Social inequality as a business risk

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"With declining trust in government, a climate crisis, and deepening inequalities, capitalism is in crisis… we need collective will at scale to help turn the tide on inequality"

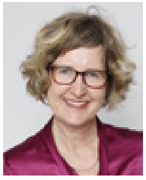
About the paper

We may have a clearer view of social inequality since it was laid bare by the pandemic, but the threats that stem from that inequality are complex. This paper arose from conversations with clients about social inequality and the risks it poses for business.

To develop a holistic view of the current risk environment, we took a step back to consider where and how inequality manifests itself. We examined what prompts business to take action, beyond economic reward alone. And we determined that collaboration between business, individuals and government is necessary.

Corporations have a leading role to play in this effort. The more business leaders understand about social inequality, the greater opportunities they have to succeed — for the benefit of all.

About the author



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Ruth Lawrence, PhD, is is a senior executive with KPMG IMPACT, a global initiative designed to create a sustainable and resilient future. She drives the Social and Economic Development Pillar of IMPACT and leads KPMG's inclusion, diversity and equity client offering. She brings to business a 'social' lens built on the foundation of the social sciences and empirical work measuring social equity and outcomes.

Prior to her current role, she was Head of KPMG's Global Impact Investing Institute and worked on innovative finance models to drive social outcomes in several different markets.

Dr Lawrence has been at KPMG for close to 10 years providing advice to government and not-for-profits on policy approaches, design and evaluation of human service programs. Her work spanned several social policy areas including domestic and family violence, child welfare services, maternal and child health, and community-led justice reinvestment.

She has a doctorate from the University of California at Berkeley in Social Welfare, an Executive Master's in Public Administration (ANZSOG), and over 10 years' experience as a senior government advisor.

Contents

The widening inequality gap

As COVID-19 spread across the globe, societies everywhere struggled to keep people safe and companies afloat. Now, in the wake of the pandemic, we more clearly see deep structural inequalities exacerbated by the global challenges of the last few years. The virus and efforts to fight it set back decades of social and economic progress, exposing the interdependence of commercial interests and the social agenda. When economic development stalled, access to essential services such as healthcare, education, housing and social security were restricted or eliminated altogether. The most vulnerable members of society suffered the greatest impact.

The World Bank has named 2021 '*The inequality pandemic*' due to the disproportionate impact COVID-19 has had on the poor and vulnerable throughout the year.[1] In 2022, the pandemic's aftermath continues, further compounded by the climate emergency and the unfolding Russia — Ukraine war.

Inequality is one of the three pressing challenges facing society globally alongside the climate emergency and nature loss, according to the World Business Council for Sustainable Development (WBCSD).[2] Although inequality between countries has declined in recent decades,

[1] "Vision 2050: Time to Transform", March 2021, World Business Council for Sustainable Development
[2] World Bank 2021 Year in Review in 11 Charts: The Inequality Pandemic

inequality between people is close to its highest point in 150 years, with the eight richest individuals holding the same wealth as the entire poorer half of the world — 3.6 billion people.[3]

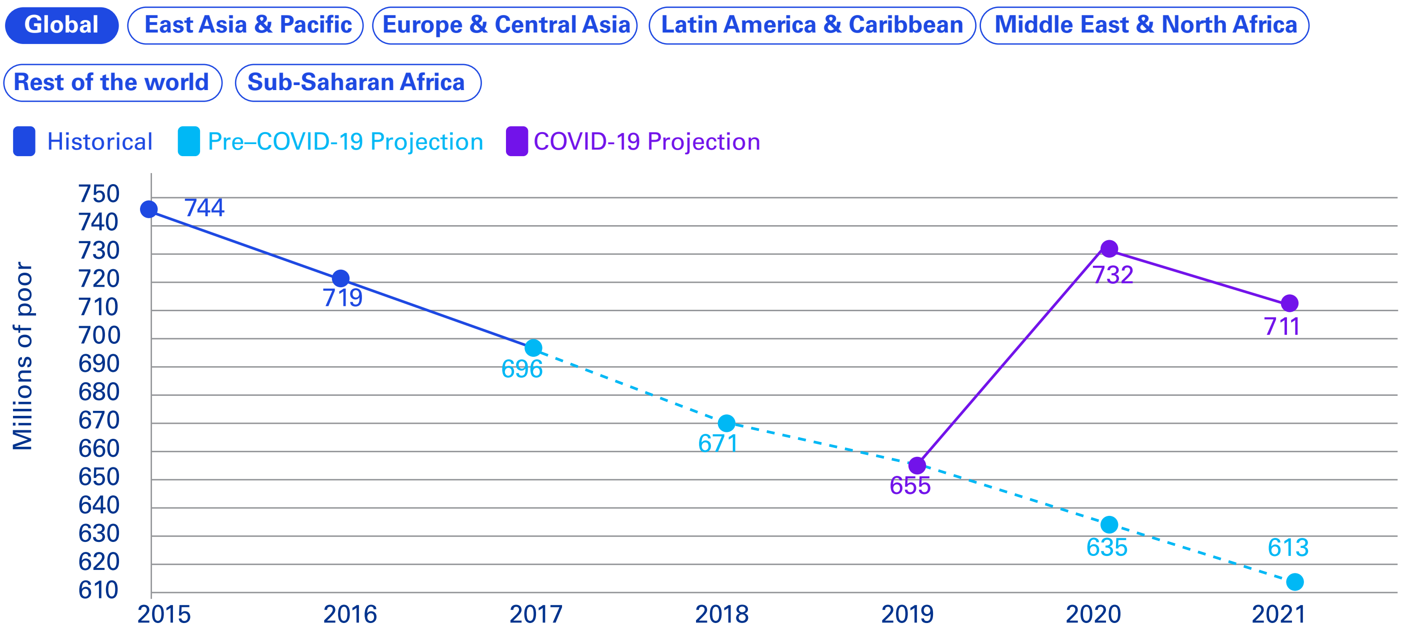
The numbers are sobering. Both direct and indirect effects of COVID-19 have reduced incomes and pushed up unemployment. In 2020, extreme poverty rose for the first time in over 20 years, with approximately 100 million more people living on less than $1.90 a day.[4] According to the Organisation for Economic Co-operation and Development (OECD), "There is widespread concern that economic growth has not been fairly shared, and that the economic crisis has only widened the gap between rich and poor."[5]

Already vulnerable segments of society have been hit hardest, some more than others. Impacted groups include women, the poor, elderly, people with disabilities, Indigenous peoples and migrants. Many lower-paid and informal workers haven't been able to work from home, increasing their risk of infection and lowering their incomes. 'Learning poverty' has become endemic in low- and middle-income countries, where the share of 10-year-olds who cannot read a basic text increased to approximately 70 percent.[6]

Poorer nations have also suffered disproportionately compared to developed nations, as their governments lack the resources to provide extensive social safety nets. The inequities in the battle against COVID-19 are just one example of social inequality that business leaders need to incorporate into their risk considerations.

> All nations, including the most developed, should focus on global vaccine inequality. So my job really in a nutshell is to shake as many trees as possible, to advocate ... for global leaders to share vaccines ... Why does it matter? It matters because this virus knows no borders."[7]
>
> — Ayoade Olatunbosun-Alakija, Co-Chair of the Africa Union Africa Vaccine Delivery Alliance (September 2021)

Figure 1: Extreme poverty, 2015–2021



Source: Lakner et al. (2020) (updated), PovcalNet, Global Economic Prospects.
Note: Extreme poverty is measured as the number of people living on less than $1.90 per day. 2017 is the last year with official global poverty estimates. Official poverty estimates are available for East Asia & Pacific, Europe & Central Asia, Latin America & Caribbean, and rest of the world for up to 2019, and for Middle East & North Africa and Sub-Saharan Africa up to 2018. Regions are categorized using PovcalNet definition.

[3] "Just 8 men own same wealth as half the world", 16 January 2017, Oxfam International
[4] "Updated estimates of the impact of COVID-19 on global poverty: Turning the corner on the pandemic in 2021?", 24 June 2021, World Bank Blogs
[5] Inequality and Poverty, 2021, OECD
[6] "Pandemic Threatens to Drive Unprecedented Number of Children into Learning Poverty", 29 October 2021, The World Bank
[7] Vaccine Distribution in Africa with Dr. Ayoade Olatunbosun-Alakija, KPMG International, https://assets.kpmg/content/dam/kpmg/xx/pdf/2021/09/kpmg-impact-podcast.pdf

Declining trust and increasing social unrest

Trust in government has been eroding in recent years. Despite a slight uptick following the 2008 financial crisis, lack of public trust contributed to rising geopolitical risk that reached a tipping point before COVID-19, requiring a fundamental transformation of business that began before the pandemic.[8]

Even governments that acted quickly to protect lives and livelihoods from COVID-19 aren't immune from the trust deficit. Eurasia Group observed that global risks became dominated by structural trends during the pandemic, rather than by country- or event-level risks. These longer-term shifts are the changing geopolitical landscape for business; the prominence of environmental, social and governance (ESG) issues; and the primacy of technology (global data and a cyber tipping point). As KPMG and Eurasia Group noted in a joint report, "... when governments are considered inactive at best and ineffective at worst, there is a greater chance of corporate 'liability' (i.e. reputational risk) from citizen activism."[9]

[8] "Boardroom questions: Geopolitics", 2019, KPMG International, https://assets.kpmg/content/dam/kpmg/au/pdf/2019/boardroom-questions-risks-opportunities-geopolitics.pdf

[9] "Top Risks 2021: The Bottom Line for Business", January 2021, KPMG International, https://assets.kpmg/content/dam/kpmg/xx/pdf/2021/02/top-risks-2021-the-bottom-line-for-business.pdf

“Only about half of people across OECD countries say they trust their national government”[10]

Activism in the form of political and social unrest — some of it violent — is being driven by a deteriorating economic environment, declining fiscal conditions and severe climate events. Incidents of social unrest rose steadily between 2016 and 2020,[11] and a recent IMF study documented the link between unrest over the medium to long-term and natural disasters and pandemics. The impact has exacerbated income inequality and reduced social cohesion,[12] widening the gap between the ‘haves and have nots’. Public relief, support services, and restructured economic opportunities have not kept pace with these challenges faced by the population, leaving significant numbers of citizens living in poverty and disadvantage.

In response to these and other phenomena, four new risks have been added to a geopolitical risk dashboard analysis in September 2021: COVID-19 resurgence; climate policy gridlock; political crises in emerging markets; and a decoupling of global technology. (COVID-19 has since been replaced by the “Russia–NATO conflict” in February 2022).[13] Within this context, the OECD is now exploring how governments can build the level of trust among citizens.

Part of the challenge is that the perception is reality, KPMG and Eurasia Group discussed in their report on 2021 risks. If people think the government isn’t fulfilling its promises, that’s enough to create business and reputational risk, whether or not their concerns are true. “A public that already feels like that system is not meeting their needs is unlikely to be pacified by further inaction by a polarized government.”[14]

[10] Trust in Goverment, OECD
[11] “Social Repercussions of Pandemics”, 29 January, 2021, International Monetary Fund
[12] Ibid.
[13] Geopolitical risk dashboard, April 2022, BlackRock
[14] “Top Risks 2021: The Bottom Line for Business”, January 2021, KPMG International, https://assets.kpmg/content/dam/kpmg/xx/pdf/2021/02/top-risks-2021-the-bottom-line-for-business.pdf

Case study: Business for South Africa

Business for South Africa (B4SA), a coalition of volunteer resources from across the South African business community and including leading professional services firms including KPMG South Africa, came together to support the government in managing and mitigating the impacts of the COVID-19 crisis on the country. In April 2020, KPMG assisted with a comprehensive strategic risk assessment as a tool to guide action plans supporting the maximum use of available resources.

The complexity of COVID-19 demands advanced risk analysis. KPMG South Africa applied its Dynamic Risk Assessment (DRA) methodology, which looks beyond the conventional two-dimensional approach to depicting risk (typically based solely on grading individual risks according to their likelihood and severity) and takes a four-dimensional view by including considerations of risk interconnectedness and velocity of impact on business operations. This enables consideration of the 'contagion effect' of risk and helps identify risks that, when addressed, will have the greatest effect on mitigating other risks.

Risk cannot be approached on a piecemeal basis. The assessment identified 15 major strategic risks in the fight against COVID-19 and reviewed them for severity and likelihood. It soon became apparent that their interrelationships formed a network of risks, therefore, mitigation must be addressed as an interactive, dynamic environment. The most severe and likely individual risks identified were:

— *economic impact/damage; lockdown is economically unaffordable*

— *insufficient healthcare, workforce, infrastructure and equipment*

— *loss of livelihoods, social unrest, riots*

— *sustainability and practicality of lockdown rules in the context of South Africa.*

Three risks, if addressed, can support overall risk reduction. These 'systemically mitigation accretive' risks are:

— *continuity of government service delivery*

— *failure of critical infrastructure — energy, water, sanitation, gas, IT*

— *lack of structured interface — government, business, labour and civilians*

Disruption to *Fair, transparent and equitable distribution of social funding* can spread risk system-wide. Issues around social services qualification criteria, access, recipient identification and vetting, distribution timing, communication, and general bureaucracy can create a wave of additional challenges — even if these are based only on perception.

Mitigating the risk of *Inability to maintain law and order* supports the economy. Maintaining law and order provides maximum safeguards against the economy pivoting to a downward spiral, dragging every other risk with it; and it offers the best possible protection against unemployment and loss of income/livelihoods triggering social unrest. Finally, protecting the economy mitigates every other risk across the network in the most efficient manner.

"If the risk system as a whole is not mitigated, it will end in *loss of livelihoods, social unrest, riots*.This is the number one concern for business, attracting a higher concern than the economy itself. Being systemically the most vulnerable, its optimal mitigation comes from the most influential risk: *Inability to enforce law and order.*"

— Business for South Africa COVID-19 Response Dynamic Risk Assessment Findings (April 2020)

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For more information, see the B4SA report at https://assets.kpmg/content/dam/kpmg/nz/pdf/2020/05/B4SA-COVID-19-Risk-Findings-Report.pdf

Inequality is a business issue

For businesses, systemic inequality is a great source of risk. It limits productivity and has the potential to constrain consumer spending and growth, destabilize supply chains, trigger political instability, and jeopardize their social license to operate. At the same time, addressing inequity is a business opportunity. The argument for wage parity is not simply a moral one; equity and a living wage benefits the economy as a whole. One US study predicted that closing the earnings gap between white and minority incomes would improve national earnings by 12 percent and increase GDP by US$1.9 trillion, with the earnings gain translating into more than $290 billion in additional tax revenue.[15]

Aligning business with social expectations

Historically, many businesses have contributed to, or benefitted from, inequality through unfair employment conditions, a poor environmental record and a lack of recognition of their impact on local communities. But, as businesses become bigger and more powerful, they have come under greater scrutiny, with rising expectations of ESG standards.

As evidence of the rising prominence of business, more than two-thirds of the world's 100 largest economic entities are now corporations as

[15] Turner, A. (2016) the business case for racial equity. National Civic Review, 105,1. pp21–29

opposed to governments.[16] Although traditionally, citizens have looked to the state to solve social issues, this dramatic shift in the balance of power has signaled that the private sector must play a bigger role if inequality is to see a tangible reduction.

Between 2011 and 2019 there was a 244 percent increase in riots, general strikes, and antigovernment demonstrations around the world — a trend that shows no sign of abating as the wealth of the world's 10 richest men doubles to US$1.5 trillion on the back of surging share and property prices through the pandemic.[17] Trust in business, government, civil society and media are all low; while the information age has heightened consumer awareness and transformed regulatory and shareholder expectations.

Act on social inequality to develop a social compact

Given their influence over economic, social and environmental outcomes, businesses have a unique opportunity to address inequality — something that is recognized in the United Nations Sustainable Development Goals (UN SDGs), 17 interlinked goals reflecting global consensus that transformational change for a peaceful and prosperous future cannot happen without cooperation between governments, civil society and the private sector. While Goal 10 focuses on reducing inequalities within and among countries, Goal 17 emphasizes the critical role of partnerships to achieve the goals.[18]

Businesses are also increasingly acknowledging this need for collaboration. The WBCSD, as a CEO-led organization of more than 200 leading companies, has a shared vision and action plan to help businesses face the three critical challenges of climate, nature loss and mounting inequality.[19] Other partnerships and alliances are also emerging to position business as part of the solution.

[16] "69 of the richest 100 entities on the planet are corporations, not governments", 17 October 2018, Global Justice Now
[17] "World's 10 richest men see their wealth double during Covid pandemic", 17 January 2022, The Guardian
[18] 17 Goals to Transform Our World, UN Sustainable Development Goals
[19] "Time to Transform", 25 March 2021, WBCSD

Case study: Philips

Acting responsibly toward the planet and society is top priority for Philips. The global healthcare technology company was aiming to embed its purpose into every part of the organization, so that employees' daily activities drive the business and at the same time help make the world a better place.

In order to make purpose a driving force behind strategy, Philips wanted to integrate its financial and non-financial key performance indicators. This was a huge step forward so, in 2019, KPMG firms were asked to help build a new framework for executive decision-making.

KPMG professionals and Philips jointly came up with the concept of a Purpose Compass — a dashboard that charts progress and highlights gaps. Visually appealing and easy to understand, it shows how different decisions and actions can contribute to Philips' purpose-related targets and benefit stakeholders.

As Philips road tested the framework by rolling it out first to key markets and businesses, KPMG professionals assisted with refining elements along the way. Moving forward, the company continues to integrate purpose-related targets, metrics and rewards into executive decisions and actions.

The Purpose Compass embodies Philips' belief that what's good for society and the environment is also good for business. The framework uncovers opportunities that create value for all stakeholders, guiding company decisions that can help the world meet UN SDGs, increase access to healthcare and improve lives.

For more additional client stories and information on ESG and sustainability, visit https://home.kpmg/xx/en/home/insights/2021/12/kpmg-impact-and-esg.html

Why does inequality matter?

Corporate leaders increasingly recognize how systemic social inequality negatively impacts the world around them, in addition to understanding how it can harm culture and productivity within the walls of their own businesses. Exactly how inequality puts companies at risk involves legal, moral, and economic factors.

The legal imperative

The moral imperative

The economic imperative

10 Reduced Inequalities

1. The legal imperative

Corporate adherence to ESG principles has become a legal imperative with ESG-focused legislation. The "S" in ESG spans several dimensions, including human rights, the social impact of business, and social inequality. One example, Australia's 2018 Modern Slavery Act,[20] requires companies to report that they understand the risks of human rights violations occurring within their organization and wider supply chain and are taking appropriate actions to remediate incidents of slavery.

Meanwhile, regulatory trends in ESG reporting highlight opportunities for increased transparency as well as associated risks. Failure to provide evidence of ESG performance, and falling short of ESG targets and expected standards, can lead to penalties and, in some cases, personal lawsuits against senior executives. Pollution, modern slavery, high greenhouse gas emissions, discrimination based upon gender, race or religion (in an organization or across the supply chain) will all be scrutinized closely — omissions or non-compliance are enforced when discovered.

Such incidences escalate reputational risk and impact investment, sales, and recruitment. For high-profile businesses, a poorly perceived ethical record may even result in boycotts, protests and government intervention.

A growing list of countries also are enacting regulation on ethical business behavior. In 2014, India became the first country to legally mandate corporate social responsibility.[21] In addition to compulsory sustainability reporting, certain Indian companies must spend 2 percent of their average net profit for the past 3 years on corporate social responsibility (CSR). France has legislated sustainable reporting for public listed companies,[22] while the EU places demands on non-financial disclosures and CSR regulation,[23] in line with international human rights law. Further measures also have been put in place in the UK and US.[24]

2. The moral imperative

Increasing stakeholder demands for corporations to 'do the right thing', combined with the UN SDGs, ESG

Unravelling threads

For the last 7 years there have been increasing calls for transparency in the textile (clothing and footwear) industry across the supply chain and an increasing number of companies have reported on their Tier 1 supplier factories. There have also been calls for a global binding standard for due diligence in the supply chain. Although some gains have been made within the industry (for example, new legislation in California will ensure legal minimum wage, not a piece rate, for the garment industry), there are examples of the conditions for worker health and safety being compromised during the last 2 years under the COVID-19 pandemic.

For more information please refer to:

Human Rights in Supply Chains: A Call for a Binding Global Standard on Due Diligence | HRW

Human Rights Violations Are Increasing in Fashion's Manufacturing Hubs | BoF (businessoffashion.com)

[20] "Modern slavery risks in Australia's resources and energy sector", 7 December 2021, KPMG Australia, https://home.kpmg/au/en/home/insights/2021/12/modern-slavery-risks-practical-guide-resources-energy-sector.html

[21] "India's new CSR law sparks debate among NGOs and businesses", 11 August 2014, The Guardian

[22] "The Normativity and Legitimacy of CSR Disclosure: Evidence from France", 2015, Econ Papers

[23] "New EU Directive on the Disclosure of Non-Financial Information (CSR)", 15 May 2015, SSRN

[24] "Government Regulation of International Corporate Social Responsibility in the US and the UK: How Domestic Institutions Shape Mandatory and Supportive Initiatives", 11 August 2017, Wiley Online Library

principles and other values frameworks helping them structure 'how' to do it, are leading businesses to prioritize ethical practices — and remain accountable for measurable progress.

Business ethics are by no means a recent phenomenon. Investors seeking a moral dimension have eschewed sectors like tobacco and armaments for some time. Likewise, the fossil fuel sector is under severe pressure to shift toward renewables, with traditional projects less and less likely to receive approval. Environmental issues such as carbon footprint, excessive waste, unsustainable use of resources and pollution are increasingly scrutinized with the growing acceptance of climate impact. Attention to human capital-related issues such as modern slavery, child labor, and gender discrimination also has grown in recent years.

Concepts like the 'triple bottom line' and 'shared value' suggest that social purpose and profit can be achieved together, such as through impact investing or by creating B-corps and social enterprises that achieve outcomes for people as well as profit. Crucially, such a shift must involve a fundamental rethink of core business, strategy, and impact — and cannot be confined to volunteering and donations. Many other businesses have attempted to build purpose into their core operations, set clear incentivized and measurable ESG targets with transparent reporting.

Such thinking is not new and can be traced back to the notion of CSR, which started before World War II and took root in the 1960s and 1970s, challenging the classical economic view that business's sole responsibility is to maximize its bottom line. Exponents of CSR and the triple bottom line argue that it involves more than just reacting to laws and regulations, and that successful companies will anticipate future trends from government, investors and consumers.

In an information age, where citizens have instant access to companies' and governments' behavior, phenomena such as climate change, pollution, unethical employment practices, poor community relations and lack of transparency can move people to demand change. Among the most recent examples, the Black Lives Matter movement that reached new heights of attention and power in the summer of 2020 forced businesses to examine their practices and their role in the community, and to take action to improve racial equity.

> "The unequal impact of the COVID-19 pandemic, the Black Lives Matter protests and the MeToo movement have each been powerful recent drivers for this increased recognition of the need for social change and of the important contribution that business has to make."[25]
>
> — Michael Collins, Director Government Affairs, M&G plc and Chair of the IRSG ESG Workstream

[25] "Accelerating the S in ESG — a roadmap for global progress on social standards", June 2021, KPMG In the UK, https://home.kpmg/uk/en/home/insights/2021/06/accelerating-the-s-in-esg-a-roadmap-for-global-progress-on-social-standards.html

Black Lives Matter — catalyzing racial justice in the US and abroad

Protests over racial inequality in the US have spread to more than 70 countries around the world, prompting deep soul-searching among government, businesses and the wider public, and a determination to address racial injustice within society.

As many as 26 million people in the US participated[26] in demonstrations following the death of George Floyd in May 2020, making it the largest movement in the country's history. An estimated US$5 billion in pledges[27] and commitments have been distributed to racial equity organizations in the wake of these protests.

3. The economic imperative

'Doing the right thing' also makes good business sense, appealing to the broad spectrum of corporate stakeholders.

Customers are among those already driving demand for sustainable products, practices and supply chain management. Employees want to work for businesses that have a strong purpose. In a recent Edelman Trust Barometer Report, six out of ten employees who are either leaving, or thinking about leaving, say it's because they want to work for a company that better fits their values.[28] Finally, 85 percent of investors consider ESG factors in their investment decisions.[29]

From a global perspective, there's a symbiotic relationship between social equality and economic growth. The consequences of social inequality, such as social unrest, economic volatility, and an unstable business environment, can limit the ability for companies to compete and grow, restrict the spending power of their target markets, and disrupt fragile supply chains. According to the World Economic Forum, a 1 percent increase in inequality lowers GDP by as much as 1.1 percent — but over time this figure increases to 4.5 percent.[30]

Corporations that invest in improving social equity and examine their operations to reduce inequality make an important difference to the people in their organizations. But when companies work toward the same goals in tandem, they wield great power to effect positive change for many stakeholders over the long term. We can see positive effects from the global corporate movement to reduce the risks of climate change, from greater investment in sustainable power for operations, to the rise of new green tech products and markets. The corporate focus to improve social equity is likely next, and it makes economic sense to invest early rather than wait for 'financially material' consequences and reputational damage to require action.

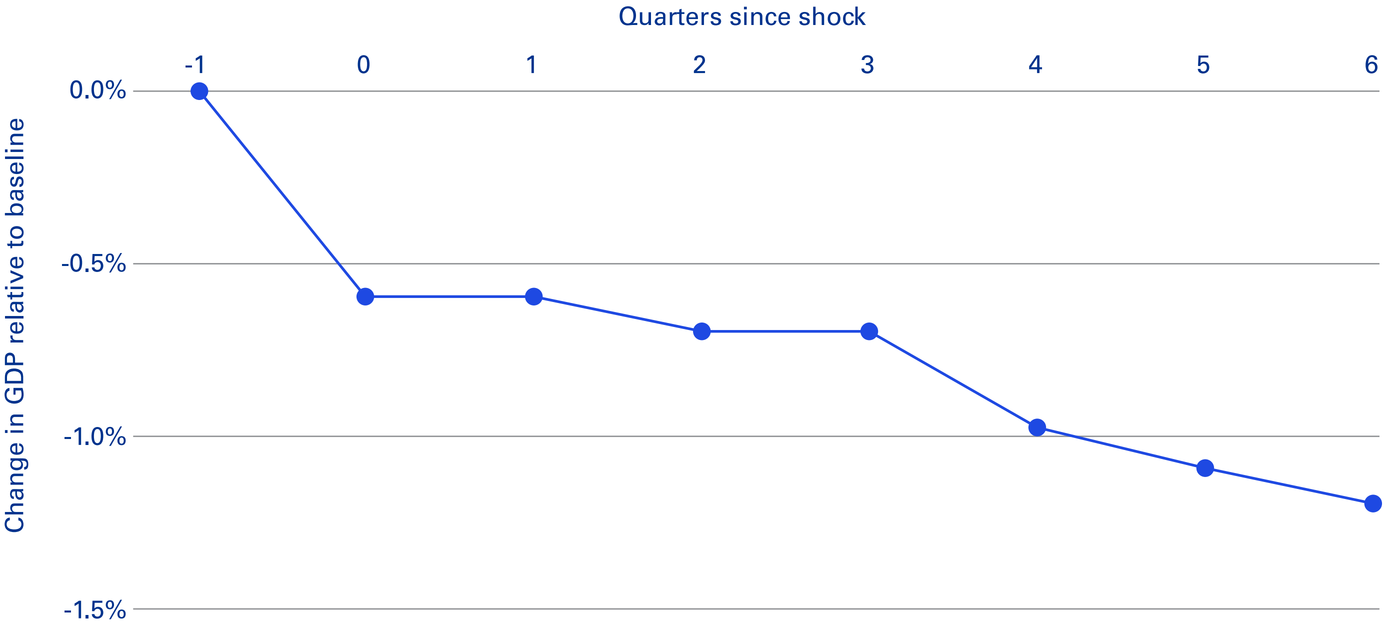
[26] "George Floyd protests crowd size", 03 June 2020, The New York Times
[27] "Billions have been raised for racial equity groups — what comes next?", 30 July 2022, BBC News
[28] "The belief-driven employee", 31 August 2021, Edelman
[29] The ESG Imperative: 7 Factors for Finance Leaders to Consider, 10 June 2021
[30] "How does income inequality affect economic growth?", 9 July 2015, World Economic Forum

Chile's structural inequalities deepened unrest over fare hikes

Chile, a member of the OECD, has some of the highest income inequality in the world as measured by the Gini coefficient, according to a UN report.[31] Measuring the gap between the richest and poorest people in a country helps identify the potential for negative political and economic impacts, including slower GDP growth and higher household debt.[32] The income gap also indicates underlying structural inequalities as wealthier citizens have far greater access to public services like health care, schools, and transit.

In 2019, demonstrations and riots erupted into violence in Chile's capital city Santiago over a decision to raise metro fares 4 percent. The fare hike had outsized economic impact on lower-income citizens including students, who made up a larger percentage of the protestors. By the time the unrest subsided, 20 were dead, hundreds more were injured, and more than 86 metro stations were burned and damaged at a financial cost of US$700 million.[33]

Impact of new social unrest event on GDP



Source: Hadzi-Vaskov, Piennagura and Ricci (2021)

[31] Hadzi-Vaskov, Piennagura and Ricci (2021), July 13 2021. Could Renewed Social Unrest Hinder the Recovery? https://blogs.imf.org/2021/07/13/could-renewed-social-unrest-hinder-the-recovery/. For further commentary see Barrett, P. and Chen, S. (2021). The Economics of Social Unrest.
[32] Gini Coefficient by Country, 2022, World Population Review
[33] "Chile protests: Unrest in Santiago over metro fare increase", 19 October 2019, BBC News

Defining and recognizing inequality

Inequality within and across generations

In order to act on inequality, we need to recognize the various forms that inequality takes. Some forms, such as income and wealth disparity, are familiar concepts while others are less so. In addition to unequal outcomes, unequal opportunities (inequality of opportunity) impact on life chances. Both outcomes and opportunity vary not just within a generation, but across generations (intergenerational equity).

Although some progress has been made, demographic and personal characteristics (including gender, race, class, sexual orientation, and geography) continue to affect access to basic services, career pathways, and access to opportunities. For example, for men in America, there continues to be a persistent life expectancy gap of almost 15 years between men in the top and bottom 1% of income distribution.[34] While the COVID-19 gender monitor set up by UN WOMEN and Women COUNT powerfully illustrates the differential lived experience of women during the pandemic.[35]

[34] See, for example, COVID-19 and gender monitor | UN Women Data Hub; Five ways older women are affected by the pandemic | UN Women Data Hub

[35] Justice, Inequality, and Health (Stanford Encyclopedia of Philosophy/Winter 2021 Edition)

We also need to start asking questions about the legacy we are leaving for future generations, and the impact of pushing the financial burden associated with inequality and social unrest down the road.

Climate change is one critical area where the interests of young people are under 'acute threat', write academics Peter Lawrence and Jan Linehan in *Giving Future Generations a Voice: Normative Frameworks, Institutions and Practice*. The public is more aware than ever of the impact of extreme weather on food insecurity, poverty, mass migrations and other climate events, and the diminished timeline to try to address the sources. "In spite of these changes, which have been signalled for nearly 40 years, institutions at all levels — both governmental and private — with few exceptions remain mired in short-termism and strongly biased in favour of present and near-term interests and against the interests of future generations."[36]

A number of business leaders do see the challenges ahead, according to a KPMG survey of Australian executives. More than one-third expressed concern that shifts in intergenerational equity place a higher burden on younger people, and almost the same percentage were concerned about future income and wealth inequality.[37]

In 2022 we are not short of examples of each of these forms of inequality. The unequal impact of COVID-19, the Black Lives Matter protests and the #MeToo movement have raised the visibility of social injustices and highlighted the important role of business in effecting systemic change.

Levers to create change

Multiple solutions exist to help solve these issues within different contexts. Shareholders, customers and other stakeholders are already raising expectations of companies' ESG performance and driving momentum for more purposeful business. In KPMG's 2021 CEO Outlook, 58 percent of CEOs say they're seeing increased demands from stakeholders — such as investors, regulators and customers — for increased reporting and transparency on ESG issues.[38]

ESG reporting is a significant step toward mainstreaming purpose-driven business. It places further pressure on companies to treat the planet and its people with respect, through net-zero emissions, reduced waste and pollution, diverse and equitable employment practices, and positive contributions to communities. It makes companies examine their core business and impact on society through, for example, their supply chain, human rights obligations and employment practices.

However, ESG reporting should be part of an enterprise-wide effort to become more sustainable, and not simply a tick-box exercise — something that shareholders will continue to scrutinize carefully. Organizations need to align their strategy, supply chain, operations, people practices and culture with values that promote social equality. One global platform working for social change through business solutions is the Shared Value Initiative. Its Purpose Playbook framework refers to shared value as "... a business discipline where companies use their core business to drive societal change and enhance their competitiveness — this is the most powerful practice to fulfil corporate purpose aspirations."[39]

Different markets have different incentives and penalties. In Hong Kong, China (SAR), the stock exchange has set specific ESG reporting requirements for all listed companies, who must disclose how climate change will affect their business, and show their strategies for mitigating climate-related risks.[40] The ambition is to "... guide future capital flows to support [our] society's transition towards sustainability," with the ultimate aim of growing Asia's sustainable finance market by increasing awareness of and accessibility to sustainable investment products.[41]

[36] "Giving Future Generations a Voice", 2021, Edward Elgar Pulishing
[37] "Keeping us up at night", January 2022, KPMG Australia, https://assets.kpmg/content/dam/kpmg/au/pdf/2022/issues-facing-australian-leaders-2022-outlook.pdf
[38] "KPMG 2021 CEO Outlook", September 2021, KPMG International, https://assets.kpmg/content/dam/kpmg/xx/pdf/2021/09/kpmg-2021-ceo-outlook.pdf
[39] Purpose Playbook Executive Summary Tool | Corporate Purpose, Culture, Strategy, Shared Value Initiative
[40] Appendix 27 Environmental, Social and Governance Reporting Guide, HKEX
[41] "Hong Kong Backs Sustainable Development With ESG Focus", 1 November, 2021, Forbes

Take action: Begin transformation to a purpose-driven organization

COVID-19 has exposed the fault lines in social and economic systems and sparked new conversations on how to address inequality. A leading Harvard economist — Rebecca Henderson — has even warned that, if businesses fail to address social inequality and climate change, then it could put capitalism in crisis.[42]

Although more and more businesses are embracing stakeholder capitalism, most are at a nascent stage, and skepticism remains. Four-fifths (81 percent) of CEOs taking part in KPMG's 2021 CEO Outlook say the pandemic has caused a shift toward the social component of their ESG program. However, the same survey also finds that only 37 percent believe that these programs will improve financial performance.[43]

[42] "Harvard economist warns the coronavirus has exposed massive inequality in the US — and if business leaders don't step up it could put capitalism in crisis", 21 May 2020, Business Insider

[43] "Trusted purpose", September 2021, KPMG International, https://home.kpmg/xx/en/home/insights/2021/08/kpmg-2021-ceo-outlook/trusted-purpose.html

There is a strong case for becoming a purpose-driven organization. However, such a shift requires a fundamental transformation, with the following actions serving as starting points:

As a business

— **Recognize social inequality (legacy, opportunity and outcomes) as an opportunity for action as well as a business risk:** ESG training as well as 1:1 work can help leaders recognize and understand the relationship between their organization and social inequality.

— **Build an inclusive culture:** Within the organization, engage and listen. Align talent acquisition, training, development and promotion with principles of inclusion and equality. Data can improve transparency through measuring and monitoring how people with diverse backgrounds (including gender, race, sexual orientation, class, culture, and ability) thrive within the company.

— **Assess social impact and measure it:** Measure the social footprint of the organization — upstream consider the well-being in the supply chain, and downstream, the impact of products and services, as well as consumer well-being. Often the first conversation is around what data is available and what needs to be collected to provide robust measurement on the social side.

— **Give voice to the community and create a social compact:** This can help businesses co-design solutions as well as report impacts within the community. With the right information and governance structures, businesses can put themselves in a position to take accountability and respond to community need.

In concert with others

— **Combat short-termism and amplify change:** Work with other businesses, government and investors, across sectors and organizational boundaries to tackle inequality. While individual businesses can increase their transparency and work toward more sustainable organizational models, there is also increased opportunity for collaboration. Businesses can continue to engage in dialogue about the nature of a 'more equitable' society. Partnerships and collaborations between businesses, and with government, have significant potential to tackle social inequality and improve lives.

Although the dramatic shift in wealth in recent decades has reversed many hard-won gains in social equality, the opportunity to leverage the power and influence of business for good has never been greater.

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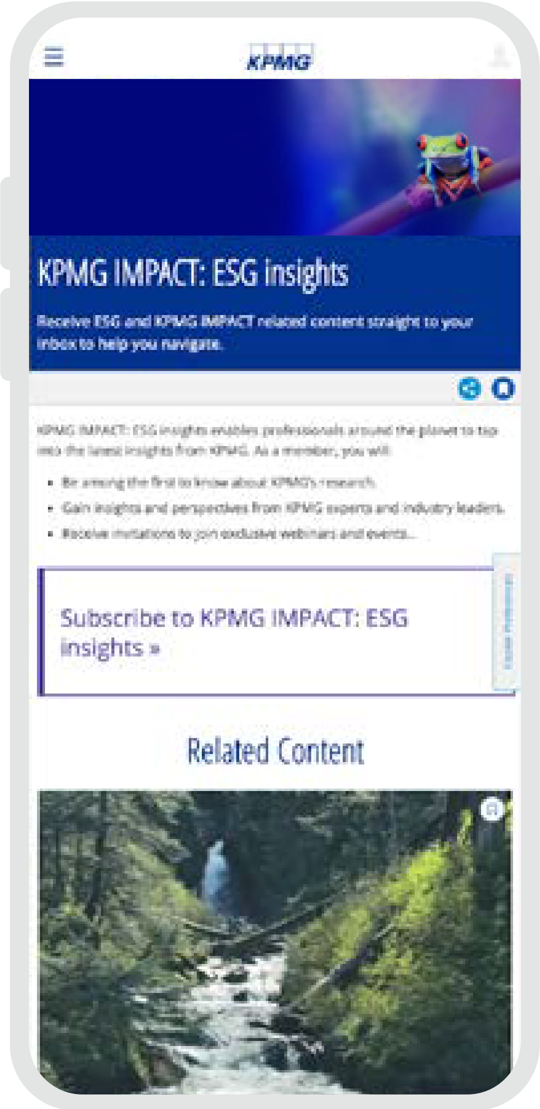

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