From compliance to commitment: Role of the board in ‘S’ in ESG

Board Leadership Center (India)

We are living in a connected world in which society is increasingly committed to the values of responsible business, sustainable economic development, and long-term value creation[1]. It is an expectation from corporates that they embrace human rights, by fostering diverse and inclusive workplaces with equal pay for work of equal value and by offering all those with a stake in the firm’s value creation the opportunity to thrive and grow. Stakeholder engagement is crucial for every organisation - employees, workers, customers, suppliers, value chain partners and the community at large. Their engagement is key to the success of all organisations and societies via knowledge, growth, and wellbeing. The case for corporates to measure, manage and disclose information on how they ensure an engaged, skilled, and healthy workforce across their value chains is compelling. Even more so, is the case for corporates to move beyond compliance to embrace people-centric approaches, committing to growth, wellbeing, and skills across their value chains.

Even then, the ‘S’ in ESG remains largely fragmented due to the limitations it poses for corporates to display qualitative responses against it. To standardise and measure the ‘S’ in ESG more holistically, various tools and concepts have emerged to assist corporates. Social and human capital protocol, for instance, is a tool to measure and value the social impacts, across corporate value chains. Similarly, UK’s Social Impact Report mandate has provided an avenue for organisations to measure or evaluate their social impact, including their subsidiaries or associates, globally. In fact, the Sustainable Development Goals (SDGs) have also provided a framework for corporates to associate value to their social programmes and align them with nationally determined contributions. A plethora of other frameworks have also come up to assess social impact, including KPMG True Value model which enables corporates to identify, measure and – if appropriate –value, their economic, social, and environmental impacts on society.

Recognising the rising pay gaps and income inequality, boards have played a crucial role in prioritising not just the physical, but also the socio-economic security of employees. For local communities too, there has been a growing trend among boards to resolve grievances or complaints, intending to often build a reputation and accelerate a social licence to operate. In this backdrop, reporting frameworks and regulations have come up in the form of India’s BRSR, and the EU’s CSRD[2] and NFRD[3], among others, which provide a platform for corporates to assess and report their social impact. With coalition frameworks such as the International Sustainability Standards Board (ISSB) coming up, it can bring the potential with it, to create a common disclosure for social standardisation. However, even where data is available and will continue to be even more streamlined in future, it is challenging for boards to outline or identify the areas they can assess impact across their value chain.

Despite technological advancements and the advent of Artificial Intelligence (AI) over the years, the discourse around its risks has grown exponentially. Towards this, boards have consistently been challenged in identifying areas of change or creating necessary mitigation plans against such risks, thereby threatening socio-economic security. While advancements in technology and AI have effectuated productivity among some of the workforce, it has also had far-reaching impacts on the rest due to its inaccessibility for a vast majority of stakeholders, threatening job security and exposing communities to a multitude of risks such as job loss and stagnant skills, among others. Thus, boards need to play a more crucial role when creating design and assessing the impacts on its stakeholders prior to implementation, thereby moving beyond compliance, and accounting for social risks.

[1] Measuring stakeholder capitalism | World Economic Forum | 2020
[2] Corporate Sustainability Reporting Directive
[3] Non-Financial Reporting Disclosures

Key considerations for the board – Transition from compliance to commitment

In this context, it is crucial for corporates to identify the evolving trends that pose risks and opportunities to their businesses, identify entry-points for change, and create inclusion for a diverse and equal workforce. It is imperative for corporates to transition from compliance to commitment and unlock value realisation. Key considerations that corporates can make are as follows:

1 Going beyond the traditional meaning of wellbeing

The reputational cost of corporates is currently driven by compliances which have also pushed social responsibility over time. With devices like CSR available, corporates have been able to create welfare among the communities they affected because of the mandate. However, the nature of social terminologies is expanding beyond traditional indicators. Wellbeing, for instance, is no longer viewed from the lens of physical wellbeing but extends to emotional, spiritual, psychological wellbeing and beyond. As a result of the pandemic, mental wellbeing has also become an important attribute for corporates to consider when measuring employee productivity and participation and creating a conducive environment to work in. In line with this, the Global Reporting Initiative has also included mental wellbeing disclosures in its reporting standards. It is widely known that healthy employees can be more productive in turn boosting long term stock market performance. To leave this evolution unnoticed would be a loss of economic opportunity for boards and organisational growth.

2 Looking inwards into corporate supply chains

While the nature and definitions of social are expanding to assess impact, they also pose a need for boards to look beyond their employees and evaluate the impact of their products and services on consumers, and impacts of human rights provisions and wellbeing measures, etc. on their value chains. The gig economy in India is projected to expand to 23.7 million by 2030[4] with retail and manufacturing sectors hosting the largest gig workers.

Currently, 7.7 million gig workers in India,[5] contribute to the economy but don't have equitable access to proportionate wages basis living standards and are overworked and underpaid. The poorest half of the global population owns just 2 per cent of the global wealth. This income disparity requires boards to look beyond their employees and extend benefits and inclusive practices to those working at the frontiers of corporates – in their value chains.

Securities and Exchange Board of India (SEBI) in its consultation paper on ESG disclosures[6] has also commented that supply chain disclosures (currently voluntary) in the BRSR, should be prioritised by companies in future to help investors identify holistic organisational risks and the impact they are making. This proposition makes it imperative for corporates to look towards their supply chains, to extend affordable healthcare, safety, skill development, insurance, etc. to frontier workers and catalyse positive social footprints, aligned with organisational business strategies. Moving beyond the compliance of minimum wage to that of a living wage would also be necessary for corporates to consider when viewing wellbeing, safety and equitable rights for their upstream and downstream value chain.

[4] Implementation of provisions for GIG and Platform Workers | Press Information Bureau | 2022

[5] Future of Gig Economy: Transforming Unorganized Sector in India | Invest India | 2022

[6] Consultation Paper on ESG Disclosures, Ratings and Investing | SEBI | 2023

3 Enabling a just transition for a low-carbon future

Thirdly, the shift to low-carbon economies, essential to achieving net-zero[7], has brought about the need for a just transition, to manage socioeconomic transformations including loss of jobs, economic equality and decent work for all, among others. ILO research states that by 2030, more than 2 per cent of total working hours worldwide may be lost every year as a result of climate change[8], either because it is too hot to work or because workers have to work at a slower pace. Extreme climatic events affect the workforce gravely, and boards should begin including affected workers in their decision making. Considering that 1.2 billion jobs i.e., 40 per cent of world employment relies directly on healthy and stable environments, boards must undertake necessary due diligence to deter human rights violations, ensure wellbeing and stable work environments, across their supply chains. For instance, daily wage workers involved in construction activities could be deterred from working during peak afternoons, among others.

4 Engaging with communities with a purpose

The increasing emphasis on societal impact as a means to create long term value has shed focus on the role that communities play as an opportunity for corporates. However, corporates often face challenges when truly integrating stakeholder engagement and purpose within their organisations. It is imperative for corporates to articulate their commitment towards communities and consider areas of social impact that align with their business strategy. Creating measures to assess evolving issues in society and creating agile models can bring about effective stakeholder engagement with communities. In fact, creating an engagement paradigm of stakeholders, including social impact information in marketing and communications content would attract and build an audience of supporters that share your values and goals.

Thus, building a values-aligned market to achieve impact at a large scale, is needed among corporates. In return, information and critical feedback from engaged stakeholders fuels transparency and accountability, and helps to hone impact strategy and decision-making. Additionally, climate change too, has disproportionately impacted social groups e.g., women, persons with disabilities, aged people, and economically weaker section, among others. In the absence of well-designed and inclusive mitigation strategies, communities have often suffered, with no preemption of negative impact. Creating inclusive design programmes to mitigate climate change and building resilience with communities can enable corporates to maintain their licence to operate and create long term value.

5 Skill development and capacity building

Lastly, ensuring skill development, financial benefits, and setting up occupational health and safety committees that go beyond the ambit of employees, to contractors, vendors, customers, etc. will be necessary to create shared value and positive interventions. In addition, just as climate change is a risk faced by all boards, inequalities could likewise materialise as a cost for organisations. It is also important for social considerations to permeate further to executive compensation, to bring parity and equity among corporate cultures. The detrimental effects of inequalities on a wide range of social outcomes, such as human capital, trust, safety, and stability may pose long term risks for enterprise value.

Deeper inquiry on culture, what drives employees, communities and how they feel about products and services and whether transparency is encouraged, can help the board probe latent ESG matters and how they impact organisations[9]. Thus, boards must transition from compliance to commitment towards the 'S' in ESG to create an equitable future for all.

---

[7] Paris Agreement | UNFCCC | 2015
[8] Working on a warmer planet : The impact of heat stress on labour productivity and decent work | ILO
[9] ESG and the portfolio company board | KPMG US | 2022

We would like to extend our gratitude towards the ESG and NRC council members for their valuable time, insights and perspectives that have contributed towards the development of this document.

ESG Council Members:

Mr. Damodaran Sundaram, Mr. Mukund Rajan, Mr. OP Bhatt, Mr. Ranjit Shahani, Mr. Shailesh Haribhakti, and Ms. Shikha Sharma.

NRC Council Members:

Mr. Arun Sawhney, Ms. Manisha Girotra, Ms. Meena Jagtiani, and Ms. Sangeeta Talwar.

KPMG in India contacts:

30 years and beyond

Ritesh Tiwari
Partner
Board Leadership Center
E: riteshtiwari@kpmg.com

Shivananda Shetty
Partner
Practice Lead- ESG
E: sshetty6@kpmg.com

kpmg.com/in

kpmg.com/in/socialmedia

KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.