

Spotlight on the 'S' in ESG



At its core, the 'social' pillar of ESG is about businesses committing to and respecting human rights

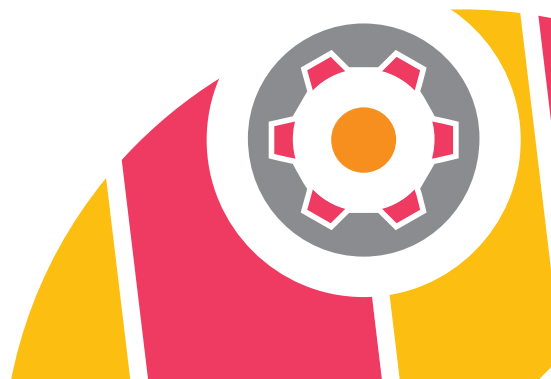


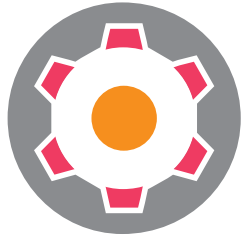
Introduction

In recent years, businesses the world over have become aware that focusing on economic value alone won't deliver sustainable outcomes. Business are recognising that instead, they need to manage the interests of a wide range of stakeholders and instil a culture of acting ethically and responsibly.

To do this, organisations are increasingly developing and implementing Environmental, Social and Governance (ESG) agendas. However, a common problem is that there's significant emphasis on environmental matters, largely due to climate change, but not always enough reporting on social issues and the impacts organisations are having with respect to people issues, such as preventing modern slavery, building First Nations understanding and fostering diversity and inclusion.

While environmental and governance aspects of ESG link to our wellbeing as communities and individuals, social issues are where the experiences of people come into specific focus. Social components of an organisation's ESG strategy incorporates areas such as diversity and inclusion, occupational workplace health and safety, and modern slavery. At its core, the 'social' pillar of ESG is about businesses committing to and respecting human rights.





Reflecting on the last two years alone, we've borne witness to a number of cases where Australian businesses haven't prioritised the 'S'. Many of these instances have made front page news and resulted in swift action at Board and leadership levels as a means to manage the ire of the market, customers, employees and other stakeholders.

Cases of social injustice often impact the most vulnerable and marginalised groups across communities who have limited access to resources or sufficient trust of business to voice their concerns. This reiterates the need organisations to take proactive steps to ensure they consider and address social issues pertinent to their business.

At the same time, we are seeing many companies champion a diversity and inclusion agenda, but not always linking this to their strategy and performance. More recently we have seen major US organisations lean into supporting employees with financial assistance for travel to access abortion services following the overturning of the Roe v Wade supreme court decision.

All of these issues play to the fundamentals of human rights. Human rights in business is gaining an increasing profile and has a significant role in reducing risk and reputational issues for organisations, as well as opening up new business potential – essential factors in longevity.

The challenge with human rights is that it's such a large topic it can be hard to know where to start.

It's far easier to assess waste reduction or carbon emissions, but when it comes to human rights, what can you measure and where do you start? To help narrow the picture, the United Nations Guiding Principles on Business and Human Rights¹ (UNGPs) provides practical guidance for addressing and preventing any adverse human rights impacts associated with business activity. The International Labour Organisation's Human Rights Framework is also helpful.

More recently, in Australia, the UK, and a number of EU countries, mandatory reporting on modern slavery has been legislated. In Australia, this comes in the form of the Modern Slavery Act 2018², which requires entities with annual consolidated revenues of at least AU\$100 million to publicly report their actions to assess and address modern slavery risks in their operations and supply chains. Aligned but separate legislation in NSW – the Modern Slavery Act 2018 (NSW)³ – requires NSW government bodies, local councils and state-owned corporations to review their supply chains and report

on their modern slavery risks. The Modern Slavery Act is currently under review and expected to be revised to put even more onus and consequence on businesses to identify and act on modern slavery risks. More recently we have seen law enacted in the US with the introduction of the Uyghur Forced Labor Prevention Act, which means that the onus is on importers to prove that goods originating from certain regions in China were not produced using forced labour.

For businesses to mature their approach in the "S", a starting point is often a clear human rights framework with robust processes and controls that can be used to prevent, measure and report on related risks and mitigations. This framework can then be used to align in all areas with social impact whether driven through legislation, or through employee and community needs.

What are human rights?

The United Nations General Assembly adopted the Universal Declaration of Human Rights (UDHR) on 10 December 1948, which is considered 'a common standard of achievement for all peoples and nations'. It has since evolved to become known as the **International Bill of Human Rights**, which brings together several United Nations guidance documents including the UDHR. This bill defines 30 areas around what human rights are, including civil, political, economic, social and cultural rights that everyone in every state should have. Stemming from this, numerous treaties, laws, declarations, guidelines and principles have emerged around the world relating to human rights. These often focus on the role of nation states, however, the United Nations Guiding Principles on Business and Human Rights (**UNGPs**) bring these responsibilities to the level of businesses and other types of organisations. In a business context, human rights can relate to factors such as providing decent and safe workplace standards, equal access, privacy rights, environmental responsibility and anti-corruption.

¹ https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf

² <https://www.legislation.gov.au/Details/C2018A00153>

³ <https://legislation.nsw.gov.au/view/html/inforce/current/act-2018-030>

Areas organisations can focus on for social impact

There are five key areas organisations should be focusing on to ensure they're strategically addressing the social pillar of their ESG approach.

1

Suppliers as stakeholders

A business' obligations to human rights its supply chains have come to the forefront through regulation and managing reputational issues. Knowing your supply chain is key to any ESG strategy. And remember, supply chains captures more than just tier 1 suppliers: it means also understanding the suppliers of your suppliers, often down to where raw materials are produced.

This is no easy task, particularly given procurement functions are often separate from sustainability functions and typically have a primary focus on cost, coupled with the challenges of access to supplier information.

Understanding your procurement policies, ownership and data quality is often the first step to a comprehensive approach to ESG.

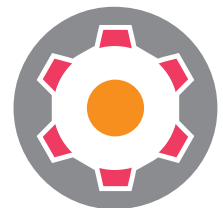
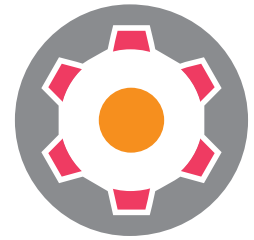
A starting point is to implement a Supplier Code of Conduct, which can be aligned with an organisation's broader human rights framework. This will open communications with suppliers who may be grappling with the same issue, and together with their suppliers, information can be gathered to further assess key risk areas and agree on action. Actions can come in the form of prevention (eg measures need to be implemented before dealing with a supplier) and ensuring there are appropriate safeguards in place should there be an incident (eg appropriate grievance and remediation measures).

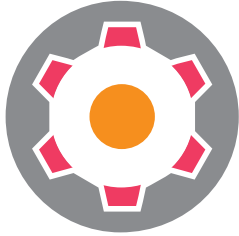
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Involvement of Rights Holders

Fundamental to human rights, and indeed effective solutions to any social issue, is the involvement of those impacted. Most organisations will involve their employees in decisions which could impact them or ask customers what they think. The involvement of rights holders means extending these principles to all individuals who may be impacted by any business decisions or ongoing operations.

As organisations embark on journeys such as eradicating modern slavery, they can overlook the role and value of the lived experience voice in seeking out solutions to issues identified. This is often no easy task for organisations, and experience dealing with vulnerable people is not always present in corporate settings. We are seeing an increase in collaboration between NGO's and corporates, such that rights holders are appropriately involved in detection and ongoing prevention of modern slavery.





3

Consider your First Nations community relationships

In Australia, you can't focus on the 'S' without thinking about how your business impacts First Nations Peoples. In a recent PwC study, 24% of Australian ASX 200 businesses have a Reconciliation Action Plan (RAP), which is positive progress although more needs to be done.

However, many organisations aren't aware of how their business can better respect the rights of First Nations Peoples or how this links into the United Nations Declaration on the Rights of Indigenous Peoples.

Businesses should be thinking about how they are impacting First Nations Peoples beyond just a community strategy and how it aligns to a broader human rights framework. It is not enough to merely do no harm, RAPs require organisations to tangibly move the dial in areas such as economic prosperity. Economic prosperity for First Nations should, as a minimum, be embedded within employment and procurement business strategies.

Further, as with any business initiatives, outcomes for First Nations peoples need to be measured and continuously improved upon. Whilst this often happens at various management levels, monitoring by Board and Executive teams is often overlooked.

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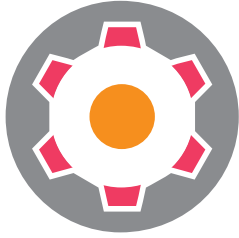
Have robust processes and controls

It's important to have processes and controls embedded across the entire organisation in relation to human rights, so there are ongoing opportunities to identify and review, adjust and address issues.

Key to this are processes to perform due diligence on all new business initiatives and suppliers, not just at the initial point of entry, but also through regular monitoring of their progress.

From a human rights perspective, risks are considered differently from business risks. Business risks involve an element of known and often quantified issues, which management and Boards' will knowingly take on. However, when it comes to human rights, saliency is key and that needs to be considered from the view point of each individual which could be impacted.

There will always be risk of inadvertent human rights breaches, even with the best prevention mechanisms. Stakeholders therefore also need confidence that an organisation's underlying processes and controls are able to detect potential human rights issues, and if there is one identified, the mechanisms and approach to identify and remediate are clear and can be actioned quickly.



5

Recognise what's already being done and ESG interdependencies

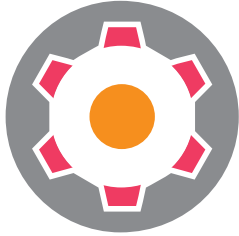
Organisations may be surprised to learn that they already have many processes and resources in place to address social issues across their enterprise, for example, diversity and inclusion policies, privacy policies and compliance with Work Health and Safety legislation. Organisations should pause and take the opportunity to bring these efforts together under an aligned framework; leveraging synergies and avoiding gaps which may compete for resources and attention from stakeholders.

A challenge that starts to reveal itself when businesses increase their focus on social issues, is that other projects or areas of investment aren't as strategically beneficial or 'ESG-positive' as previously thought and there are often trade offs between the "E" and the "S". For example, blockchain technology can improve privacy and security, but is energy intensive. Similarly, solar panels which can assist in reducing carbon emissions are often produced in regions where forced labour practices are prominent.

Balancing the E, S and G with competing priorities will often also depend on the relative importance, or impact of key sustainability factors and this can vary industry to industry.

Key considerations for the "S" in relation to ESG strategies and business policies





Future in focus

Turning an organisation's attention to the "S" isn't just essential now, but will matter even more as the future unfolds – particularly when it comes to technology. For example, as businesses engage globally and with Artificial Intelligence (AI), cyber security and ongoing management of personal data, a mature human rights framework will form a foundation for managing resources consistently and ethically.

To make impactful change, it will also be important for organisations to consider how they can collaborate. For example, we are seeing business, government and NGO's lean into modern slavery issues, and many worked together during the COVID pandemic. By sharing knowledge and embracing the higher objective that no human should be left behind as a result of business operations, there is greater power to make a difference.

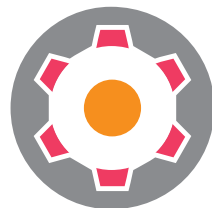
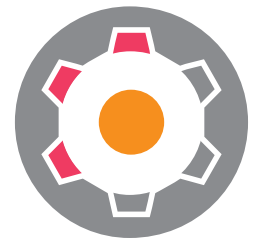


Conclusion

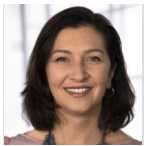
We have a good starting point - regulation, corporate responsiveness to societal issues such as racial equality, and the existence of RAPs means most organisations have already commenced actions in the “S”. It is more often the case that there is no framework to bring this together or form a base for future issues.

As the world becomes more complex as a result of technology, a globally mobile workforce, new stakeholder groups and growing expectations, human rights will continue to be challenged and clear frameworks can often guide the way. On the flip side, the ramifications of human rights breaches can last for many years in terms of profits, stakeholder trust, reputation and the attraction and retention of talent.

At PwC, we are serious about our own human rights commitments, and are working to help and encourage our clients to establish effective human rights governance, processes and controls which identifies, prevents, mitigates and addresses actual and potential adverse human rights impacts as part of broader business and ESG strategies.



Contact Details



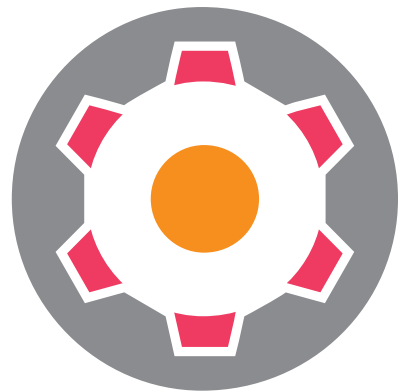
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