservation of the natural world. This includes e.g. energy use, waste, pollution, natural resource conservation, and treatment of animals.
- **Social (S):** Consideration of people and relationships. This includes the company's relationships with its employees, suppliers, customers, and the communities where it operates. It includes factors like respect for human rights, labour practices, diversity and inclusion, health and safety, and community engagement.
- **Governance (G):** Standards for running a company. This covers issues such as executive pay, audits, internal controls, shareholder rights, effectiveness of the board of directors, risk management, and transparency.

ESG reporting is the process by which companies disclose their performance in each of these three areas.

ESG presents significant opportunities for EBMOs

More data regularly becomes available showing the positive impact of ESG on business performance[i]. However, it's not just companies that benefit from integrating sustainability into their strategies and operations. The same goes for EBMOs.

Increase influence and profile

ESG is on the rise, which means that governments and the media have it at the top of their agendas. EBMOs that champion ESG through advocacy and media work can increase their profile and visibility. Where EBMOs make the most of these opportunities to make their voice heard on the issue, this also benefits their influence more widely.

Moreover, by championing ESG, EBMOs position themselves as leaders in sustainability and responsible business practices. This enhances EBMOs' reputation and credibility and builds trust and loyalty with stakeholders from multinational companies, governments, and donors to trade unions, NGOs, and the general public.

EBMO members, by association, benefit from this positive increase in profile and influence. Members are also more likely to adopt ESG where their EBMO leads by example.

Improve members' business performance

The business case for ESG is overwhelming and EBMOs are perfectly placed to help their members make the most of the benefits on offer. Businesses that integrate ESG:

- **Access finance**
  Market demand from investors for strong company ESG performance is increasing and ESG integration improves a company's attractiveness to investors. ESG investments globally are expected to reach US$50 trillion by 2025, one-third of the projected total assets under management[ii].

Corporate loan trends follow a similar trajectory to those seen in investment. Companies that integrate ESG are more likely to obtain loans and potentially at a better rate. For example, Sustainability-Linked Loans[1] (SLLs) offer cheaper borrowing if companies can meet agreed ESG goals such as reducing carbon emissions or improving board diversity. In 2022, the global total value of SLLs stood at US$ 677 billion[iii].

- **Drive innovation**
Research[iv] shows that ESG is a catalyst for business innovation. Adopting ESG standards leads to an organizational culture where employees think creatively about reducing waste, improving efficiency, community impact, and developing new products and services that align with the company's sustainability goals.

- **Increase efficiency and improve risk management**
ESG strategies lead to cost savings and enhanced financial stability through operational efficiencies and risk management. ESG practices include identifying and managing risks related to environmental, social, and governance factors, ensuring long-term resilience and business continuity. For example, sustainable business practices can help companies combat rising operating expenses and reduce costs by improving resource efficiency such as energy consumption and water usage[v].

- **Build strong community and government relations**
Community engagement means working together with local groups and social organizations to address key issues affecting the community's well-being, such as a lack of schools or biodiversity losses. This creates a collaborative environment where companies can operate more smoothly and efficiently, reducing the risks associated with regulatory changes and community opposition.
Supportive government relations can also facilitate, for example, faster permitting processes, access to incentives, and better infrastructure support.

- **Win consumers**
Consumers increasingly prefer sustainable products and companies, with 85 per cent of consumers having already shifted purchase behaviour towards being more sustainable[vi] and many willing to pay more for sustainable products[vii].

- **Enhance company reputation**
Strong sustainability performance drives company reputation through improved customer loyalty, better brand differentiation, and through first mover advantage where a company is the first to embrace ESG or do something new around ESG [viii].

- **Attract and keep top talent**
Companies with strong ESG commitments find it easier to recruit and retain top talent who seek meaningful and responsible employment. For example, businesses that embrace diversity and inclusion outperform those that do not, with reduced turnover and absenteeism, as well as higher levels of employee productivity, engagement, and creativity, playing a big role[ix].

Build member resilience in response to new ESG regulations

More governments and regulatory bodies are imposing stricter regulations on environmental protection, social responsibility, and corporate governance (see the box on the next page for some key examples). There is a global trend to standardize and make sustainability reporting mandatory. New regulations increasingly encompass supply chains, meaning that they affect companies worldwide and of all sizes.

EBMOs have a huge role to play in preparing their members for these changes. Proactive compliance by adopting ESG standards avoids penalties and legal

[1] SLLs are loans for general corporate purposes and not limited to sustainability projects. SLLs track sustainability-based key performance indicators and measure these against targets that were negotiated when the loan was agreed. Depending on performance, the company is then rewarded or penalized with interest rate adjustments.

issues. EBMOs can ensure that businesses do not miss opportunities to access new markets, and, worse, lose access to existing markets. Preparing members for new ESG regulations makes both members, and by extension the EBMO, more resilient.

Finally, in many countries national legislation does not align with the international ESG standards that EBMO members must meet. This presents a major advocacy opportunity for EBMOs, who are in a strong position to call out any contradictions in government (and other) ESG initiatives.

▶ Examples of new ESG regulations affecting businesses worldwide

- In China the Shanghai, Shenzhen, and Beijing Stock Exchanges are introducing new sustainability reporting guidelines. Large, listed companies will be required to report on ESG in their operations and supply chains, with the first reports expected in 2026[x].
- In 2023 the European Commission's Corporate Sustainability Reporting Directive (CSRD) came into force. All large and listed companies, including non-European Union (EU) companies with substantial activity in the EU, need to report in accordance with the European Sustainability Reporting Standards (ESRS).
- In 2024 the Council of the European Union adopted the Corporate Sustainability Due Diligence Directive (CSDDD), which requires companies to conduct human rights and environmental due diligence to address adverse impacts of their actions, including in their value chains worldwide.
- The US Securities and Exchange Commission (SEC) adopted new rules in 2024 that enhance and standardize climate-related disclosures[xi].

Grow EBMO membership

Not only do EBMO ESG initiatives ensure the success and resilience of existing members, but they can also lead to increased recruitment of new members. Providing ESG support adds value to membership, helping to retain existing members and attract new ones who are looking for guidance in these areas.

EBMOs that support ESG are also likely to attract a more diverse range of businesses, including those particularly focused on sustainability and corporate responsibility.

Generate more income

As we have seen, where EBMOs act on sustainability, they improve the overall business performance of their members and, at the same time, grow their membership. EBMOs are also able to provide additional services focused on ESG. All this translates into increased opportunities for income generation, including through commercially viable services.

Where EBMOs apply for temporary or seed funding from donors for specific projects, they are more likely to be successful if they embrace ESG. Many donors, including foundations, governments, and international organizations, prioritize funding initiatives that align with ESG principles. Donors increasingly expect ESG risk assessment by recipients, and some have specific funds or grants allocated for ESG-related projects.

In driving ESG, EBMOs can build on existing knowledge, experience and skills

At a practical level, the role of EBMOs when it comes to driving sustainability among businesses plays to their strengths. In many cases, EBMOs can transfer knowledge, experience and skill sets gained in other policy and business areas, and build on these.

- **Information and navigation services**
  EBMOs can help their members to understand major ESG issues and the current situation around ESG investment, lending, measuring, reporting, and more.
- **Legal services**
  EBMOs can provide advice on, and assistance with, sustainability-related regulations. Where businesses are suppliers, advice can be provided on how to compy with relevant codes of conduct. This is especially relevant to smaller enterprises.

- **Policy advocacy**
  To make the most of ESG, businesses need the right regulatory and policy landscape. EBMOs can make this happen through their relationships with national and local governments, workers' representatives, and other stakeholders, as well as their knowledge of policy processes.
- **Programmatic partnerships**
  EBMOs can partner with sustainability initiatives, universities, think tanks and others to ensure their members have access to the most up-to-date and high quality sustainability expertise.
- **Innovation spaces**
  Adopting ESG standards drives business innovation. EBMOs can support and speed up this process by providing safe spaces for innovation where employees feel empowered to experiment and take risks. These spaces can include creative workshops, concept development sessions, and innovation labs.

ILO support helps EBMOs embed ESG effectively and efficiently

The ILO's Bureau for Employers' Activities' (ACT/EMP) clearly recognizes the importance of the role EBMOs play when it comes to unleashing the potential of ESG. The ILO ACT/EMP's LEADER programme (Leading Employers in Action for Social and Environmental Responsibility) has designed support materials on ESG that EBMOs can use, tailor, and take inspiration from. The programme also provides direct technical assistance.

The LEADER programme supports EBMOs:

- To become **ESG leaders** by building their knowledge of sustainability and how businesses can achieve it. This improves the ESG services provided to EBMO members and also broadens the range of services on offer. Services include, for example, ESG training and tailored advice on topics such as materiality and reporting.
- To become **ESG champions**, by providing advocacy and communications materials that make the case for ESG action and that raise the profile of sustainability and the EBMO among national businesses, the government, the press, and other influential stakeholders.
- By building their **ESG network**, in other words by linking EBMOs with relevant partners such as business schools, sustainable stock exchanges, UN agencies, ESG rating agencies, EBMOs leading the way on ESG, and more.

EBMOs worldwide can access the LEADER programme's support materials, regardless of whether they formally participate in the programme. Materials include:

- A brief setting out the business case for ESG, aimed at EBMO members.
- An ESG training course for national businesses.
- ESG self-assessment tools for both businesses and EBMOs.
- ESG data collection frameworks and monitoring tools.
- Advocacy templates and briefs.
- Communications materials such as social media packs, press releases and video scripts.
- All materials required to host and run a national ESG business award.

Sustainability unlocks opportunities. Get on board.

For more information visit the ILO LEADER programme web page, follow theor contact your regional ILO representative.

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[i] See for example Robert G, Eccles, Ioannis Ioannou, and George Serafeim The Impact of Corporate Sustainability on Organizational Processes and Performance, 2014.
[ii] ESG Assets Rising to $50 Trillion Will Reshape $140.5 Trillion of Global AUM by 2025, Finds Bloomberg Intelligence Bloomberg, 20 July 2021.
[iii] Environmental Finance Data 2022.
[iv]See for example Liping Wu, Xingchen Yi, Kai Hu, Oleksii Lyulyov, Tetyana Pimonenko The Effect of ESG Performance on Corporate Green Innovation, Business Process Management Journal, 3 June 2024.
[v] Witold Henisz, Tim Koller, and Robin Nuttall Five Ways that ESG Creates Value, McKinsey Quarterly 14 November 2019.
[vi] Global Sustainability Study 2021, Simon-Kucher 2021.
[vii] Consumers Willing to Pay 9.7% Sustainability Premium, Even as Cost-of-Living and Inflationary Concerns Weigh: PwC 2024 Voice of the Consumer Survey, PWC, 15 May 2024.
[viii] See for example Global Partner Solutions' How ESG Benefits a Company's Reputation and Brand Image
[ix] ILO Transforming Enterprises Through Diversity and Inclusion, 2022.
[x] White and Case ESG in APAC: 3 Trends to Watch in 2024, 7 March 2024.
[xi] US Securities and Exchange Commission SEC Adopts Rules to Enhance and Standardize Climate-Related Disclosures for Investors, 6 March 2024.