



Think Ahead



**ACCOUNTING
FOR SOCIETY'S
VALUES**

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of **241,000 members** and **542,000 future members** based in **178 countries and regions**, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in **our purpose**. In December 2020, we made commitments to the **UN Sustainable Development Goals** which we are measuring and will report on in our annual integrated report.

We believe that accountancy is a cornerstone profession of society and is vital helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

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About this report

The role of the accountancy and finance profession is changing, as regulators and other stakeholders seek increasing amounts of information from organisations on how they are addressing one of the key risks that all entities face: that their future will be unsustainable. This report considers the social component of the sustainability agenda. It is a component that is very broad, and at present not very well defined. Yet for all organisations it is crucial to their future as a sustainable future is a combination of the environmental and social issues.

The report gives voice to the views and perspectives of the approximately 75 members and stakeholders in the ACCA community who have given their time to explore their ideas and passions in this area. It is both their story and one aspect of the collective future of the profession. In so doing it considers the nature of the social agenda and how this impacts both the accountant in business and in practice.

Foreword



Helen Brand OBE
chief executive, ACCA

In the conversation about creating sustainable organisations, the focus is often drawn towards the environmental aspects. The world faces several significant challenges. Global warming will only be addressed through action and that action must come from organisations as well as individuals.

That is only a portion of the story. The social aspect of a just society, which respects the individual, ensuring access to a living wage, healthcare as needed, and freedom to act, is a necessity if we are to attain a just transition. The social agenda, as is set out in this report, is a broad one and requires organisations to act now. With the problems of the global economy in the early 2020s this presents challenges.

From its foundation in 1904, ACCA has focused on the need for a just and equitable society. The qualification was established to give access to all. This is a key element of the accountancy and finance profession: one that is continued today in ACCA's core value of inclusion. The accountancy and finance profession has an opportunity to play its full part in enabling the just transition, not least the social aspect – one that it cannot afford to shirk.

Through the continuing education programmes that ACCA offers, we continue to encourage our members and future members to maintain their relevance. Without the valued and proactive input of the accountancy and finance profession, the goal of reaching sustainability for all organisations will be unattainable. It is for the profession to make the right decisions.

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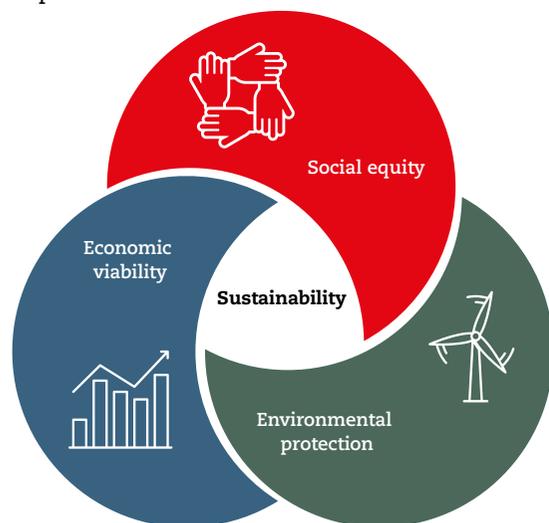
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Executive summary

Three key messages from this report

- The future of the accountancy and finance profession is one that embraces sustainability, including the social agenda, in a just transition which balances social equity with environmental action.
- The social agenda is broad and complex and its constituents are often difficult to measure, but this does not excuse a lack of action.
- It is important not to stand by on these issues; there is a strong business imperative for action now and this agenda needs to be embedded into the view of strategy and performance.

FIGURE ES1: The three domains of sustainability – the triple bottom line



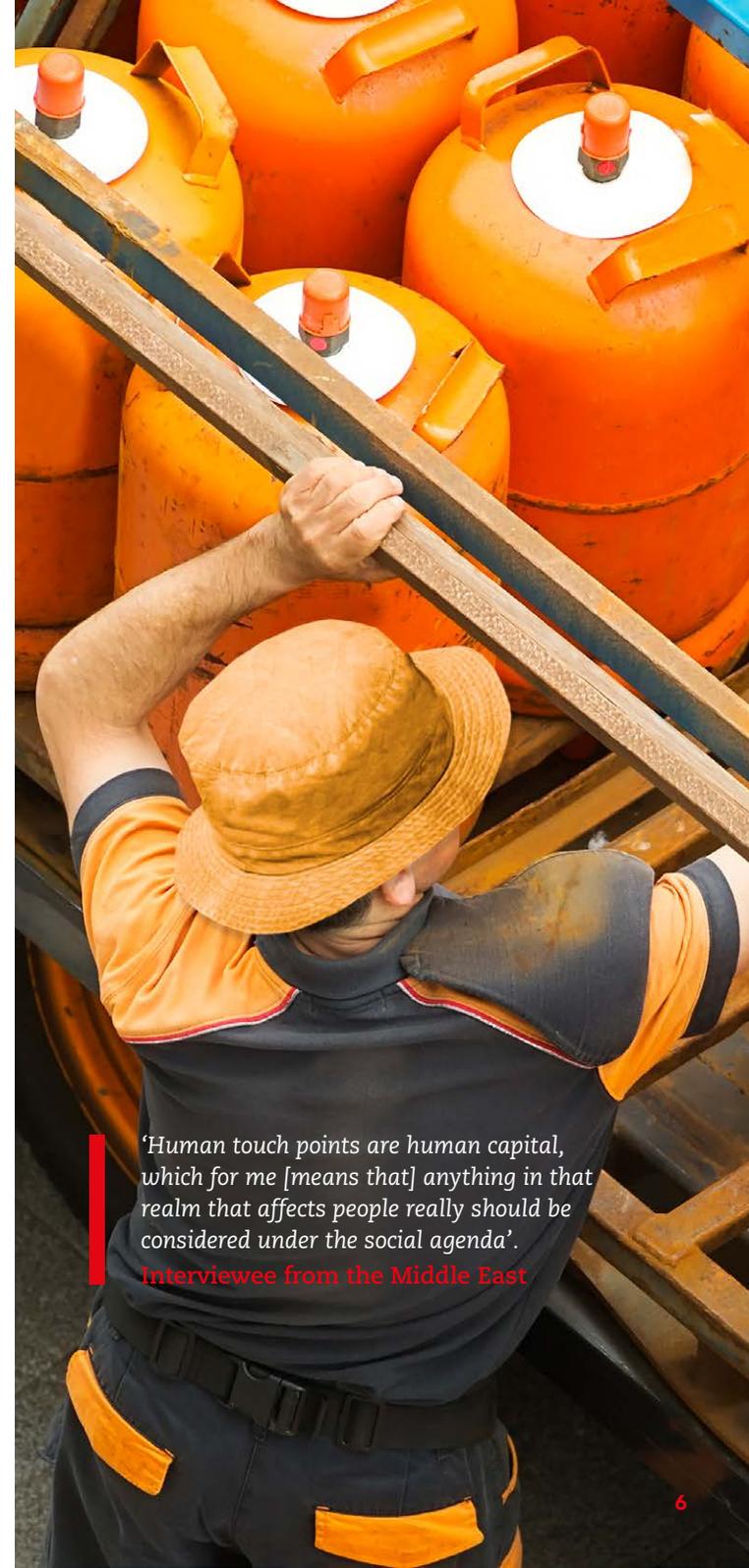
'Humanity's welfare – and indeed, humanity's very future – depend on solidarity and working together as a global family to achieve common goals. For people, for the planet, for prosperity and for peace', so wrote the UN Secretary General in his report Our Common Agenda (Guterres 2020).

The early 2020s are often referred to as a 'polycrisis' as organisations have struggled with multiple challenges from a global pandemic to geopolitical tensions and inflationary pressures. Each of these has highlighted a social impact from declining living standards in both the developed and developing worlds. Yet the short-term crises are only part of the story. There are longer term challenges for society from climate change and social injustice. Organisations need to transition to a sustainable future, one that embraces the economic, environmental and social aspects in combination (see [Chapter 1](#) and [section 2.4](#)).

A 'just transition' which defines the journey to a sustainable future comprises three interlinked components (Figure ES1).

As organisations and finance and accountancy professionals, we are comfortable discussing economic viability; we are becoming more comfortable with environmental protection (although there is still progress to be made in many areas if the world is to meet the targets set in the Paris Climate Agreement). Are we, either as individuals or collectively, comfortable with the third dimension: that of social equity? The pandemic has, for many, highlighted the importance of the social elements of this discussion. But have we truly embedded this in the culture of our organisations, of our supply chains, and of society as a whole?

Accountancy and finance professionals are at the forefront of the transition to a sustainable future. Not only from leading activities in their organisations, but also through reporting on these activities to third parties thereby



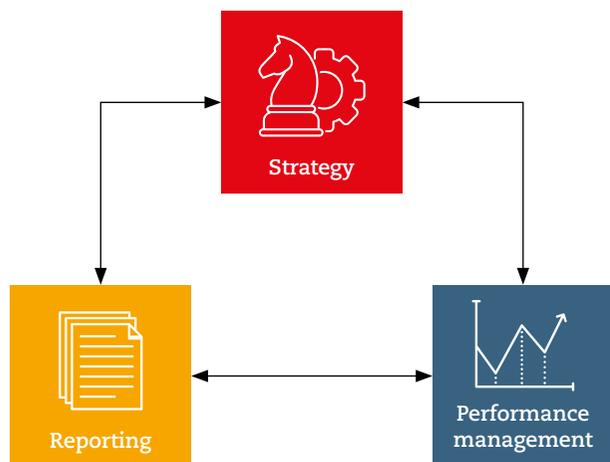
'Human touch points are human capital, which for me [means that] anything in that realm that affects people really should be considered under the social agenda'.

Interviewee from the Middle East

instilling a confidence in the progression that is sought by regulators and other stakeholders. This is a balance between three activities of finance teams and provides a context for those who attest their assertions (Figure ES2).

This increased focus includes not only the environment aspects, but also the journey towards social equality. For many organisations this conversation has developed around the environmental, social and governance (ESG) definition (see section 1.2). Whilst this places a focus on the efficiency of the capital markets, through ratings and disclosure, it is only part of the journey to social justice. The broader story is one of sustainability and a just transition that includes a fair and equitable treatment of those individuals across the value chain. As accountancy and finance professionals we cannot afford to think narrowly – the future of our organisations and indeed of our society depends upon the broader view. A failure to grasp this premise will marginalise the contribution that the profession should make to a just transition to a sustainable future.

FIGURE ES2: Elements in managing the social agenda



The key premise in the development of an equitable society is the provision of 'good jobs'. As explained in section 1.4 a good job is one that provides both financial and emotional rewards to the individual and thereby to the organisations as well. Accountancy and finance professionals are at the forefront of budgeting and costing decisions that impact the wages and benefits of employees and those in the value chain. Understanding these impacts and how society is impacted are important. For organisations exist not only for the benefit of their immediate employees, but they are also part of a community. How that social agenda is driven across the community is important.

The community is one aspect in the model of factors in the social agenda that underpins the discussion in this report. The social agenda is broader than simply the implications for the direct employees (see section 1.3), it also embraces those in the value chain and the impact upon customers as well.

The precise relevance of each component in this model (Figure ES3 and an overview is provided in Table ES1) will depend upon the organisation and its value chain. Indeed, the social agenda is highly contextualised by the location of the organisation and its culture. Different circumstances are at different starting points and context is all important. Each of these components has its own place in the agenda. Each requires a focus and a strategy.

This differing context is one of the key challenges when organisations address reporting requirements. The UN Guiding Principles on Business and Human Rights were published in 2011 (see section 1.3). These provide a basis for interaction at the government, organisation and individual level. In turn this provides the basis for activities such as mandatory Human Rights Due Diligence which has been implemented under German law from 2023 for certain entities. Many of the principles are also carried through

FIGURE ES3: A model of the social agenda



into the social elements of the draft European Sustainability Reporting Standards (ESRS). The development of a global standard may be work in progress, but achieving a standard that reflects the diversity within society across the planet is a challenge that regulators need to face up to.

Whether you consider that reporting drives action, or strategy encourages reporting, as finance professionals there is an urgent need to embrace these two aspects, together with the integration into performance management, of the aspects of the social agenda into our work (see [Chapter 3](#)). It may no longer be appropriate to measure performance solely in financial terms. The concept of value and value-based accounting resonates strongly across this agenda. Embracing the softer measure and defining performance in a manner that reflects a just transition which includes social equity are important for the future of finance.

For many of those who contributed to this report, having the social agenda at the core of the profession is as much about its own future and attractiveness, as it is about driving towards a sustainable future (as discussed in [Chapter 4](#)). When the music stops the chief financial officer cannot just be the person 'left holding the issue'

and leading the necessary actions by default as no other C-suite executive considers it as part of their role; rather they need to be responsible for it and, in many instances, accountable too.

The opportunity (Figure ES4) for the profession is to take a leading role in driving the necessary change and ensure that the agenda moves forward. It is not saying that the expectation is that finance professionals are human resource experts, rather than a strategic view is taken and that social injustice is addressed as part of the strategic direction of organisations. In this sense the agenda is being moved forwards, issues are being addressed and a more equitable and sustainable society is being built. The ethical lens of the profession is an important element as trust and transparency in disclosures and actions are essential.

The accountancy and finance profession stands for a just transition. One that not only addresses the environmental aspects but also works to a just and equitable society. The 'S' stands principally for society – the society that we wish to live in, not just the social aspects. Sometimes the choices that underpin this are hard, but it is important not to shy away from them.

FIGURE ES4: An opportunity for the profession



Three key reasons why this matters to accountancy and finance professionals

- Sustainable organisations are those with a combination of economic, social and environmental objectives in balance, and are essential for our future.
- Stakeholders and regulators are focusing on the social implications of the actions of organisations and so must we.
- Performance-management processes need to reflect the strategic goals of organisations, and finance teams need to embrace this; without this rigour, together with external assurance obligations in reviewing controls over performance, trust will dissipate if we fail to ensure a just transition.



A model of the social agenda

Table ES1 provides an overview of the terms defined in the model in [Figure ES3](#). It should be noted that the components are often interconnected both within and across categories. Suggestions of mechanisms for measurement will need to be adapted to the individual circumstances of any organisation. Not all the categories will apply in equal measure to all organisations, but they may be used as an initial assessment tool to establish risk and likelihood of impact.

Several specific terms used in this table are defined in the [Glossary](#).

TABLE ES1: A model of the social agenda

COMPONENT		DESCRIPTION
WORKFORCE		
This component considers those social issues related to the workforce itself, including contracted employees.		
Diversity and non-discrimination		Ensuring that the organisation embraces diversity, equality, equity and inclusion as part of its culture and policies. Embedding the relevant principles in policies and procedures. Elements of this can be measured through metrics such as gender and ethnic pay ratios and through employee satisfaction programmes. Elements of the rights of indigenous people can be included in this category.
Living wage		Ensuring that all employees are paid a living wage as calculated by reference to the location in which they work. This can be measured by first understanding the validity of the calculation of the living wage and then it can be measured through the percentage of employees that are paid a living wage.
Lifestyle choices		Ensuring that employees have access to flexible working patterns and employee benefits that support the economic growth and protection of the family. Measurement of this may be indirect through employee satisfaction programmes.
Lifelong learning		Ensuring that all employees, irrespective of position, have access to relevant, appropriate and timely development opportunities. Ensuring that the organisation supports a learning culture. Measurement of this may be indirect, through employee satisfaction programmes. In certain instances, the provision of education to the families of employees from infancy, where this is not provided by the relevant state, may also be included here.
Social protection and legal rights		Ensuring that the organisation protects employee rights, has proper disciplinary procedures and complies with all relevant legislation. Ensuring that these are included in relevant policies and procedures. It also includes the rights to representation and statutory benefits. Slavery, child and forced labour legislation is also included in this category. Measurement of this may be through establishing effective compliance monitoring.
Health and well-being		Ensuring that employees' health, safety and well-being are maintained. This includes mental health as well as physical health. Ensuring that the policies and procedures of organisations follow leading practices and legal requirements. Measurement can be through metrics related to employee absence rates as well as through employee satisfaction programmes. Access to timely health care is a key aspect.

COMPONENT	DESCRIPTION	
VALUE CHAIN 	<p>This component considers the responsibility of the organisation towards its suppliers throughout its value chain. Several of these categories can also be applied as a responsibility in relation to those organisations in the value chain where the customer is not the end consumer. Supplier Codes of Conduct can be used to define required standards. Attestation of the metrics may be considered across the value chain.</p>	
Human and legal rights		<p>Ensuring that those in the value chain are compliant with relevant human and legal rights requirements as applicable in their location. This category includes slavery, child and forced labour. Measurement will be by the organisations in the chain, but similar metrics to those used in the Workforce component can be considered.</p> <p>Elements of the social licence to operate (SLO) are included in this category, although predominantly a factor in the Communities component.</p> <p>Considerations of the economic rights of suppliers, such as payment terms, are relevant to this category.</p>
Living wage		<p>Ensuring that all workers in the value chain receive a living wage, as defined by their location, as a minimum. In a contractor relationship this can include prompt payment. Measurement will be by those in organisations in the value chain, but similar metrics to those used in the Workforce component can be considered.</p>
Safe working environment		<p>Ensuring that all working environments comply with required standards, including health and safety and physical site requirements. Ensuring that relevant improvement programmes are in place as well as the monitoring of employee hours and leave taken. Measurement will be by those organisations in the value chain through compliance with factory and other relevant legislation, as well as the number of instances of issues and workforce performance statistics. Employee satisfaction programmes can also produce evidence.</p>
Circular economy		<p>Ensuring that organisations optimise reuse of materials through reuse and regeneration of materials or products, especially as a means of continuing production in a sustainable or environmentally friendly way. This can be measured with reference to the percentage of reuse of materials or products in the production cycle.</p>
Well-being		<p>Ensuring the health and well-being of the workforce. In this component it may be appropriate to include lifelong learning as part of the definition. Measurement will be by organisations in the value chain through well-being data and employee satisfaction programmes.</p>
Animal welfare		<p>Welfare of animals in the production aspects of the supply chain can be a consideration for some organisations. These can be a key aspect of the social well-being as they relate to the overall social licence to operate. Measurement of this category presents challenges.</p>

COMPONENT	DESCRIPTION	
CUSTOMERS 		
This component considers the relationship with the end customer or consumer of the product or service that is provided by the organisation. In instances of more indirect relationships, the measurement of this component may present significant challenges. Many of these categorises relate to interactions from the perspective of the organisation.		
Food and water		Ensuring that the products and services use an equitable proportion of the fundamentals of life, such as food and water. Do the products and services that the organisation provides sustain these rights? This can be measured by the investment made in resources that sustain these fundamentals.
Consumer protection		Ensuring that consumer rights are protected, and that products and services are provided on an equitable basis within specific markets. This can be measured through the number of instances of complaints.
Data protection		Ensuring that the data of customers is secured and not used for purposes to which the customer has not agreed. Concepts such as privacy by design should be considered when developing or enhancing software applications. This can be measured, in part, by reference to cyberattack monitoring data.
Sustainable organisations		Ensuring that the organisation remains sustainable through the development of appropriate strategies. Development of just transition plans to ensure that a sustainable organisation is place.
Quality products and services		Ensuring that quality products are delivered to the consumers that are fit for purpose and sufficiently durable in design and production to meet their expected lifespan. This can be measured through customer satisfaction surveys, number of returns of products and number of complaints.
Disclosure		Providing sufficient and appropriate disclosure to the customer to enable them to critically appraise the activities of the organisation. This can be assessed by the level of disclosures made and the number and type of enquiries made for additional disclosures.
COMMUNITIES 		
This category considers the relationship between the organisation and the communities in which it operates. Most of these categories are part of the SLO.		
Equality of wealth		Ensuring that wealth is equally distributed into the communities through the living wage and also through social responsibility activities that improve the quality of life. This can be measured through the level of economic activity in the communities where the organisation operates.
Respect for rights		Ensuring the fair use of land and resources and respecting the traditional rights of landholders and other stakeholders. Respecting the rights of indigenous people. Ensuring that land is returned to a useable state after economic activity ceases. This can be measured using surveys.
Corruption		Ensuring an absence of corruption in the interaction with the community. Ensuring that contracts and other interactions are conducted on a fair and transparent basis. This can be measured by the use of statistics such as Transparency International's Bribe Payers Index.
Digital divide		Ensuring access to digital literacy and connectivity across the community to assist in eliminating social exclusion. This can be measured by a comparison of digital access in the community with its peers and the speed of connectivity provided.
Trust in society		Ensuring transparency in the transactions between the organisation and the community and its other stakeholders. Developing trust between the community and the organisation. This can be measured through surveys.
Equitable tax		Ensuring that an appropriate level of taxation is paid in respect of the organisation's activities at both a national and local level, commensurate with the resources used by the activities of the organisation. This can be measured by the effective tax rate.

Benefits and perceived risks

The following table (Table ES2) discusses the benefits and perceived risks of the social agenda. Whether these perceived risks materialise will, inevitably, be a balance between cost and impact/likelihood for each organisation. These benefits and perceived risks cover both the organisational level and the specific implications for the finance community. These two are intertwined.

TABLE ES2: Benefits and risks

	BENEFITS TO ORGANISATIONS	PERCEIVED RISKS TO ORGANISATIONS
CORE OPERATIONS		
Business reputation	Business reputation of the organisation is elevated, enhancing relationships across customers, communities in which it operates and governments.	Possible loss of customers. Resistance from the communities in which it operates. Regulatory and lobby group pressures.
Strategy	Incorporating societies' needs and values into strategy making lends to numerous benefits: <ul style="list-style-type: none"> • newer market opportunities (such as lower income groups, ageing populations), • stronger investor confidence, • stronger government relations, • heightened community trust, and • elevated employee engagement. 	Strategy setting is narrowly focussed on financial performance. Addressing social agenda is relegated to activity-based, such as corporate social responsibility, with limited impact. Disconnect between strategy and societal engagement lends to green/bluewashing. Lost opportunity to elevate trust in the organisation's products and services. Leaders are seen to lack empathy. Employees feel disengaged – missing out on productivity gains.
Performance	Performance measures and targets are broader and cut across the sustainability spectrum. Profit is not placed on a pedestal over planet and people. Impact of decision-making is viewed through financial and non-financial lens, with equal weight.	Performance remains dominated by financial measures, not reflecting societal demands. Growing investor pressure to look at business impact on society and people, including customers and employees. Losing out to competitors who take the social dimension of sustainability more strongly in product and service design and delivery.

	BENEFITS TO ORGANISATIONS	PERCEIVED RISKS TO ORGANISATIONS
Employee well-being, productivity and retention	<p>Changes the dynamic of employment relationships from where people are regarded as replaceable 'commodities' to one where people are seen as co-value creators.</p> <p>Employees feel inspired and energised resulting in improved innovation and collaboration amongst workforce.</p> <p>More positive working environment leading to lower absentee rates. Increased productivity and lower error rates leading to less rework.</p> <p>Increased staff retention which lends to improved organizational memory and lessons learnt.</p> <p>Increased attractiveness to future workers because of a dynamic and values-driven work environment and reputation as employer.</p> <p>Payment of just wages for work delivered.</p>	<p>Work is seen as uninspiring, arduous and primarily as a means to an end.</p> <p>Pay and benefits become a greater issue in talent attraction and retention.</p> <p>Higher churn rates in employees.</p> <p>Loss of corporate knowledge.</p> <p>Increased overtime.</p> <p>Lower employee morale.</p> <p>Time lost through retaining and reskilling.</p> <p>Poor employer – employee relationships.</p> <p>Employees do not feel that they are progressing.</p>
Transformation / Efficiency	<p>Perception that roles add value to the organisation.</p> <p>Roles are perceived as 'good jobs'.</p> <p>Improved acceptance of automation.</p>	<p>High resistance to change and adoption of new ways of working.</p> <p>Inefficiency in processes.</p> <p>Menial tasks take longer.</p>
VALUE CHAIN		
Resilience	<p>Business performance is more resilient by identifying and proactively dealing with social risks across the value chain.</p>	<p>Business performance is more vulnerable to disruption along the value chain because of social and industrial unrest.</p>
Performance	<p>Improved supplier performance. Greater trust.</p> <p>Use of supplier codes of conduct improve trust and resilience.</p>	<p>Issues in delivery and quality of products.</p> <p>Increased staff absenteeism and churn.</p> <p>Brand association with poor labour conditions and worker rights.</p>
Human rights commitments	<p>Aligned to human rights protecting strategic risks.</p> <p>Seen as an advocate and a responsible business.</p>	<p>Not addressing the social impact linked to human rights issues including excessive working hours, abusive working environments, child labour and forced labour.</p> <p>Consequences on loss of customers, regulatory violations and share price impact.</p>
Transparency, impact and cost	<p>Increased transparency of social impact and costs across value chain thereby assisting in reporting; increasingly as open-source data environments.</p> <p>Improved supplier relationships through prompt payments for mutual benefits.</p>	<p>Lower transparency of issues leading to greater disruption.</p> <p>Lack of goal congruence between organisation and its suppliers.</p> <p>Lack of preparedness in reporting.</p> <p>Lower level of understanding of risks in supply chains.</p>

	BENEFITS TO ORGANISATIONS	PERCEIVED RISKS TO ORGANISATIONS
OPERATING ENVIRONMENT		
Business environment	Cohesive and prosperous business environment is essential for growth.	Inequality, social unrest and poverty negatively impact the business environment.
Investor expectations	Clarity for reporting to various stakeholders establishing the credentials for the organisation. Perception of lower risk profile from employee unrest and progression against social targets.	Negative investor perceptions. Implications for cost of capital as organisation may be perceived as a higher risk. Increased investor activism in key areas.
Social licence to operate / Stakeholder engagement	Increased interaction with communities maintaining interaction and connectivity with communities. Increased social returns in locations.	Resistance to future developments. Poor recruitment in locations. Lack of trust in communities. Higher wage rates.



Actions for finance teams and those working with them

For many organisations this may represent a challenging list of actions. Individuals and organisations need to consider where the highest priorities lie and plan to address all of this over time.

ACTION	REPORT SECTION	ASSURANCE AND ATTESTATION PROFESSIONAL	FINANCE TEAM MEMBER	FINANCE LEADER
Appraise your organisation's social activities against the model (Figure ES2) and identify potential opportunities or issues that might arise.	1.3	✓	✓	✓
Apply a social lens in developing and / or evaluating business strategies.	3.2	✓	✓	✓
Appraise investments against total value, not simply financial return, especially those related to social issues.	3.2		✓	✓
Consider how you measure and report upon the intangible benefits of projects and investments, including the social aspects.	3.3		✓	✓
Implement a balanced scorecard that reflects all elements of the triple bottom line, including the social agenda.	3.3			✓
Identify data sources for both internal and external reporting requirements. Establish and verify appropriate levels of internal control over the data flows.	3.3		✓	
Ensure that the data sources are integrated into the organisation's data governance and data management systems.	3.3	✓	✓	✓
Boards and executive committees should regularly review the social agenda and the impact that the organisation has across its value chain.	3.3			✓
Consider the impact of any regional or national reporting standards on the organisation, recognising that these may be required by others in supply chains.	3.4	✓	✓	✓
Ensure that the finance team has the right level of skills and knowledge to support the non-financial reporting requirements.	4.1			✓
Internal audit teams, likewise, need to be skilled up to fulfil their role as the third line in these disclosures.	4.1	✓		
External audit teams need to ensure that they too have the necessary capabilities.	4.1	✓		

1. The social agenda

'Sustainability is very important because the social fabric is the people who work [in the organisation]. They are the ones who really make your organisation thrive and grow'.

Caribbean interviewees

Three key messages to take away from this chapter

- A sustainable world is not a luxury but a necessity. The time to act is now.
- The broad definition of the social agenda needs to be considered by all organisations when developing their strategies.
- Organisations have a responsibility to the societies in which they operate.

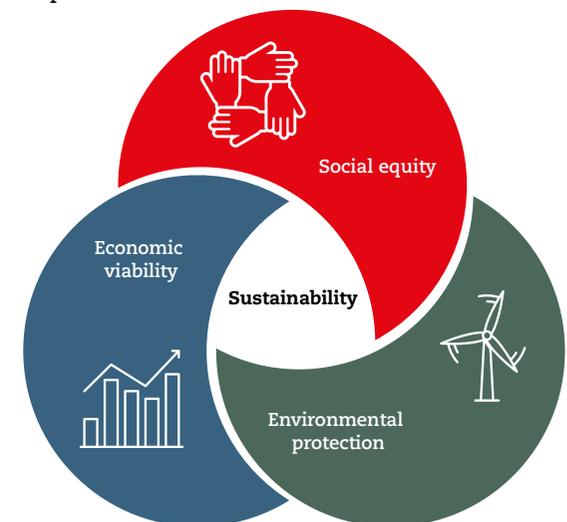
1.1 A sustainable world

A sustainable world is not a luxury; it is a necessity. An unsustainable world is not an option. As humanity, we need to act now.

The conversation about sustainability and what it means can be confusing. It is a conversation that sets out to enable individuals and organisations to focus upon the future. IMD – the International Institute for Management Development – defines sustainability as 'a business approach to creating long-term value by taking into consideration how a given organization operates in the ecological, social, and economic environments. Sustainability is built on the assumption that developing such strategies fosters company longevity' (Haanaes 2022). Key to this definition is the long-term nature of sustainability and the combination of the three domains shown in Figure 1.1.

As organisations and professionals, we are comfortable discussing economic viability; we are becoming more comfortable with environmental protection (although there

FIGURE 1.1: The three domains of sustainability – the triple bottom line



is still progress to be made in many areas if the world is to meet the targets set in the Paris Climate Agreement). Are we, either as individuals or collectively, comfortable with the third dimension: that of social equity? This report explores the nature of social equity and whether as a profession we are sufficiently cognisant of its breadth and implications. The pandemic has, for many, highlighted the importance of the social elements of this discussion. But have we truly embedded this in the culture of our organisations, of our supply chains, and of society as a whole?

An ACCA member working in the investment fund community commented, 'we believe the companies who are more focused [on] ESG considerations can ensure sustainable earnings and [that] is important for all of us. And we believe that the whole world economy is facing a challenge. It is not only any country-specific risk...the economic crisis we are facing is that there could be many companies [that] may fail and we believe the companies who are focused [on] ESG factors [and] ensuring environment-friendly, social-friendly investment will deliver sustainable earnings, which is good for [the investment fund's] metrics. Moreover, these companies will have the leverage to take more funds in the future, for their expansion'.

The inter-relationship of our actions as individuals with the society can be expressed through the Nguni Bantu term Ubuntu which can be translated as 'humanity'. Archbishop Desmond Tutu, as quoted by the Clinton Foundation, explained it this way: 'One of the sayings in our country is Ubuntu — the essence of being human. Ubuntu speaks particularly about the fact that you can't exist as a human being in isolation. It speaks about our interconnectedness ... We think of ourselves far too frequently as just individuals, separated from one another, whereas you are connected and what you do affects the whole world. When you do well, it spreads out; it is for the whole of humanity' (Clinton Foundation 2012). If one looks at this philosophy, it is the inter-connectedness of us as individuals to the society in which we exist that creates change and progress. This is, perhaps, apposite for the transition towards social justice that as a global society we must embrace.

1.2 Sustainability and ESG – the difference

A McKinsey survey conducted in 2020 suggested that '83 percent of C-suite leaders and investment professionals say they expect that ESG programs will contribute more shareholder value in five years than today. They also indicate that they would be willing to pay about a 10 percent median premium to acquire a company with a positive record for ESG issues over one with a negative record' (Delevingne et al. 2020). The survey further explores both the short-term and long-term impact of each of the three components of ESG.

The social element of ESG may be viewed as the older of the three siblings. This is the one that, as a society, we have been discussing for many years, but one that has been overtaken in the discussion by the middle sibling, the E, while the youngest sibling, the G, may well be the sibling that seeks to unify the other two. While this may be an oversimplification, many of the participants in our roundtables concurred with this summary.

An interviewee in practice in the Middle East commented, 'You have heard the term corporate social responsibility – CSR. Right now, a lot of people are confused with 'what is different about ESG?'. And based on that, then what is the E? What is the S? What is the G? Depending on who you talk to, you may get different answers. This is one of the questions that came up during my last client meeting because they have a CSR strategy and they are trying to build an ESG strategy. No, sorry, they are trying to build a sustainability strategy and they question whether that is the same as an ESG strategy. They are all confused'.

It is important to draw a distinction between sustainability and ESG. Brightest, a software company has defined the difference between the two as 'ESG looks at how the world impacts a company or investment, whereas sustainability focuses on how a company (or investment) impacts the world' (Brightest n.d.). The company further suggests five differentiating factors.

- '1. ESG is about company stakeholders, identity, and decision-making – the board, CEO, employees, shareholders, and other stakeholders – whereas sustainability is about the relationship between a company and the environment.
- '2. ESG is an investment framework that helps external investors assess company performance and risk, whereas sustainability is a framework to make internal capital investments (ie installing LED light bulbs or other energy efficiency measures, electrifying a transportation fleet, purchasing sustainability measurement software).
- '3. ESG is based on standards set by lawmakers, investors, and ESG reporting organizations (eg GRI, TCFD, MSCI), whereas sustainability standards – while also set by standards groups like GHG¹ Protocol – are more science-based and standardized. There are dozens of different frameworks for measuring ESG, whereas carbon (CO₂) is carbon and we don't need to get too creative with nature and physics.
- '4. ESG includes sustainability as one of its three pillars, but also incorporates broader social and corporate governance considerations.
- '5. ESG is typically more relevant for large companies who are listed on public investment exchanges or who need financing from institutional investors. However, as more banks and financial services firms themselves adopt ESG principles around their business, ESG is also increasingly becoming more material to start-ups and smaller organizations'.

1 GHGs are greenhouse gases such as carbon dioxide and methane.

While this differentiation may relate more to the environmental focus than to the social aspects, it underlines the level of work that still needs to be done in the social area. This level of work is important, as it is necessary for providing effective standards and guidance. But first, we must consider the scope of the S in ESG or in the social equity agenda.

Whether sustainability and ESG are considered as having entirely separate definitions or not, they do and must share many common components. In this report, ESG is considered to be a corporate finance construct which shares many common elements with the 'triple bottom line' approach. For ease, an overall term of the 'social agenda' has been used to embrace both.

1.3 Defining the social agenda

The definition of the social agenda, of the areas that make organisations sustainable, occupied much of the time in the roundtables that were conducted as part of this research. Before exploring the conclusions of these discussions, it is important to note that there is a very strong interrelationship between each of the components of the ESG agenda, and likewise in the social view. Indeed, in one roundtable, a participant considered that gender equality was part of the governance agenda because it was measured, rather than something that aligned to the social component. This does not necessarily matter. What is important is that it is part of the overall agenda.

Many organisations started the social agenda by undertaking CSR activities and thereby giving back to their communities. Now they are moving on.

The breadth of the definition was highlighted by most of the roundtable participants. A North America participant commented that: 'it's the social part. It also includes diversity, inclusion and equality. It is becoming increasingly important, especially after the pandemic, because it covers relationship that employers have with their workers, with their health and safety. What is happening these days is ... important because a lot of customers care, so they will not do business, or they would prefer to do business

with a company which actually cares about these issues. What I have been noticing, as we are hiring managers for millennials [is that they are not just concerned about] diversity and inclusion issues. Even the employees are increasingly concerned at the overall situation'.

An interviewee from the Caribbean noted that,

'many people first jump on the conversation ... when you talk about things such as gender and religion. When people latch on to those, the conversation can go down the rabbit hole because [of] the different points of view and the strong opinions on these things. Then you lose sight of the bigger picture'.

A contributor who is resident in the Middle East commented: 'in terms of my understanding [of social aspects], I look at it from the standpoint of ethics within the organisation. I start with how we are treating our people. Are we taking care of the people well? Do they have the required resources to do their work? Are they being paid well? And do we have supporting mechanisms in the workplace? That could be ethics, conflict of interest policies, and whistle-blowing policies. But what is more important is the compliance, or the whistle-blowing, management system so that people are protected, and they feel free to do their work and to report any unethical behaviours in the workplace'. This participant continued by adding that, 'in the Western market we have efficient systems. I think in Asia and Africa we still have to progress to get to a place where we [can] say we have transparent information where employees are being protected'. Another member who is based in East Africa concurred. 'Here in Africa, we are still in the industrialisation phase and people are really trying to make ends meet. It is a matter of survival. So, when we look at ESG and we might say yes, we must implement S at all stages. But I think it is all a matter of how the older brother [developed economies] looks at the younger brother. How do we improve these lives by embracing social pillars? How do we make that ecosystem [work] without those connotations whereby you're applying [just] any ESG [framework], which can be detrimental towards progress?'

The definition of 'the social' is now far broader than in the past and is also highly coloured by the context of industry and location. Some of the concepts that might be included within the scope resonate more with people in some industries than others. Social issues vary between economies and locations. One example of this may be drawn from the roundtable discussion in the Caribbean. The discussion turned to the subject of reparations and how societal development in the region has been impaired by the legacy of slavery and past imperialism. Such discussions serve to highlight the different positions that regions and countries occupy at present. For this reason, countries have set different priorities for their implementation of the UN Sustainable Development Goals (SDGs): for example, Canada and Australia are focusing on amongst other things indigenous rights. An interviewee provided an example of this. 'If we go to Rwanda today, though I am very African in every way, I don't expect them to cook my Malawian food and to greet me in the Malawian way. It is completely different. I should first study their cultural norms. How do these guys behave? How do they talk to each other? That is the richness of the world'.

To reinforce this, an interviewee based in Europe commented on a conversation with a colleague in Malaysia, who had said that,

'the problem is that when you guys in Europe talk about social equality, it means something completely different [to what it means] to most of the south-east Asian countries'.

A perspective from an ACCA member in South Asia illustrates additional considerations in the agenda. This participant explained that, 'we have to ensure the health and safety for the workforce. We must consider the health insurance in this respect too, and we have to align the procurement system to the policy where we can ensure the products are safe, and this is [a] health and hygiene factor for the workforce. Considering the societal aspect of this, I believe now we have to focus more on the social values. We have to respect the cultural diversity and the heritage; we cannot let any company or business go into a project or any endeavour which can threaten our heritage'.

They continued, 'there is another consideration [for] our indigenous people. If we think about land acquisition in many big projects, the indigenous people are facing problems too. We must address those issues because this is about the political environment. I believe [however, that the subject is] very frequently spoken of in respect of gender rather than equality in respect of production output'.

Milton Friedman, in his essay 'The Social Responsibility of Business is to Increase its Profits', commented, 'The discussions of the "social responsibilities of business" are notable for their analytical looseness and lack of rigor' (Friedman 1970). Having one definition that fits all circumstances negates the objective of progressing the agenda. It would be too generalist to be of value.

The objective in collating a view of what may well be included in the social agenda (Figure 1.2) is to provide an enlightened perspective that stimulates debate and consideration in organisations.

Figure 1.2 provides a summary of the potential considerations in the social agenda. It has been grouped into four overall categories²:

- **the workforce** – the social considerations related to those who are employed, either directly or as contractors to the organisation
- **the value chain** – the responsibilities for social issues that the organisation has across its value chain
- **the customers** – the specific social interactions between the organisation and those who use its products and services
- **the communities** – those individuals resident in the locations where the organisation undertakes its operations, some of whom may have economic relationships with the organisation through second or third suppliers, or who might be in families with direct or indirect relationships.

Many of the detailed components are interchangeable between the categories. For example, food and water are relevant to communities and the workforce as well as to the customers. Nonetheless, the overall sense of the model is that it provides a broad overview of the social agenda, not a narrow perspective. For many of the roundtable participants, the discussions highlighted areas that they had not previously focused upon. Building a long-term sustainable world is ineluctably linked to building a better society.

There is no specific SDG on human rights because they underpin all the other SDGs and must similarly underpin each of the four categories above. For example, access to

food and water is a human right and although we include it in the 'customer' category, it is fundamental to all aspects of life. Without the fundamentals of life, we are nothing.

To illustrate this further, a detailed consideration of each of the components is given in [Table ES1](#). To provide an example, consider the living wage. The living wage is a concept which underpins the social progression through the advancement of income levels to those which give a reasonable standard of living, in contrast to a minimum wage³. The concept itself has been brought into some of the disclosure requirements in the draft European Sustainability Reporting Standards (ESRS) (see [Appendix 1](#)).

FIGURE 1.2: A model of the social agenda



2 In a similar model, the draft European Sustainability Reporting Standards (ESRS) refer to four categories as own workers, workers in the value chain, affected communities and consumers and end-users, European Financial Reporting Advisory Group (2022).

3 ACCA together with the Living Wage Foundation has previously considered the definition and application of the living wage (ACCA / Living Wage Foundation 2017a and 2017b).

However, the living wage⁴ is a concept which is aligned to the SDGs. This is best illustrated by the following figure (Figure 1.3) which was developed by Shift Project (Shift Project 2018).

The objective for an organisation has to be to translate this into an overall strategy that supports a sustainable business model. An example of how such a model can evolve can be taken from Heineken's business strategy covering the period to 2030, which includes the following aspects of the company's social agenda (Heineken 2022) (Table 1.1).

TABLE 1.1: Heineken's social component of its strategy

ASPECT	ACTION
Embrace inclusion and diversity	<ul style="list-style-type: none"> Gender balance across senior management: 30% women by 2025, 40% by 2030 Cultural diversity: across each region at least 65% of country leadership teams are regional nationals by 2023 100% of our managers trained in inclusive leadership by 2023
A fair and safe workplace	<ul style="list-style-type: none"> Fair wage for employees: close any gaps by 2023 Equal pay for equal work: assessments and action by 2023 Ensure fair living and working standards for third-party employees and brand promoters Create leadership capacity to drive zero fatal accidents and serious injuries at work
Positive impact in our communities	<ul style="list-style-type: none"> A social impact initiative in 100% of our markets every year Local sourcing of agricultural ingredients in Africa: 50% increase in volume by 2025
Responsible business conduct	<ul style="list-style-type: none"> An effective Speak Up framework Zero tolerance to bribery and corruption
Respecting human rights	<ul style="list-style-type: none"> Ongoing due diligence Good governance

Source: Heineken 2022

FIGURE 1.3: The connection between the living wage and the UN SDGs



Source: Shift Project 2018

4 The business case for a living wage is explored in Barford et al. (2022).

In support of the research for this report, several survey questions were included in an ACCA member survey. One of these considered the relative importance of 12 of these components to the respondents. They were asked to identify, in order, their top five concerns.

Figure 1.4 presents the responses in order of the overall number of top five preferences received for each category. Providing good-quality products and services (included in the customers category in Figure 1.2) was ranked the most significant, both among overall preferences but also among first preferences. While this supports the contention that the social agenda is a broad one, it is perhaps surprising that components such as child labour (a component of social protection and legal rights in our model) and modern slavery scored significantly lower. A study prepared for The Greens/EFA Group in the European Parliament

based on 2019 data suggested that 2.43% of products sold within the EU were made with child labour and that of these more than 80% of the imported products came from three sectors: agriculture, electronics and textiles (Bayer et al, 2021).

1.4 'Good jobs'

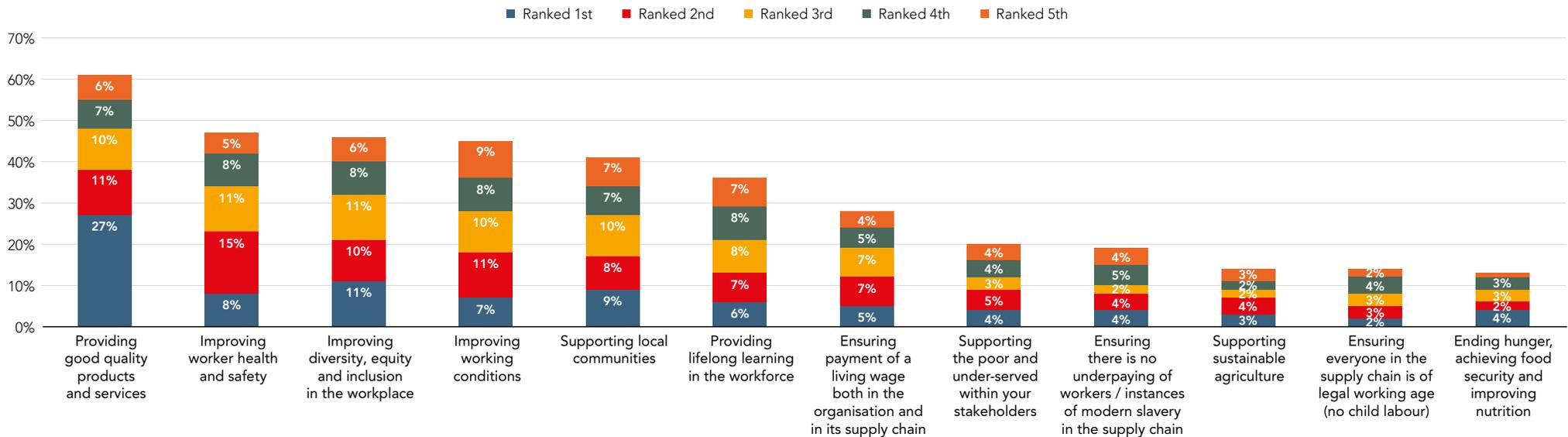
At the centre of social progression is the concept of a 'good job'. One of the challenges is that there is a potential shortage of such jobs as globalisation and technological advances impact organisations. This is especially prevalent in the developed economies, but in turn impacts the developing economies. The lack of 'good jobs' leads to a squeeze of the middle class and to the disenfranchising of those who are not able to take advantage of the social advances.

The characteristics of a 'good job' may include:

- a reasonable standard of living
- good career progression
- the reward of effort put into the job, not only financially but also emotionally
- stability in the workplace; and
- a strong degree of personal autonomy.

The implications of a lack of 'good jobs' may be felt in two ways. Firstly, as a social cost with the breakdown of families, social activity and increased levels of abuse (both physical and medical) and secondly at a political level which may lead to polarisation of opinion.

FIGURE 1.4: Which of the following societal matters do you believe are most important for your organisation to address? (n = 550)



Addressing an absence of such jobs is not an issue for governments or organisations in isolation. Rather it is the combination of the two that can address the social fabric and the economic conditions. As a profession, understanding these factors, especially at a time when the tendency is to reduce costs both in organisations and across the value chain, places the accountancy and finance professional at the heart of this issue.

The issue of good jobs may well be impacted by the advent of tools such as ChatGPT. There is always a fear factor when new technologies emerge which are seen as disrupting established working patterns. The challenge for society is how to embrace the advantages that these technologies offer whilst maintaining the essential components of the 'good job'. How do roles adapt to embrace rather than ignore the opportunities presented to them. Although as Atif Rafik as quoted in an interview for Raconteur notes, 'the real change will come when private versions of ChatGPT and Google's Bard are made available for businesses' (Forsdick 2023)

The measurement of 'good jobs' is complex. It can be measured using three criterion:

- earnings quality
- labour market insecurity
- quality of the working environment

The OCED provides measurements for some countries in Job Quality statistics (OECD n.d. b).

THE CHALLENGE FOR SOCIETY IS HOW TO EMBRACE THE ADVANTAGES THAT THESE TECHNOLOGIES OFFER WHILST MAINTAINING THE ESSENTIAL COMPONENTS OF THE 'GOOD JOB'.

1.5 Link to organisational purpose and values

The roundtable participants clearly articulated that this broad definition of social equity is related to an organisation's purpose and values. A strong set of values that support a purpose that is linked to a sustainable future for the organisation will embrace the full model. It is through these values that a culture is developed which can focus the activities of the organisation on the longer-term goals but also create a symbiotic relationship with the customers and suppliers in the value chain. It is clear from the roundtable discussions that many participants accept that organisations benefit financially and operationally from a clear vision and a sense of social responsibility. There are several examples of organisations that have lost market share because of bad publicity resulting from social issues in their supply chains. As a global society, we are less accepting of such issues.

In its 2015 report '5 Steps Towards Managing the Human Rights Impacts of Your Business' the Deutsches Global Compact Netzwerk outlines that a human rights approach for businesses involves:

- 'Understanding how your business can impact people through [its] own activities and business relationships
- 'Looking at risk to harm people and not only business risks
- 'Considering that some people or groups may face a higher risk [of] being harmed than others; for example children, minorities, persons with disabilities, etc.
- 'Understanding that harm cannot be offset with positive actions
- 'Ultimately, preventing and minimising negative and increasing positive impacts on people' (Deutsches Global Compact Netzwerk 2015).



1.6 The development of the social agenda

The development of the social agenda has not happened overnight. Indeed, as commented earlier, of the three ESG components, the social element may well be the one that has been considered for the greatest period.

Figure 1.5 provides a chronology of the significant global and regional protocols and standards.

An overview of each of the protocols and standards is given in [Appendix 1](#).

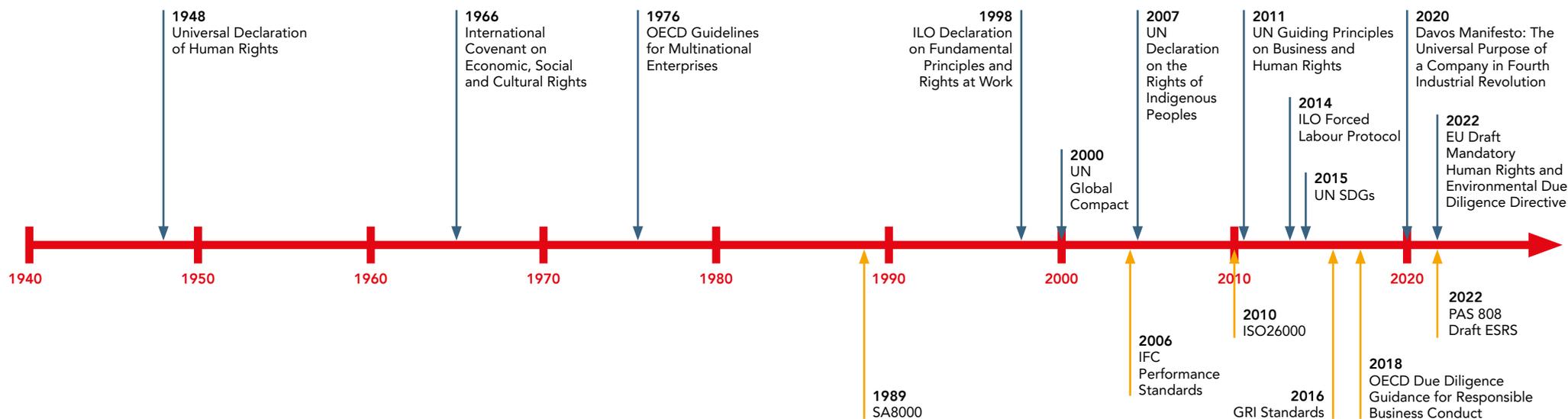
The initial discussion of the social agenda starts with the Universal Declaration of Human Rights, which was published in 1948. It enshrines the rights and freedoms of all human beings. The 30 articles within the declaration detail an individual's 'basic rights and fundamental freedoms' and affirms their universal character as inherent, inalienable, and applicable to all human beings. It commits nations to recognising all humans as being 'born free and

equal in dignity and rights' regardless of 'nationality, place of residence, gender, national or ethnic origin, colour, religion, language, or any other status' (UN 2015). Eleanor Roosevelt, who chaired the UN committee that drafted the declaration, placed the role of the declaration in context. Speaking to the UN General Assembly at the time of the adoption in 1948, she said that: 'In giving our approval to the declaration today, it is of primary importance that we keep clearly in mind the basic character of the document. It is not a treaty; it is not an international agreement. It is not and does not purport to be a statement of law or of legal obligation. It is a declaration of basic principles of human rights and freedoms, to be stamped with the approval of the General Assembly by formal vote of its members, and to serve as a common standard of achievement for all peoples of all nations' (as quoted in Hannum 1996).

The responsibility of business in relation to human rights was defined in the guiding principles, which were published in 2011. In 1998 the UN established a Sub-

Commission on the Promotion and Protection of Human Rights. This built upon the earlier work of a commission on transnational corporations and sought to define standards for organisations' human rights obligations. The resulting set of norms was published in 2004 and encountered significant opposition from the business community. To resolve these issues, the Human Rights Commission requested the appointment of a Special Representative of the UN Secretary General to address the issue. The late Professor John Ruggie was appointed to that role and over the next three years developed the UN Guiding Principles on Business and Human Rights. He explained in his speech to the Human Rights Council in June 2011, 'The Guiding Principles' normative contribution lies not in the creation of new international law obligations but in elaborating the implications of existing standards and practices for states and businesses; integrating them within a single, logically coherent and comprehensive template; and identifying where the current regime falls short and how it could be improved' (UN Human Rights Council 2011).

FIGURE 1.5: A chronology of global and regional protocols and standards



The principles, which underpin much of the discussion about the social component, were published in 2011. The principles are built around three pillars; protect, respect and remedy (as explained in Table 1.2).

Each of the three pillars is then expanded upon in a set of foundational and operational principles (UN 2011). An overview of the Guiding Principles is given in Figure 1.6.

John Ruggie, speaking in 2021, observed, 'The S is about risks to people. Some of these are readily quantifiable: what is the health and safety record in your operations? Others are harder: was the indigenous community in whose lands you're opening a copper mine consulted?

TABLE 1.2: The Three Pillars of the UN Guiding Principles on Business and Human Rights

PILLAR	EXPLANATION
Protect	A state has a duty to protect against human rights abuses through regulation, policymaking, investigation, and enforcement. This is a reinforcement of the responsibilities of a state as established in the Universal Declaration of Human Rights.
Respect	There is a corporate responsibility for respecting human rights. The principles outline that it is the role of both states and organisations to uphold and protect human rights. It is recommended that organisations undertake a Human Rights Impact Assessment to assess their actual and potential human rights impacts.
Remedy	It is both the state's responsibility to provide access to remedy through judicial, administrative and legislative means, and the corporate responsibility to prevent and remediate any infringement of rights to which the organisation contributes.

Was it adequately compensated? And harder still, how should we measure Facebook's role in the genocidal attacks on the Rohingya people in Myanmar? Facebook had no staff on the ground to understand local ethnic conflicts, yet it opened its platform widely to all comers spreading hate speech and inciting violence. In short, measuring the S in many instances is far more difficult and not amenable to [the] tick-box exercises that businesses yearn for' (Ruggie 2021).

Specific areas within this agenda have further protocols, such as the UN Declaration on the Rights of Indigenous Peoples and the International Labor Organization (ILO) Forced Labour Principles (ILO 2015), the 11 principles of which are summarised in Figure 1.7 below.

The SDGs published in 2015 also form part of the discussion on the social agenda. For many organisations

FIGURE 1.6: Overview of UN Guiding Principles on Business and Human Rights

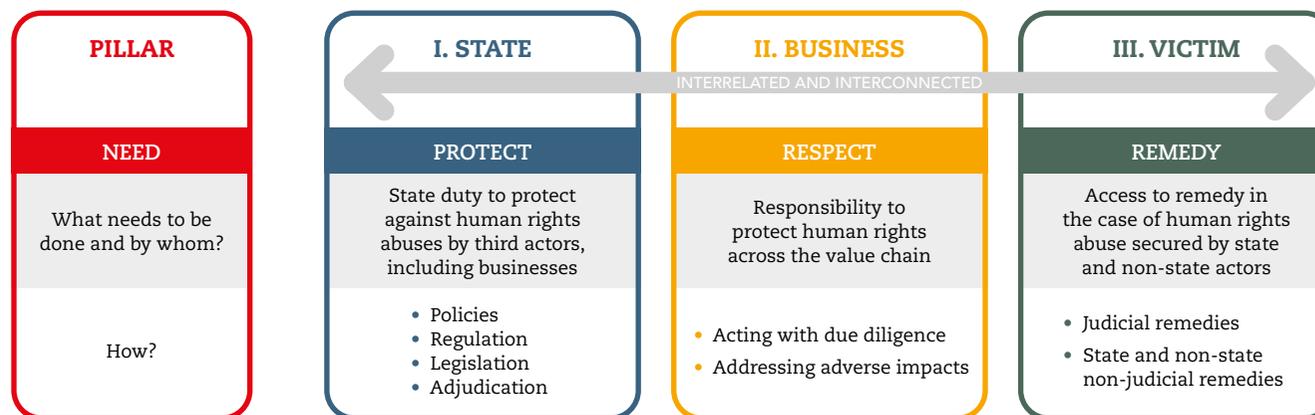


FIGURE 1.7: 11 Principles of the ILO Declaration of Forced Labour



these form a key element of their journey to a just transition⁵ (as discussed in section 2.5). For transition, many organisations focus on the steps needed to achieve the goals set out in the SDGs. Figure 1.8 relates the goals to the ESG components and clearly shows that some goals are relevant to more than one component but highlights those that may be particularly applicable to the social agenda.

In this context, it is worth noting the specific description of UN SDG 16, which states that it is to, 'promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels' (UN 2022a). The UN has developed an infographic that expands upon this goal (Figure 1.9). Organisations find that the measurement of this goal is particularly challenging, given the wide nature and the lack of readily identifiable metrics.

In parallel to the development of the declarations, guidance and protocols, a number of standards have been defined, against which organisations can benchmark themselves and also obtain attestations. The development of these standards continues, with regulators and other interested parties intensifying their focus on this area. The implications of these standards are considered in section 3.4.

FIGURE 1.8: UN Sustainable Development Goals by ESG component



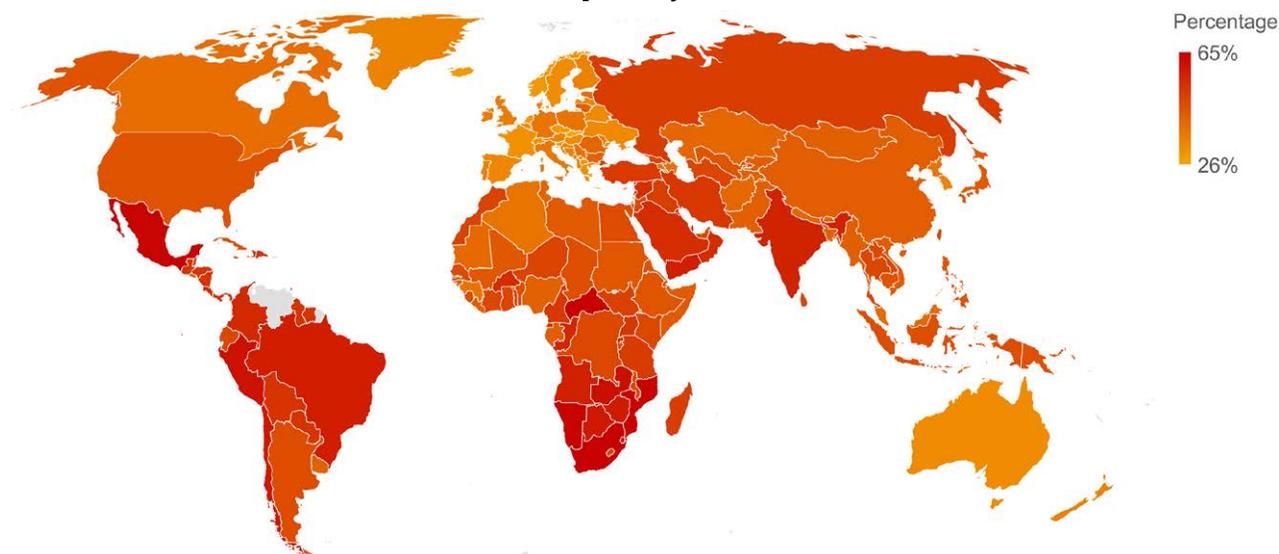
5 In March 2023 Business for Inclusive Growth (B4IG) published a set of 13 indicators that analyse and measure the social challenges of the Just Transition (B4IG 2023). Additional resources relevant to a Just Transition can be found in the bibliography.

FIGURE 1.9: UN SDG 16 overview



Source: UN 2022b

FIGURE 1.10: Pre-tax national income share of top 10% by wealth



Source: World Inequality Database (n.d.) (note: data for Venezuela for 2021 is not available)

The social agenda is not geographically homogeneous. There is no one overall measure that encompasses the agenda and, given the breadth of the issue, it is inevitable that various proxies are used. One such proxy is the percentage of pre-tax national income earned by the top 10% of the population. The data for 2021 (sourced from the World Inequality Database n.d.) is shown in Figure 1.10.

This is both a global and a local issue: 340 million people globally rely on humanitarian aid (Milliband 2022) to feed themselves. A third of the food in the world is wasted and total current food production could feed 10 billion people (UN Environment Programme 2020). One in every 88 of the world's population is either a refugee or displaced (UN Human Rights Council 2021). A consistent response by organisations is needed to develop solutions to current food waste, as many are able to bridge across countries.

Social inclusion is a complex issue and the resolution of problems here is not a matter for governments alone, but rather for a combination of government institutions and the corporate community. As accountancy and finance professionals, we cannot stand by and leave it to others. This is as much about the future of our profession as it is about the continued development of society – a recurring theme throughout this report. Our organisations and their regulators and stakeholders are at the heart of this evolution.

One perspective on the view of progress across a range of metrics, including those relevant to social issues, can be found in The Atlas of Impunity published by the Eurasia Group and The Chicago Council of Global Affairs. The index ranks most locations by a range of factors including political, environmental and social dimensions using publicly available global benchmarks. In their introduction to their 2023 index they comment that, 'The lens of impunity aptly captures the multidimensional nature of global challenges' (Eurasia Group / The Chicago Council of Global Affairs 2023).

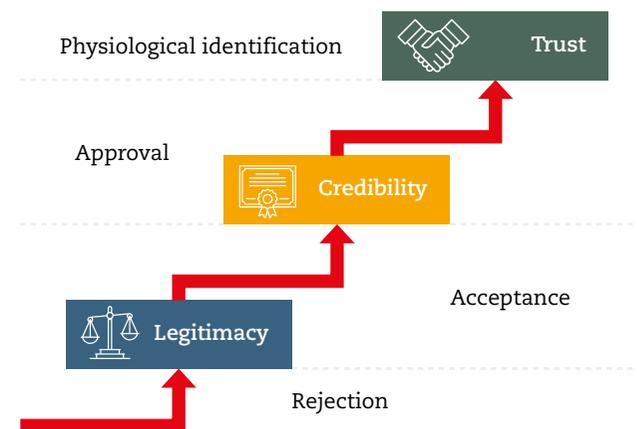
1.7 Social licence to operate

The concept of the social licence to operate (SLO) refers to the continued acceptance of an organisation's or industry's standard business practices and operating procedures by its employees, stakeholders, and the general public. Hence, it is very closely linked to the Communities category in Figure 1.2.

A North America roundtable participant placed this relationship in context from an American perspective. 'It is not altruistic behaviour. The reality is [that] the more [a] company invests in its community, the more likely it is to develop people, to build the capabilities of the infrastructure of the community as a whole. Obviously, the company ends up benefiting from that. So, there is a circular aspect to it. The company is not giving away for giving away's sake. I think there is a very tight bond between the company, its employees and the communities that it operates in. To me it is the "umbrella of S" as I think of it in ESG'.

The term, 'social licence to operate' (Figure 1.11), was first coined in 1997 and was then explored by the mining industry as a way of establishing the boundaries and interactions between a mining company and the community

FIGURE 1.11: Process of the social licence to operate



in which the extraction is taking place. Is there a sufficient return to the community for the impact on the environment and livelihoods that the extraction may cause? Does the organisation understand how to compensate for that damage in ways that benefit the community?

The key point with the SLO is that it cannot be 'awarded' as such; rather, it is gained over time through the actions of an organisation. As with any element related to trust, it can also be destroyed in an instant if the wrong actions are taken.

The interaction of the social and decarbonisation agendas is perhaps seen most in the extractive industry sectors. Decarbonisation, especially of the developed economies, requires a transformation in energy infrastructure which will not only take decades but also relies on precious minerals that are often located in developing economies. These economies have their own issues, for example relating to food supply and cost, which mean that labour rights and good governance may be compromised by those mining the minerals. The social agenda aspect of this – and it is just one aspect – is fundamental to how organisations operate in future. The link between global objectives and the local social licence is strong and potentially misunderstood.

The respondents to the ACCA survey mentioned above were asked if they considered that their organisation understood its SLO (Figure 1.12): 60% of them said that it did understand it. This implies that there is a high level of trust between the organisations and their communities. Nonetheless, as the concept might not be fully appreciated, it is possible that the score is slightly too high. Should this indeed be the case, then there may be a false conception of the relationship between the organisation and its community.

The essence of this construct is that, especially in the social agenda, the interaction between the community and the organisations that operate in it is one of mutual and long-lasting benefit. For us as accountancy and finance professionals, this is another relationship that we cannot measure in simple financial terms. Rather, intangible benefit translates into tangible actions.

FIGURE 1.12: In your opinion, does your organisation understand its SLO? (n = 547)



THE KEY POINT WITH THE SLO IS THAT IT CANNOT BE 'AWARDED' AS SUCH; RATHER, IT IS GAINED OVER TIME THROUGH THE ACTIONS OF AN ORGANISATION. AS WITH ANY ELEMENT RELATED TO TRUST, IT CAN ALSO BE DESTROYED IN AN INSTANT IF THE WRONG ACTIONS ARE TAKEN.

While the origin of this concept is a private sector construct, it also has applicability to the public sector. Organisations in this sector may well focus upon the delivery of public services, but their interaction with the communities that they serve is essential and creates a permission. Consider, as an example, the instance of a water utility whose disposal of wastewater pollutes natural water courses.

An interviewee from Cyprus commented, 'How [does an organisation] define local communities? How do they define society? Society is a very broad term. A company needs to determine its view of society based on the most material issues of its business. If we have an impact because of what we do to specific local communities, then these are part of our society. So, it is critical for business to start to determine and define the scope of this. What do we mean by society? I think that it is done mainly when organisations realise who their stakeholders are, and if you define your stakeholders then you will have a better picture of the "S". And you will have an overview of the ecosystem in which you operate. By recognising stakeholders, you clearly identify the elements that constitute the "S".'

1.8 A new way of thinking

If the goals of the Paris Climate Agreement are to be met, then organisations and societies need to change. The transition that is called for is not just in the achievement of a reduction in greenhouse gas (GHG) emissions, rather it is also a fundamental shift in the way society operates. The social agenda is as key to saving the habitability of our planet as the other components.

Caroline Vail, sector director of industrials, tech and finance at Twentyfifty, commented in a blogpost, 'When I explain that human rights and tackling climate change are inextricably linked, it usually grabs people's attention. Perhaps people don't realise that the effects of climate change (water scarcity, desertification, extreme weather) severely impact human rights, making the vulnerable even more vulnerable. Perhaps they haven't considered that how we transition to a decarbonised world is just as important as by when. Or that we need to do it in a "just" way for all; one that doesn't create winners and losers from a human rights perspective. A successful response to the climate crisis, a just transition, will require that we put respect for human rights at its core' (Vail 2023).



Alistair Roman – the CFO strategic view

Alistair is a portfolio chief financial officer (CFO) who has worked in several industries, with a recent focus upon retail. He has considerable experience in challenging boards and executive teams to help them embrace the challenges of the sustainability agenda, and in particular its social aspects, in the context of the challenging economic times of the early 2020s. Here are some of the insights that he has gained from these engagements.

Alistair's first insight is that it is important for CFOs to see this agenda as an opportunity. He sees this role as a catalyst, helping organisations to drive the agenda. Given the seat that they hold in organisations, in their communities and in their relationship with institutions, they have a very powerful voice. They should not be afraid to use this voice, he suggests.

First and foremost, for Alistair, the social agenda is one aspect of the culture in an organisation. What the organisation itself stands for in the treatment of its direct employees, customers and those in its value chain has to be at the core of the organisation's values. Is it working towards social justice and a just transition? A strong focus on this goal when it comes to culture will help make this happen. CFOs frequently help to set this tone, in his view.

Alistair sees addressing the agenda as a potential opportunity in driving top line revenue growth, productivity uplift, happier and motivated employees to name but a few. He argues that businesses, institutions, customers and governments would be more willing to trade with organisations that have ambitious sustainability targets that resonate with them. Likewise, employees are more attracted and easier to retain when these goals are clearly articulated. CFOs typically lead on capital investments, but the question now is whether those investments are aligned to the sustainability agenda. Here, he argues that there is a challenge for CFOs in balancing short-term investment demands, which help the organisation manage economic challenges, against longer-term decisions that are aligned to driving sustainable social and environmental goals.

Nonetheless, he acknowledges that CFOs cannot do this by themselves. Rather, they need to take a holistic view and work with the various stakeholders both internal and external to the organisation. Alistair cautions that while a multinational may take a view about improving its emissions or living wage, for those at the lower end of the value chain the discussion is about placing food on the table. All too often, CFOs see value chains as existing to preserve value rather than to cascade economic benefit downwards.

As the focus on disclosure becomes greater, so the level of transparency in data between organisations needs to grow. Alistair cautions that this is not about giving away 'the crown jewels' but rather understanding how each stage in the chain can act to develop and maintain the social agenda. While supplier relationships have traditionally been the preserve of procurement teams, it is now time for CFOs to step up and develop their own networks across the value chains. This will assist in creating common purpose towards these goals. It is a global issue, not an isolated one. CFOs can connect the dots; they need to do this.

For finance teams to be effective in delivering their requirements in this area for their many stakeholders, Alistair proposes that they need to reflect upon their structures. In addition to their traditional roles, finance teams need to ensure that they have a strong sustainability function. They need to recognise that this will be a substantial part of their agenda from now on. This will not go away; indeed, he maintains that the demands on finance will continue to increase.

Alistair recognises that all this implies that the role of the CFO is continuing to expand. We should not be afraid of this, but rather embrace the challenge given that it has become one of the central success factors for the future.

To conclude, Alistair argues that there are three areas of action for his fellow CFOs:

- Firstly, ensure that the social agenda, and other elements of sustainability, are embedded into the organisation's strategy.
- Secondly, understanding the 'as is' versus the 'to be' and the roadmap needed to achieve this. This will require being bold and ambitious so will potentially include step changes to the current operating model, driving closer cooperation and visibility across the value chain.
- The third and final recommendation is to think outside the comfort zone. How are you going to make this a priority with your stakeholders? Ask yourself what collaboration looks like end-to-end across your value chain, industries and governments alike.

2. The **impact** of the **agenda**

'[Society] is most probably the most difficult [element of sustainability] to determine [and] define compared [with] the other two. The knowledge that we have in this area is going to be very critical for the profession in the near future'.

Interviewee from European Union

2.1 Society changes

The impact of the global pandemic continues to be experienced across geographies. In developing countries there has been talk of a 'Great Resignation' as people have reassessed their priorities and the balance between work and life. The US Bureau of Labor Statistics estimated in 2021 that over 47m US workers had voluntarily left their jobs, although Fuller and Kerr (2022) contend in their *Harvard Business Review* article that the Great Resignation did not start with pandemic but in the decade before and is the result of five factors: retirement, relocation, reconsideration, reshuffling and reluctance. They maintain that this change is here to stay. Whether it is a 'Great Resignation' or a 'Great Rebalance', as is also contended, the world faces several talent-shortage and other related challenges.

In the developed world, populations are ageing. The birth rate in the UK in 2023 is estimated to be 1.754 children per woman; the US 1.784 and Japan 1.367 (data sourced from Macrotrends n.d.); data is similar for other countries. The Organization for Economic Co-operation and Development (OECD) states that 'assuming no net migration and unchanged mortality, a total fertility rate of 2.1 children per woman ensures a broadly stable population' (OECD n.d. a). Populations of the developing economies are therefore set to reduce over the coming years.

Three key messages to take away from this chapter

- Society continues to evolve but it is wrong to make generalist assumptions when considering this agenda.
- Sustainability represents the long-term viability of organisations for the benefit of the societies in which they operate and the economies that they serve.
- A just transition represents equitable treatment for all socially and economically in the journey to net zero.

Two charts, drawn from OECD data (OECD 2023a; 2023b) illustrate the impact of the ageing population, especially in the developed economies. Figure 2.1 shows the percentage of the population aged 65 or over. For all the locations, the percentage has been increasing over the period illustrated.

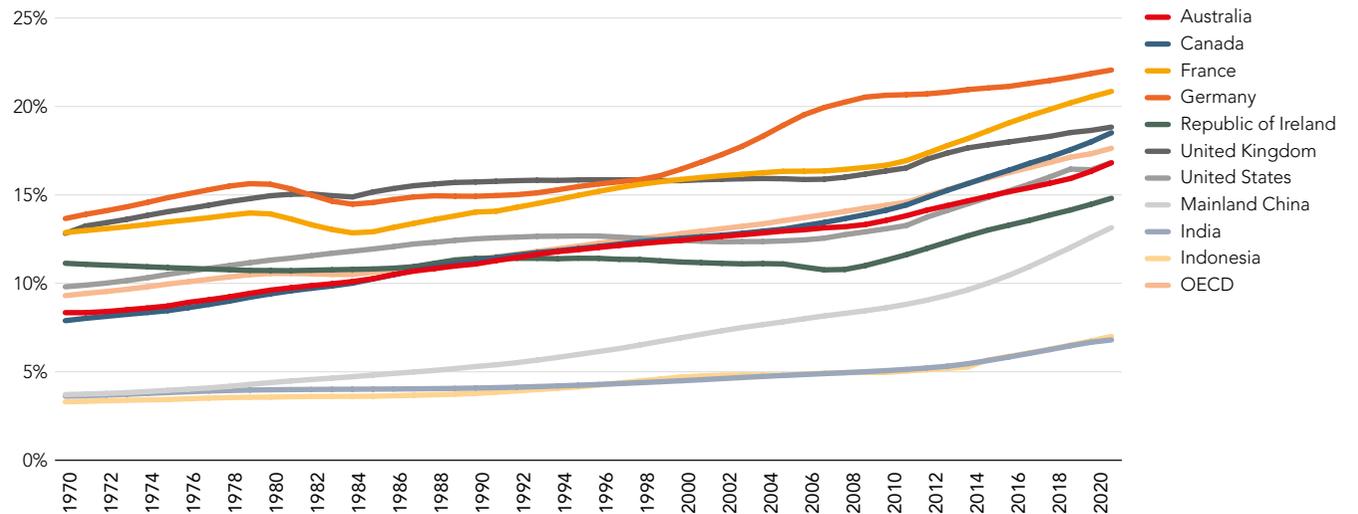
Figure 2.2 shows the percentage of those aged 65 or over compared with those aged 20 to 64; the latter are generally accepted to be the working population. This chart also includes some projections prepared by the OECD. Once more, the productive proportion of the population is shown, on current forecasts, to decrease, to the extent that in Germany in 2075, 63.1% of the population is expected to be 65 or over. In contrast, in India, which by contrast has a relatively youthful population, the over 65s will be 37% of the total in 2075.

Such pressures create challenges for society to be productive and to fund the benefits and social care programmes that are currently commonplace. As the population ages, so the burden of taxation will fall on an increasingly smaller proportion of those who are economically active.

The pandemic has seen other shifts in the developing economies. The birth rate in Nigeria in 2023 is estimated at 5.076 children per woman. Even here, as the roundtable contributors noted, there are changes in the way in which society operates. As the opportunities for remote access to the workplace have accelerated, so the opportunity to work from remote locations has become more available. In Nigeria, an alternative form of the 'brain drain' was reported where the brightest talents, while not leaving the country, are now employed virtually so their economic productivity is aligned to developed nation organisations rather than local ones. While boosting economic activity, this nevertheless drains the capability of the country, in the perception of the roundtable participants.

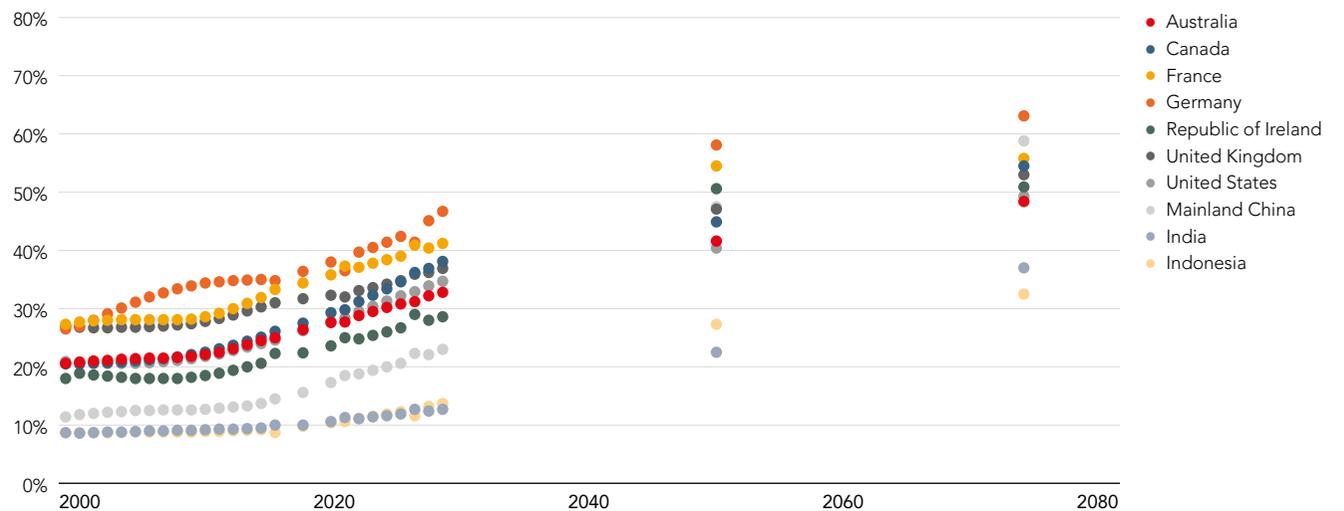
From the expectations of work to the demographics of society, there are many changes that have an impact on the social agenda. Organisations need to plan to address these trends. This will present a significant issue for organisations, especially smaller businesses, given the complexity of the issues involved and solutions are complex. There is a need to invest in the evidence gathering and analysis. Their social planning is not just a short-term gain.

FIGURE 2.1: Percentage of population aged 65 or over, 1970 to 2021



Source: OECD 2023a

FIGURE 2.2: Percentage of those 65 or over compared with those aged 20 to 64, 2000 to 2021, with forward projections



Source: OECD 2023b

2.2 A long-term story, not just a short-term gain

Perceptions of the evolution of the social aspect of sustainability differ from perceptions of the environmental aspect in that there is no finite end point: there is no 'net zero'. Several of the roundtable participants made this point. Rather, as society continues to evolve, so our expectations as individuals will also continue to do so and hence our expectations of the quality of life will evolve.

Perhaps the reality is that there is a close correlation between the environmental and social aspects. As the planet continues to warm, so the challenges of crop production increase, the number of extreme weather events multiply and so economic migration will continue to increase. As has been commented in the previous section, the ageing population will change the proportion of those who are economically active. Yet the goods and services required by such a population will increase. One means of addressing both this and the economic imbalance of the developing economies is through migration. Yet, as one interviewee highlighted, some societies place barriers to migration, both political and emotional.

A fair and equitable society is one that appreciates these challenges and seeks to manage them to mutual advantage. As with the necessary investment in the environmental transition, so the burden falls on businesses to develop appropriate medium- to long-term strategies and to act as advocates to governments for the necessary changes. That is not to say that organisations should not be focusing upon the more immediate factors that are identified [Figure 1.2](#), but rather the social agenda has a complex mix of long-term and short-term imperatives that form part of the just transition.

2.3 Inside-out or outside-in?

When formulating a strategy there are two approaches that you can adopt, and this is true of all strategies related to social issues. The answer probably lies in developing the right combination of strategies.

An inside-out strategy is based upon the premise that the inner strengths and capabilities of an organisation will enable it to develop towards a sustainable future. In contrast, the outside-in approach considers that customer value creation is key to success.

When considering the social agenda and the strategies needed to address a changing society, it is important to consider the drivers that influence the customer and the product, as these are closely linked to the development of the organisation. Customers are becoming increasingly discerning in their attitudes to social issues (as exemplified by [Hendricks 2020](#)). There are several well-known examples of customer reactions to issues such as poor factory conditions that have impaired business performance.

In developing the medium-term strategies that support the development of the social agenda it is important to look at the outside-in approach as well as the inside-out one.

2.4 Creating long-term sustainable value

The key to addressing the social agenda lies in creating long-term sustainable value. As explained in [Figure 1.1](#), there are three domains of sustainability, and it is through the combination of these that organisations can focus on the path to a sustainable future.

In the 1990s, North American trade unions started to talk about a 'just transition'. This originally focused upon the protection of worker rights in the face of job losses due to environmental change. As the conversation has developed, so the definition of a just transition has evolved to reflect, 'a deliberate effort to plan for and invest in a transition to environmentally and socially sustainable jobs, sectors and economies' ([Smith 2017](#)). Smith further notes that, 'at its heart [a] just transition requires us to leave no one behind'.

A Malaysian roundtable participant, referring to a just transition, commented that: 'it definitely brings about a lot of positive changes. All these changes are building towards the one goal, which is sustainability. Because if you do not have a sustainable world to begin with the rest of it does not come right'.

A FAIR AND EQUITABLE SOCIETY IS ONE THAT APPRECIATES THESE CHALLENGES AND SEEKS TO MANAGE THEM TO MUTUAL ADVANTAGE. AS WITH THE NECESSARY INVESTMENT IN THE ENVIRONMENTAL TRANSITION, SO THE BURDEN FALLS ON BUSINESSES TO DEVELOP APPROPRIATE MEDIUM- TO LONG-TERM STRATEGIES AND TO ACT AS ADVOCATES TO GOVERNMENTS FOR THE NECESSARY CHANGES.

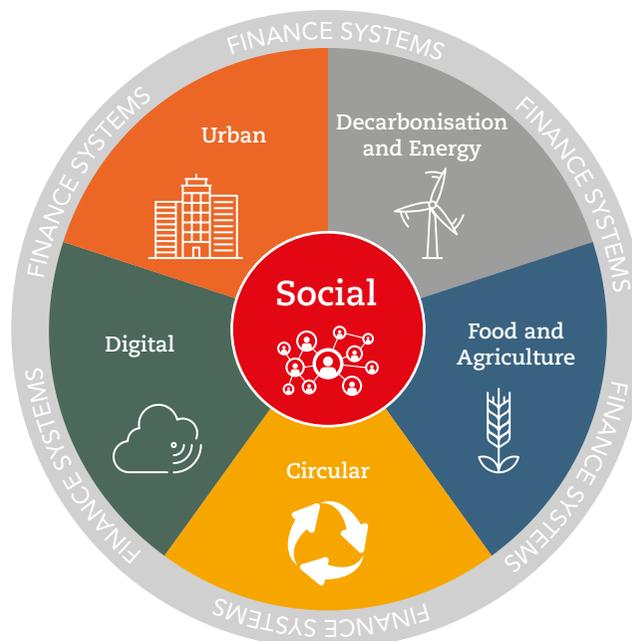
Earlier, in 2015, the International Labor Organization published its *Guidelines for a Just Transition towards Environmentally Sustainable Economies and Societies for All* (ILO 2015). This sets out a vision for a just transition, from a social perspective. The first five steps of the vision are as follows.

1. 'The four pillars of the Decent Work Agenda – social dialogue, social protection, rights at work and employment – are indispensable building blocks of sustainable development and must be at the centre of policies for strong, sustainable and inclusive growth and development.
2. 'Sustainable development means that the needs of the present generation should be met without compromising the ability of future generations to meet their own needs. Sustainable development has three dimensions – economic, social and environmental – which are interrelated, of equal importance and must be addressed together.
3. 'Sharing a common global purpose, there are different approaches, models and tools available to each country, in accordance with its national circumstances and priorities to achieve sustainable development in its three dimensions, which is our overarching goal.
4. 'A just transition for all towards an environmentally sustainable economy needs to be well managed and contribute to the goals of decent work for all, social inclusion and the eradication of poverty.
5. 'Decent work, poverty eradication and environmental sustainability are three of the defining challenges of the twenty-first century. Economies must be productive to meet the needs of the world's growing population. Societies must be inclusive, providing opportunities for decent work for all, reducing inequalities and effectively eliminating poverty'.

(ILO 2015)

The World Benchmarking Alliance, an independent organisation that is building a movement to measure and incentivise business contribution towards a sustainable future that works for everyone, has a 'Seven Systems Transformations Model of a Just Transition' that puts social issues at its centre, interconnecting with all the other necessary transformations (Figure 2.3) (World Benchmarking Alliance 2021).

FIGURE 2.3: World Benchmarking Alliance's Seven Transformations Model of a Just Transition



Source: World Benchmarking Alliance 2021: 5

There have been examples of social unrest, such as the 'gilets jaunes' protests in France in 2018 where one of the causes was the government's reduction of speed limits across the country to reduce emissions, which caused issues in rural areas. Social evolution is closely related to the overall journey to environmental evolution.

An ACCA member in East Africa gave a local perspective on this. 'The whole thing must change in this side of the world and that's where we are looking at how can we have entrepreneurs embrace ESG and allow the ecosystem to flourish. I will use an example of Tata in India, where entire communities are so neat [sic]. I mean that [Tata] not only provides employment in the form of industrial work, but they have their own hospitals, they have their own schools, ... [they use] the money circulating just there and ... it's benefiting not only ... the shareholder, but [also] all the stakeholders because people are getting what they need'.

As accountancy and finance professionals, it is not possible for us to ignore these issues, which are finance-related as well as operational. To ignore these would be to negate the value that the profession brings to society.⁶

AS ACCOUNTANCY AND FINANCE PROFESSIONALS, IT IS NOT POSSIBLE FOR US TO IGNORE THESE ISSUES, WHICH ARE FINANCE-RELATED AS WELL AS OPERATIONAL.

⁶ ACCA and BDO have considered the role of the Chief Financial Officer in relation to value in ACCA / BDO 2023.

2.5 The role of the investment community

The investment community is having a significant impact on the social agenda. Through the focus on ESG and ethical investments, investors are often seen as leading the progression towards establishing sustainable organisations.

The investment community has clear concerns as to the impact of the social agenda on the financial viability of organisations. In an article in 2020, S&P Global highlighted three concerns from its perspective.

- 'How can a company's workforce requirements and composition present problems for the organization in the future? Labor strikes or consumer protests can directly affect a company's profitability by creating a scarcity of skilled employees or controversy that is damaging to a corporation's reputation.
- 'What risks come with the safety implications of a product or the politics of a company's supply chain? Corporations that ensure their products and services do not pose safety risks, and/or minimize the exposure to geopolitical conflicts in their supply chains, tend to face less volatility in their businesses.
- 'What future demographic or consumer changes could shrink the market for a company's products or services? Complex social dynamics, from surges in online public opinion to physical strikes and company boycotts by different groups, affect long-term shifts in consumer preferences. Decision-makers can consider these as important indicators of the company's potential' (S&P Global 2020).

2.5.1 ESG ratings

This concern has, in part, led to the development of ESG ratings by some of the rating agencies, perhaps attempting to fill in for the gap in reporting standards in this area. In general, these ratings are used to assess the relative extent of the sustainability programmes of large organisations. The sources of data can vary between the rating agencies: although the main data source is often published information, some use extensive questionnaires.

The social element can present the greatest challenges for these organisations. One CFO commented, 'I think the rating agencies are still a bit lightweight on the "S" part'.

Raymond Silverstein notes, in an article for BrownJacobson, that 'a recent survey found that 88 percent of investment professionals use third-party ESG ratings as a part of their investment process, with 92 percent expecting to do in future' (Silverstein 2022). He also notes that 'studies have found low correlations across ESG ratings providers. The current lack of coherence and consistency in ESG data is frequently baffling to the point of being meaningless and risks bringing ESG data and ratings providers into serious disrepute. ESG itself risks being tainted by association'. In the US, the Securities and Exchange Commission (SEC) has warned ratings agencies that it is developing new rules to encourage transparency and consistency to help combat 'greenwashing' (Lee 2020).

Meanwhile, in the UK in November 2022, the Financial Conduct Authority (FCA) announced the formation of a group to develop a Code of Conduct for Environmental Social and Governance data and ratings providers (FCA 2022). McErlane and Shah of BakerMackenzie commented that 'in its Feedback Statement, the FCA noted that the conclusions reached by ESG ratings and rating-like products providers should not be a source of harm, as long as the providers:

- 'Are transparent about their methodology, information, and data inputs.
- 'Determine their outputs by applying systematic processes, and sound systems and controls.
- 'Identify, manage, and disclose conflicts of interest.
- 'Operate with robust governance standards' (McErlane and Shah 2022).

The quality of data is a significant issue in addressing some of these issues. Accountancy and finance professionals are custodians of data across the organisation and addressing the robustness of this data is essential. Ensuring that this addressed is not a data governance issue, it is a data provenance question.

It is also a question of standards and governance in respect of these ratings and advocating for the development of improved ratings.

The consequences are becoming clearer as social activism based upon these disclosures is increasing. As Katrina Boyd of DWP LLP notes in an article there is an increase in the number of class actions related to ESG claims. Whilst principally focused on the environmental implications in the context of the social agenda she notes that, 'social "S" claims such as large-scale employment claims focused on issues such as labour practices, discrimination and redundancy are also on the rise' (Boyd 2023).

2.5.2 A generational issue?

There can be a perception that younger generations have different views of the importance of the social agenda. In an article published in *Raconteur* in 2022, Virginia Matthews comments that, 'if building a sustainable planet for the grandchildren is an urgent priority among older people, then for the under-40s, [the need for] progress to net zero is a given' (Matthews 2022). She continues by quoting Alexandra Loydon, director for partner engagement and consultancy at wealth management house St James's Place, as noting that, '[the younger generation] want to know more about the impact their investments will have on issues such as child labour, the marketing of tobacco to the third world, unethical work practices or the number of women in leadership roles. Whatever the topic, their questions can be direct' (Matthews 2022).

THE QUALITY OF DATA IS A SIGNIFICANT ISSUE IN ADDRESSING SOME OF THESE ISSUES. ACCOUNTANCY AND FINANCE PROFESSIONALS ARE CUSTODIANS OF DATA ACROSS THE ORGANISATION AND ADDRESSING THE ROBUSTNESS OF THIS DATA IS ESSENTIAL.



A CFO's view on implementing the social agenda

Sime Darby Plantation (SDP) is the world's largest producer of certified, sustainable, palm oil. It produces over 2.15m metric tonnes of palm oil a year and employs over 80,000 staff globally. The main plantation centres are in Malaysia, Indonesia, Papua New Guinea and the Solomon Islands.

In December 2020, the US Customs and Border Protection (US CBP) issued a Withhold Release Order for SDP's products because of information that it had received which indicated the use of forced labour in Malaysia (US CBP 2020). In January 2022, the US CBP issued a Notice of Finding on 'the use of convict, forced or indentured labor being, or are likely to be, imported into the United States in violation of 19 U.S.C. 1307' (Federal Register 2022).

Comprehensive reforms were undertaken by SDP over a span of two years, led by its Chief Financial Officer (CFO), Renaka Ramachandran and overseen by its Board Sustainability Committee. The culmination of which saw the US CBP modifying its forced labour findings against SDP on 3 February 2023, recognising the efforts by SDP and confirming no presence of forced labour indicators in its Malaysian operations.

The case study below, based upon an interview with Renaka Ramachandran considers how the social agenda became a business issue and how SDP has addressed the issues raised by these US actions and the broader need to incorporate the social agenda into the finance one.

Renaka explained that the oil palm industry is one that is under constant challenge. The focus for the past 10 to 15 years has been on deforestation, which has embraced issues from orangutan lives to open burning. The industry came together in 2004 to form the Roundtable on Sustainable Palm Oil (RSPO), which has the objective of increasing the use of sustainable palm oil through global standards and engagement across the value chain. The body provides certification to its members against these standards.

Renaka commented that the attention across the ESG agenda for this industry was complex. As far as governance is concerned, she considered that this was perhaps the easiest

issue, either it is there, or it is not. Even so, the question will always be 'what is the quality of those processes?'. SDP has been benchmarked by several ratings agencies across ESG. For the G component, Renaka noted, they had score highly, but their ratings for E and S were not as good.

In her view, the ESG ratings are a reputational issue. For an organisation such as hers, the environmental aspect will always be a risk. Palm oil is a land-based product which originates in nature and interacts with other ecosystem components, and there is automatically a risk from actions such as deforestation, affecting both biodiversity and carbon emissions. Despite this, there are benefits, because replanting areas that have previously been deforested puts back 60% to 70% of what was originally there. From a CFO perspective, the conversation with investors, especially those from Scandinavia, focuses on doing the right thing, otherwise there might be further deforestation. To add to the pressures, the European Union announced a new law in December 2022, agreed with the member states, to prohibit the importation of certain products from areas that had been deforested after 31 December 2020 (European Parliament 2022). This law includes provisions on human rights and the rights of indigenous peoples, as additional requirements.

In Malaysia, approximately 40% of production is from smallholders, defined as owners with under 50 hectares (Wan n.d). This adds a layer of complexity in managing both the E and the S agendas.

Renaka explained that they used the 17 UN SDGs to assist in identifying the areas of communities, worker rights and health and safety on which the organisation needs to focus.

For SDP there were many challenges in the social agenda. The operating model in the plantations, especially in Malaysia, has been to employ a high proportion of migrant



A CFO's view on implementing the social agenda

workers. That process itself often involves agents, and some workers may have been indebted for fees or loans to enable them to take up their positions. The ILO Standards define several factors as indicative of forced labour, one of which is debt bondage or manipulation of debt. SDP has since ensured that all current and past workers are indemnified.

SDP commissioned an independent review, based upon the ILO Standards, of its working practices, and this formed the basis of its submission to the US CBP in January 2022 (Sime Darby Plantation 2022)⁷. A subsequent RSPO review had highlighted issues in the retention of identity documents. These documents need to be placed in secure storage in an environment such as a plantation, but this may create challenges in allowing access to them, which in turn may be construed as being against another of the ILO definitions of forced labour, 'withholding valuable documents, such as identity documents or residence permits'. Addressing this requirement, for example, requires secure storage that only the employee can access.

As many of the plantations are in remote locations, there are additional considerations. In healthcare, for example, SDP has ensured that clinics are available to treat staff, with access to hospital care if needed. Workers also need protective equipment and that has required negotiation with the employees to ensure that while their expectations are met the equipment is also practical. Another area is worker family education. While in Malaysia, for example, the government provides schooling for the children of employees, in other countries this might not be the case, so SDP provides schools. Workers also need not to be excluded 'from community and social life', which requires transportation to be provided.

The pandemic had created an opportunity in some respects. There had been constraints in the supply of overseas labour, which had encouraged automation in processes such as spraying and the application of fertiliser.

In addressing each of these requirements, one of the challenges that Renaka cited was that the ILO Standards are more rigorous than local laws in some instances. The relative wealth in the economy is clearly a factor in what SDP needs to do to ensure that it is compliant. In less-developed economies, the organisation is often involved in developing communities. As an example, when the government of Indonesia originally handed down leases to SDP, it had allocated the company seven hectares of which five could be cultivated and two were for community use. In this instance, Renaka explained, SDP provides the seedlings that eventually give rise to the palm oil, which SDP purchases, thereby developing the community.

Renaka stressed that this is a journey. SDP is certainly better placed now to manage any forthcoming disclosure requirements than it was three to five years ago, as it had needed to understand how to apply the detail of the standards. The question in her mind, however, is how to validate it. These are detailed and complex issues. It must be a future of shared responsibility, she argues. Traceable supply chains and trust within these have to be developed.

For Renaka, the social agenda is underappreciated. There are standards covering the environmental, but not the social. There is no 'silver bullet' she says, but we need to learn fast and discover how the social agenda affects our organisations; as finance professionals we need to ask the right questions.

Nonetheless, on reflection, Renaka says that the biggest change is a mindset one. It is not being unreasonable to say that people are set in their ways, and they are used to doing what they do. Despite this, we need to change and embrace the broader agenda.

On 2 February 2023, the US CBP modified its formal finding to allow the import of palm oil once more. It noted that it could 'see every modification as a tremendous success' (US CBP 2023).

⁷ An announcement was made to the Malaysian Stock Exchange on 26 April 2022: <<https://simeplt.investors-centre.com/new-announcement.htm?NewsID=202204265000009&Symbol=5285>>

3. The **role** of the **accountancy** and **finance** profession

'I think that we should be seen as a profession that has a purpose in society and that therefore for me brings the "S" in now.... What we stand for matters. The other thing, of course, is we can help other players in society, [such as] corporations, organisations, governments and policymakers, by helping to define the measurements around the "S".'

ACCA member in the European Union

Three key messages to take away from this chapter

- As stakeholders take an increasingly value-centric view of organisational performance, so the accountancy and finance profession must embrace this, including the strong social aspects.
- As accountants in business, we engage in the social agenda through our strategic, performance and reporting activities. As those in practice, we need to engage in the validity of these aspects.
- It is important to be at the forefront of the regulatory and reporting requirements and to translate these into organisational benefits through action.

3.1 Purpose and value – creating sustainable prosperity

In a 1970 essay, Milton Friedman commented that, 'it may well be in the long-run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government. That may make it easier to attract desirable employees, it may reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects. Or it may be that, given the laws about the deductibility of corporate charitable contributions, the stockholders can contribute more to charities they favour by having the corporation make the gift than by doing it themselves, since they can in that way contribute an amount that would otherwise have been paid as corporate taxes' (Friedman 1970).

Denis Machuel, Chief Executive Officer of The Adecco Group speaking at the World Economic Forum in 2023 posed a question, whether it is right for organisations to view employees as a cost and place them on the profit & loss account, or are they an asset that should be placed on the balance sheet. He queried whether our accounting rules reflect the wrong reality (World Economic Forum 2023). This fundamental question raises issue of the purpose of the profession and how we see value being created from assets.

In 2022, ACCA considered the role of the profession in its report *Accounting for a Better World: Priorities for a Transforming Profession* (ACCA 2022a). The report identified seven core priorities for the profession. The social agenda overlies these seven core priorities, as shown in Figure 3.1.

When the roundtable participants reflected upon the role of the accountancy and finance professional in the social agenda, the conversation moved away from a purely financial focus to a broader one: a view of the profession

which accounted for total value rather than just for financial performance and return. The role that the profession plays in the social agenda is intrinsically linked to its overall sense of purpose and direction.

As Alex Edmans notes in his book, *Grow the Pie* (Edmans 2022), businesses driven by purpose are consistently more successful in the longer term. But this requires the navigation of difficult trade-offs and tough decisions. This is particularly true for the social agenda, where the pandemic has changed the perceptions of stakeholders.

In a value-centred view of performance there are three components: profit, purpose and people. An example of this realignment is seen in the work of the Impact-Weighted Accounts Initiative (IWA), which is based at Harvard Business School. The Initiative has been considering what it terms 'impact valuation', which seeks to identify an economic value for the actions of organisations. The researchers have identified several coefficients to translate impact measurements for carbon emissions, water pollution and community benefits into economic value. In 2021, IWA published *Accounting for Employment Impact at Scale* (Fadhel et al. 2021), which measured the employment impact of 2,682 US firms from 2008 to 2020. The authors conclude that positive employment impact is 'moderately associated with lower employee turnover and higher firm valuation, while firms that have higher sales and invest more in innovation exhibit higher [positive] employment impact'.

Sir Ronald Cohen, co-founder and chair of the board of IWA, commented in an interview with *Pioneers Post* in 2022 that he foresees a revolution in accounting. He noted that, 'you have US\$40tn [of ESG investments] being invested with no real transparency on impact' (Joffre 2022). He was asked how long it would be before he thought that there would be a standardised way of accounting for impact. He commented that: 'the aim is to deliver a range of coefficients within two and [a] half to three years, enabling investors to bring impact into financial analysis and the valuation of companies in much better ways than they can today. Now companies are talking about tonnes of carbon, litres of water, percentages of diversity; soon, you will have

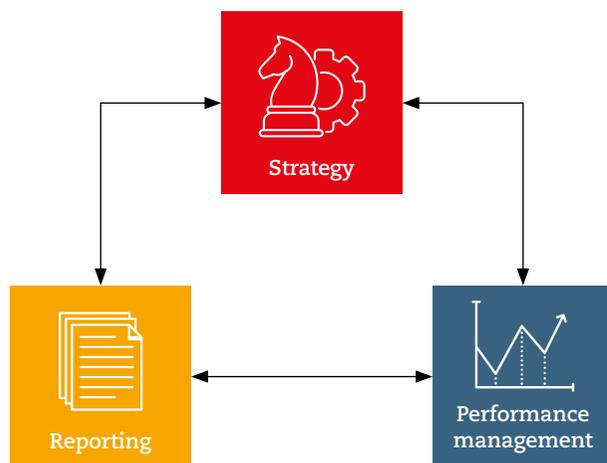
FIGURE 3.1: Seven core priorities identified in *Accounting for a Better World* overlaid with components of the social transformation



an impact statement that shows the revenues and costs of a company, and then, in monetary terms, the impact from its operations, its products and its supply chain on the environment and on people'.⁸

It is important to note that one of the substantial drivers in the evolution in the role of the accountancy and finance profession comes from the balance between the various stakeholders in the investment community, as expressed in the comments of Sir Ronald, and the desire of regulators to increase the level of transparency. This creates a conundrum: which element comes first – the strategy – the direction that the organisation intends to take; the reporting – the measurement of the performance⁹ across a broader range of metrics than a pure financial focus; or the external reporting¹⁰ – the external representation of progress, but also of purpose, of impact and of value?

FIGURE 3.2: Elements in managing the social agenda



This creates a challenge for the accountant in business and for the organisations in which they work. What is clear is that the answer is some combination of all three of these components (Figure 3.2).

A North American roundtable participant commented, 'I would not jump to which comes first [strategy, performance management or reporting]. I would jump to being proactive and focus on disclosure because the more we disclose the more we raise awareness and more and more people or organisations or even regions ... will be coming on board. The more pressure it will create on investors. Who would have imagined ... 15 to 20 years ago [that] this would be such a big major accounting issue as well as [having] investors impact? We've come a long way. So, I think it is more about disclosures now'.

One UK roundtable participant commented that, 'using terms like "sufficient profit" ... there is a price to be paid in the short term, but in the long term everyone gets to benefit, ... the social environments they work in, the organisations they interact with, their employees that work with them. I think there is a question around when we talk about ESG, when we talk about the shift that's needed and let us see where that will take us because I think that ... until there is a shift from organisations in corporates [away from wanting] to maximise profits to the detriment of the sustainability of the environment and all that, until we reach that point where there is a shift [sustainability is not] going happen'.

3.2 Developing the strategy

3.2.1 Role of strategy

The discussion in Chapters 1 and 2 outlines the importance of the social agenda, whether measured as part of the organisational purpose or as part of ESG commitments, to organisations now and into the future. It is a key component of any strategy that an organisation executes in the journey towards becoming sustainable. Finance leaders, especially in small- and medium-sized organisations, have a vital role in establishing and executing strategies. Being able to focus through a social lens at these considerations is essential. In developing a strategy, it may be useful to refer to guidance such as the UN Guiding Principles on Business and Human Rights (UN 2011) and the UN Global Compact (UN n.d.), for example.

The Edelman Trust Barometer for 2023 results emphasise the importance of the public's expectations that CEOs take a public stand on the treatment of employees. This data shows that 89% of a sample from 27 countries indicated that expectation, which was the largest proportion, with 82% focusing on climate change and 80% on discrimination (Edelman 2023). In a further result from 25 countries, 41% of the respondents said that the best social outcomes were achieved by government and business working together.

Having a strategic direction which embraces society is not an option, it is a necessity. This cascades, in turn, into how accountancy and finance professionals interact with that strategy.

⁸ ACCA considered how the pandemic shone a light on the social and environmental challenges that organisations face and the concept of value in ACCA 2020.

⁹ The measurement of performance in a value-focused organisation is considered in ACCA / Chartered Accountants Australia and New Zealand / PwC (2022); while the role of the accountant in business across the multiple capitals is discussed in ACCA / PwC (2020).

¹⁰ An example of the inclusion of value in investment decisions is the UK National Social Value Measurement Framework, which is otherwise known as National TOMs (standing for themes, outcomes, measures). This was developed from the Public Services (Social Value) Act 2012. The National TOMs provide several mechanisms for measuring and reporting on social value, including a set for professional services organisations. A second example is the Indicator Design Tool developed by Shift Project (n.d.)

3.2.2 Appraising investments

Strategies require investment. Investment leads to transformation, and for many organisations the transformation to a sustainable organisation is one that is inextricably linked to other aspects of transformation, such as the embracing of data and technology.¹¹ Traditional approaches to investment appraisal, for example, focus solely on financial returns (concepts such as net present value and internal rate of return), but projects linked to more social and sustainable goals often have an economic value that exceeds the operational cost. As has been demonstrated in [Figure 1.2](#), the social agenda is broad and the impacts of investment are often intangible and multi-year in nature. As finance professionals we are increasingly being asked to adopt a wider focus.

3.2.3 Organisational culture is key

Strategies are the enactment of a purpose and vision. Having a clear sight of what an organisation represents is important and the social component of this is vital. The approach to executing a strategy is, in part, through the culture of the organisation. If the culture respects stakeholders' social values and aspirations, the execution of the strategy and the actions of the workforce are likely to align to it. Culture in organisations can be challenging, and the changed ways of working that have resulted from the pandemic for many professionals have presented challenges to organisations in establishing a robust culture.

CULTURE IN ORGANISATIONS CAN BE CHALLENGING, AND THE CHANGED WAYS OF WORKING THAT HAVE RESULTED FROM THE PANDEMIC FOR MANY PROFESSIONALS HAVE PRESENTED CHALLENGES TO ORGANISATIONS IN ESTABLISHING A ROBUST CULTURE.

Nonetheless, one key element remains in that process: leadership from the top. The tone set by organisational leaders pervades their teams. Finance professionals are often seen as leaders, and often work with many other teams throughout the entity. It is important to embrace the need for social actions through the organisation and for finance teams to understand that they have a role in this. One of the core values of the accountancy and finance profession is its ethics. Acting ethically in the social agenda is essential.

A UK ACCA member commented, 'I think the "S" is a culture change. It is looking at ...different aspects of the culture of an organisation. I think ...it is difficult to grasp and each company does it differently. This is because there is not as much of a global mandated requirement [as there is for other aspects of sustainability]'.¹¹

3.2.4 Absence of 'social' in strategy

The absence of a social agenda component in the organisation's strategy can have several impacts.

Firstly, it is hard to measure the social agenda without a sense of direction. Key performance indicators in this area become hard to define and, for accountancy and finance professionals, such a lack of clarity can be confusing when information is requested.

Secondly, with the intensified focus upon the reporting of strategies externally, there is a tendency to develop 'bluewashing' of the information reported. Bluewashing is a term used to describe deceptive marketing that overstates an organisation's commitments to the social agenda. The term, which is analogous to greenwashing, derives from the branding colour of the UN Global Compact.

Organisations are often seen as using the UN Global Compact as a means of improving their profile and reputation. The challenge, as pointed out by Anna-Sophie of Style Considered, is that there is a 'lack of mechanisms to ensure companies actually follow the 10 principles is providing the corporates with an opportunity to "cheat"' (Anna-Sophie 2021). She continues that, in her view, 'in reality, they are strategically avoiding following the 10 principles, which means many of the companies only make a few cheap changes in their supply chain and don't live up to the promises they give'. Six of the principles in the Compact specifically relate to human rights and labour.

Human Rights

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. Make sure that they are not complicit in human rights abuses.

Labour

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. The elimination of all forms of forced and compulsory labour;
5. The effective abolition of child labour; and
6. The elimination of discrimination in respect of employment and occupation.

¹¹ The role of the accountancy and finance professional in transformation, including taking a value-centric approach, is discussed in ACCA / Chartered Accountants Australia and New Zealand / Generation CFO (2021).

3.3 Performance management

3.3.1 The balanced scorecard – internal reporting

For any strategy to be effective, its results need to be measured against its objectives. Establishing a scorecard that reflects the activities of the organisation across the triple bottom line is essential. To enable this, understanding the social impact becomes ever more essential. The challenge is that the balance of stakeholders may well have changed. The traditional balanced scorecard applied a financial lens, with the financial interests of shareholders being the primary focus. As we have seen in [Figure 1.2](#), the social agenda adds another range of stakeholders into the equation. Some of these have a direct relationship, many have an indirect one. For an organisation to truly understand its social performance, it needs to consider how the interests of each of these are represented.

The challenge for many organisations is the availability and accuracy of relevant data. In [Table ES1](#), several high-level and potential metrics are suggested for each of the components. A review of these will give rise to the realisation in many organisations that there are gaps in the data that they collect. Some of the measures are 'softer' in nature than the firm facts with which the finance team might be familiar. Nonetheless, as these data flows are increasingly being used for both internal and external reporting, so the focus of some regulatory bodies is on establishing a similar level of internal control for this non-financial data as there is for financial data.¹² With the increased criticality of this data, it should also be brought within the scope of the organisation's data-governance and data-management policies. A non-executive director commented, 'the good thing is the company [of which I am a non-executive director] is now putting in place a reporting team for ESG under the finance function to make sure it has the same rigour, the same disciplines, same integrity, rather than giving it to some expert that sits outside the reporting team'.

To illustrate the measurement challenges that organisations need to address, consider CSR activities, which are among the more traditional parts of the social agenda. The typical way of reporting this may be the amount, or percentage, that an organisation spends on the activity. While this is valid up to a point, consider the impact. One unit of currency spent wisely is more impactful than two units spent less constructively. The impact may well also accrue over time, not within an annual reporting cycle. Indeed, it may well not be as readily observable. One interviewee was critical of CSR in today's society. They commented, 'CSR has also been "bought" over the years and it has become less effective in terms of how companies ought to exist with the communities. It should be beyond creating [noise]. Maybe [as a company] you sponsor some form of education somewhere or you can bring clean water to the community or you can do whatever. What the communities really need [in developing economies] is value addition to their produce. I am coming in as an accountant with all this deep knowledge and I have not just done accounting. Accounting is basically what is in my head. But I've done strategic management. I've done investments, I've done professional information, I've done whatever. Now I come into this community; to be honest, [its] just the first step in a community'.¹³

A member in East Africa expanded upon this and stressed that the social agenda is as much about personal conviction as about corporate goals. 'The problem is what we [in Africa] do is we keep on exporting the raw materials. Why are we not generating the brands? What I see again is that we need to embrace the same value addition and generate multinationals from home. We want to eat good stuff and we want to have a generation that is after this, [to have] left them with something that they can work on. I mean, to be honest, some of us are not working for this. Some of us are working for what are we leaving behind from our generation'.

3.3.2 Financing the organisation

Many of the roundtable participants referenced the interest of the lending community in the ESG agenda. Being able to demonstrate how the organisation is addressing the necessary progress has become a significant factor in obtaining finance.¹⁴

A UK roundtable participant who had recently refinanced a business commented, that banks and private financiers now ask questions about ESG strategies, how they are executed in practice and how the results are measured.

3.3.3 Risk management and governance

Elements of the social agenda have always presented risks that organisations should have recognised. As the breadth of the social agenda and its prominence have increased alongside the emphasis on other aspects of ESG, so the assessment of social risks becomes ever more relevant. Friedman asked, 'What does it mean to say that the corporate executive has a "social responsibility" in his capacity as [a] businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers' (Friedman 1970). However, in ESG what constitutes a short-term cost (disadvantage) to the business creates long-term success.

There is a strong link between the 'S' component of the ESG agenda and the 'G'. Indeed, some roundtable participants suggested that metrics such as gender pay gap reporting were more symptomatic of the governance component than the social one as they arise from an external reporting requirement. That aside, this agenda is part of the overall corporate governance one. One roundtable participant commented that if executive committees and boards do not have the social agenda as a regular discussion point one should question why not. It is not sufficient for such a discussion to focus solely internally, rather it should consider how social issues affect the entire value chain. Organisations are intrinsically people driven.

12 The Committee of Sponsoring Organisations, COSO, released guidance on achieving effective internal control over sustainability reporting (ICSR) in March 2023 (COSO 2023) through the application of the five components of the COSO framework to sustainability issues.

13 ACCA has explored the link between trade and development in Africa in ACCA (2022b).

14 ACCA has considered the use of Green Finance in organisations in ACCA (2023a).

An ACCA member commented that, 'I think the majority of organisations do not grasp this message. They do not have a clear overview because most of them do not place the focus of what they do, the focus of their strategy, on the material issues, aside from those of the shareholders. If the only thing that drives the business is the P&L or the profits and revenues ... the focus is not on the "S". The economic sustainability [is] where they focus. But if they realise that there is pressure nowadays from the main stakeholders of businesses, starting from investors...and from the public, the citizens and the customers to place the focus on other elements, or the "S" element, then companies have to start thinking: what are those issues that are critical for their stakeholders in relation to this agenda? And this requires businesses to identify the material issue. They have to go through materiality analysis and there is nothing wrong in doing a double materiality analysis as well. Not finding that the financial impact as well of all those elements that are critical for them, because this is the only way that organisations will have a complete overview of their risks. There is a lot of pressure now from customers and others to respect human rights [along] the supply chain and the supply chain contains hundreds of businesses in other places of the world'.

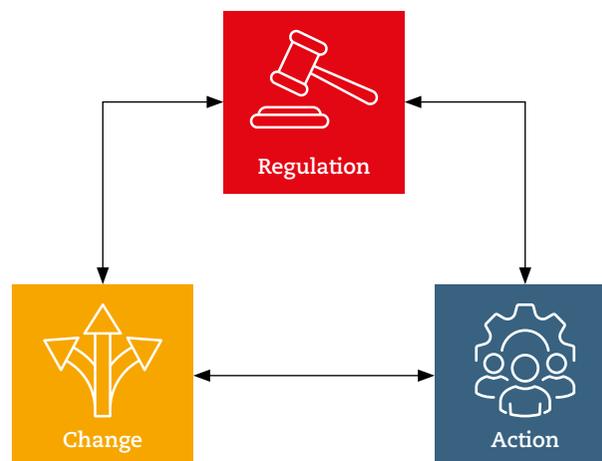
3.4 External reporting

3.4.1 Overview

An ACCA member interviewed for this research commented, 'there's mounting pressure on organisations and companies to measure, manage and report ESG. But of course, the measurement is key because if you do not measure you can't manage. You cannot report. If you do not report, you cannot be held accountable. Therefore, for me the key is the measurement'.

Regulations and reporting standards¹⁵ are an important driver for change in this agenda. As external regulators and agencies increasingly focus upon the progress that organisations are making towards their just transitions, so there is an imperative for action and change (Figure 3.3).

FIGURE 3.3: Regulation and the imperative for change



An IFAC study of 2019 / 2020 reporting suggested that 96% of the organisations that they studied provided some form of reporting on social issues (IFAC / AICPA and CIMA 2022). According to the Sustainable Stock Exchanges Initiative as of 1 April 2023 69 exchanges globally have issued written guidance on the ESG disclosures (Sustainable Stock Exchanges Initiative n.d.).

Figure 1.5 provides an overview of the various standards that might be used as a basis for external reporting. The standard setters in various geographies are seeking, through external reporting requirements, to increase transparency across ESG for investors. Much of the work to date has been undertaken either at a national or at a regional level. The perspective is also one that, for the moment, reflects the position of the developed economies. Throughout the roundtable discussions there was a clear consensus among the participants that there is a need for a globally accepted set of standards for reporting on the social agenda. In addition to bringing clarity to the reporting framework, the view of the roundtable participants was that consistent standards not only create transparency but also reduce the burden in Tier 2 and Tier 3 suppliers and beyond in the value chain, where a material supplier may need to satisfy the reporting requirements of several different customers in different locations.

An ACCA member working in the investment fund community highlighted the importance of global standards from an investment perspective. 'How can a company like [ours] ensure the ESG compliance without having the ESG standards in place? What we are trying to do... is to have an exclusion list pointing out who are the risky companies for environment or society or governance and then we exclude them from our investment portfolio. And later, if the standards are in place and the companies are ready to report their position complying with the standards, we will be able to prioritise those companies that are ESG compliant. But [right now] this is not possible for us'.

¹⁵ Several regulations and reporting standards are in existence. The European Sustainability Reporting Standards (ESRS) are discussed elsewhere in this report. The SEC has released the Modernization of Regulation S-K Items 101, 103, and 105 which in section 7 discusses Human Capital disclosures (SEC 2020).

A challenge in establishing such global standards is choosing the lens through which they are viewed. As mentioned in [section 1.3](#), there are different perspectives and starting points in this agenda. It would be wrong, for example, to assume that the social norms of the developed world can be applied uniformly to those in the developing world. Rather, for any global standards to be effective, they need to consider how aspirational goals can be reflected in a flexible and adaptable manner.

A contributor resident in the Middle East commented, 'if I am coming with a Western agenda of social framework [and saying] "this is how your governance is supposed to be, this is what independent directors mean; that they need to come from these industries to be able to articulate issues at the board level" [people in Africa] will say "forget it. We need a chief to represent our community", and that basically tackles the social element for that company operating in Sierra Leone or operating in Rwanda. Only when you work in the region do you get to understand these things. Then you are able to tie [together] the cultural norms and the corporate requirements'.

To time of writing, January 2023, there have been several standards, as summarised in [Appendix 2](#).

Clearly, the social agenda is a significant part of the disclosures that standard setters and regulators are looking to impose.

IT WOULD BE WRONG, FOR EXAMPLE, TO ASSUME THAT THE SOCIAL NORMS OF THE DEVELOPED WORLD CAN BE APPLIED UNIFORMLY TO THOSE IN THE DEVELOPING WORLD. RATHER, FOR ANY GLOBAL STANDARDS TO BE EFFECTIVE, THEY NEED TO CONSIDER HOW ASPIRATIONAL GOALS CAN BE REFLECTED IN A FLEXIBLE AND ADAPTABLE MANNER.

There are several initiatives under way in this area (as of January 2023). As an example, the Task Force on Inequality-related Financial Disclosures – or TIFD – is developing a risk-management framework that calls for financial disclosures on corporate and investor contributions to inequality. In its framework, TIFD proposes covering areas such as:

- vertical and horizontal inequality
- impacts of company and investor practices
- ESG investing and impact investing
- tax avoidance
- lobbying and political spending
- use of thresholds, targets and metrics; and
- tools for achieving reductions in inequality.¹⁶

In April 2023 TIFD and the organisations preparing a Taskforce on Social-related Financial Disclosures (TSFD)¹⁷ announced that they were combining their activities into shared vision. In a joint statement they explained that 'the shared vision for the Taskforce's mandate is to develop a global framework for financial disclosures with a scope that provisionally encompasses social- and inequality-related risks and opportunities affecting financial stability and long-term enterprise value creation. Recognising market demand for harmonised disclosure guidance, the Taskforce will leverage third-party research and collaborate with existing initiatives to build convergence and identify critical gaps.' (TIFD 2023)

3.4.2 Facing the challenges

As was commented in the previous section, the challenge remains obtaining the data to support these disclosures. In addition, finance teams are being asked to reassign team members from financial reporting to address these new requirements. Hence, there is a need to develop the appropriate skills and knowledge within the team to support these activities. A Caribbean ACCA member noted, 'this kind of reporting is very different from [the] debits and credits [that] accountants who grew up their whole life thinking of a balance sheet and a profit and loss. It is a whole different mindset'. This member cautioned that, 'there needs to be a huge educational campaign'.

A North America roundtable participant placed this challenge in context, explaining that, 'it is more of a transformative agenda. From my perspective, there are so many things that we still need to learn to discover as we go on, as to what the social aspect is all about. I think one of the problems we are having is that ... it is very difficult to financially measure how we are to respond to that external agenda. How do we measure it? In my company we try to dissect it by answering the question of what the reasonable investor expects.'

Another North American participant commented, 'there is a cost to compliance and disclosures. What I have found [is that] companies...are trying to find that balance between what is necessary, how much we have to disclose, and ... the risks to compliance and [of] any fines – the financial risk'.

As one progresses through the value chain so, typically, the organisations become smaller. Finance teams in these organisations tend to be constrained both by the number of individuals and their skill sets as well as by the technology that they have available to them. Although derogations are potentially available for larger organisations as regards the data available to them from smaller ones, the challenge

¹⁶ An overview of the work of TIFD can be found in Ropes & Grey (2022).

¹⁷ The proposal to create a TSFD was initiated by the Business for Inclusive Growth (B4IG) coalition together with its strategic partner, the OECD.

remains. Varying standards create an additional burden when work has to be repeated to satisfy different formats and requirements. An East African ACCA member commented, 'the backbone of the African market is the SME [small or medium-sized company]. Now, especially after COVID, these organisations have got bigger problems than worry[ing] about reporting ESG. A lot of them are small manufacturing companies. So, you're trying to get your office back, you're trying to get your customers back, you're trying to get the sort of funding [you need] and all these things, so I think that poverty and what you eat tomorrow as opposed to how am I going to report on my ESGs [is of greater concern]. It does not mean that it has taken a back seat. It just means that people just have to be intentional about it'.

The requirement for an appropriate level of internal control over the processes and controls means that internal audit teams need to revisit their scope as the third line in the control environment.¹⁸

Likewise, many of the draft reporting standards contain assumptions that the disclosures will be subject to a level of attestation by a third party¹⁹, typically an external auditor, and this in turn creates a similar requirement.

3.4.3 Mandatory HR due diligence

In addition to the EU Draft Mandatory Human Rights and Environmental Due Diligence Directive mentioned in [Appendix 2](#), on 1 January 2023 the German Act on Due Diligence in Supply Chains (Lieferkettensorgfaltspflichtengesetz, 'LkSG') came into force. While there are some differences in detail between the German legislation and the EU proposals, the nature of the requirement is broadly similar. The intent of both is to ensure that organisations are aware of the human rights issues in their supply chains. Indeed, this requirement is building upon one of the principles established in the

UN Guiding Principles on Business and Human Rights, although the World Benchmarking Alliance reports only a slow improvement on the uptake by larger corporates (World Benchmarking Alliance 2022).

The implementation of the Directive is planned to be phased in across organisations in the EU from 2024. There are also fines for noncompliance which are charged as a percentage of global turnover. Similar approaches are being planned in other jurisdictions. As with any directive of this nature, while there is a compliance cost for organisations, such as for the development of new processes and systems, there is also a benefit in helping them focus upon the strategies necessary to move towards a just and equitable society.

Other countries are also taking similar steps. Canada's parliament passed 'An Act to enact Fighting Against Forced Labour and Child Labour in Supply Chains Act and to Amend the Tariff Act (Bill S-211)' on 3 May 2023 which requires organisations to understand a number of issues in their supply chains.²⁰

Professor John Ruggie, speaking in 2021, put this in context, 'human rights due diligence is not transactional, but an ongoing process. It includes assessing actual and potential adverse impacts on people, integrating and acting on the findings, tracking the effectiveness of responses, and communicating how the impacts are addressed. It is difficult to imagine how this could be done adequately without engaging at-risk stakeholders, or, where that is not possible, their legitimate representatives or subject matter experts' (Ruggie 2021).

In an article reflecting on the lessons learned from the 2022 FIFA World Cup, Kieran Laird of Gowling WLG commented, 'Human rights due diligence is the keystone of the UN Guiding Principles on Human Rights (the UNGPs) because

unless a company understands the salient human rights issues it faces, it cannot put itself in a position to deal with them. The influence of the UNGPs is increasingly being felt in legislation around the world, including the EU's proposed directive on human rights and environmental due diligence' (Laird 2023).

In its 2015 report, *5 Steps Towards Managing the Human Rights Impacts of Your Business*, the Deutsches Global Compact Netzwerk outlines a series of actions that organisations should take to embed the Human Rights Due Diligence process in their operations (Deutsches Global Compact Netzwerk 2015).

- Build understanding – familiarising yourself with the basic elements and concepts of a human rights approach as applicable to the sector and business context.
- Map potential impacts – develop an overview of the main areas of human rights impacts and the people affected by them.
- Identify existing processes and gaps – map the management processes that the organisation has in place to address these issues and identify information gaps and how to remedy them.
- Prioritise actions and next steps – conduct a gap analysis to identify required actions.
- Move towards continuous due diligence – implement actions from the previous step and move to a continuous process of due diligence.

Clearly, finance teams, together with their supply chain colleagues, have a role to play in this process. Another opportunity presents itself for finance professionals: it is important to grasp the future, not to hide behind the rules of past.

¹⁸ Some of these implications, together with those of the data and technology aspects, are further considered in ACCA / IAF / IMA (2022).

¹⁹ ACCA have discussed this in ACCA 2023b.

²⁰ An overview of the legislation and requirements is available in Pike 2023.

4. Opportunities exist

'We have double responsibility. It is like double materiality. Responsibility for ourselves and our families. But we also have a responsibility to the past generation that are still alive and to the future generation. This is something that if you see the issue clearly you are somebody who is creating income. We are the people that can change things'.

Interviewee from the European Union



Three key messages to take away from this chapter

- For the profession to remain relevant it must fully embrace the sustainability agenda, including the social aspects.
- The profession has a role to play in moving the agenda forwards by ensuring trust and transparency.
- The ethical lens of the profession is important when considering the social agenda of an organisation.

The opportunities for the accountancy and finance profession can be categorised into four areas (Figure 4.1).

The benefits and risks for finance may be categorised as shown in [Table 4.1](#).

FIGURE 4.1: Opportunities exist



TABLE 4.1: Benefits and risks for finance

	BENEFITS TO ORGANISATIONS	RISKS TO ORGANISATIONS
Data and technology	<p>Integrated technology and data architecture that captures social performance measures (not just financial and environmental) results in improved decision-making.</p> <p>Higher integrity of disclosures improves assurance over the management of social factors. This in turn builds brand strength, customer relationships, investor confidence and improved government relations.</p>	<p>Dysfunctional data collection and applications that makes it harder to produce key data.</p> <p>Decision-making concerning social factors is impaired.</p> <p>Reporting and attestation risks increase.</p> <p>Finance team under pressure to review quality of disparate data.</p>
Skills and talent	<p>Sustainability is integrated as part of the finance team's core skills sets and activities, covering the span of environmental, social and governance issues.</p> <p>Finance leadership have key role and are adept in managing Sustainability across the value chain.</p> <p>Finance teams are closely involved in discussions with key stakeholders – such as investors, customers, governments.</p> <p>Skilled and multi-disciplinary people are recruited within finance.</p>	<p>Finance teams are viewed as just 'numbers' people and do not see their value in sustainability discussions.</p> <p>Lack of awareness of evolving disclosure requirements which creates both risks and opportunities.</p>
Business partnering and decision making	<p>Sustainability issues fully integrated into decision-making process.</p> <p>Value to organisations forms part of decision-making process.</p>	<p>Finance teams do not embrace broader agenda.</p> <p>Decisions taken on a financial basis only seen as less relevant to the organisations.</p>
Accounting for people	<p>Explore newer ways of accounting that reflect how leaders regard people as their biggest assets.</p>	<p>People expenses are treated like costs, just like a 'widget'.</p>
Reporting and assurance	<p>Better prepared for external reporting and assurance requirements.</p>	<p>Increased risk of missing or misstating material disclosures relating to social factors.</p> <p>Disclosure of material social risks affects investor confidence, community trust and regulatory consequences.</p>



4.1 Our role for the taking

The role of the accountancy and finance professional is expanding. As our stakeholders and regulators become increasingly concerned with the value that organisations bring to society, so there is a need to broaden our purview. The finance community is increasingly being asked to report on non-financial as well as financial performance. This is often with a level of rigour that approaches, even if not the same as, that applied to financial data. It is important that the profession uses its skill set to satisfy that expectation.

As another ACCA member commented, 'the profession within businesses is facing a memorable change and [look] how long it took us to agree on the financial statements. It took about 100 years to be honest, but I am afraid that it [took that long] without the technology. Now with the speed of technology, we should align the spread of our [value] chains. I know that this is difficult, but the power is on us – on accountants, on lawyers and a special accountant. Because it is transforming accounting. The thing now is for the accountancy profession to point out the difficulties in the traditional approach. We need to lead in adopting the new trends and the new requirements that reflect the increasing interest [in] the social and environmental pillar. We all need to come to an agreement on what we should measure and with which mechanism'.

A US ACCA member said, 'Finance, having that broader visibility, has always [had] that uncomfortable seat at the table, but we can also have the same seat when it comes to challenging some of the decisions that are made around social [concerns]'.

A Malaysian roundtable participant commented, 'I think in today's day and age where you can step forward [in finance] in terms and train the bot, making awareness, creating awareness, and facilitating the whole thinking process is not just a CFO role. It is an important position for finance professionals to start the conversation and ensuring it is focused on sustainability'.

A Malaysian CFO commented,

'A lot of [debate] is not about rules and regulations. It is about interpretation of guidelines and that is... where our value is. I believe accountants are very good at slicing and dicing and a lot less emotional. And a lot more practical'.

A UK ACCA member said,

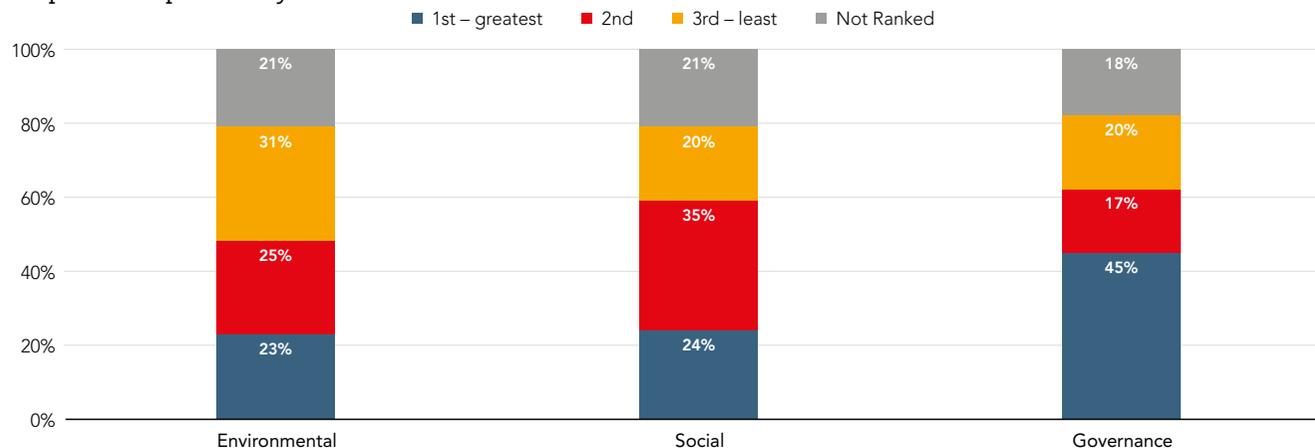
'I think this this really comes down to is that we as accountants like to pigeonhole things and say, "OK, there's a measurable thing here". But actually, I think what ties all of this together is about provable values'.

The survey respondents were asked to rank the three components, environmental, social and governance in order according to their organisation's view of social responsibility (Figure 4.2).

From the small sample involved in the survey (550 respondents), we deduce that the respondents think that their organisations place the greatest emphasis on the governance aspect. This may, in part, be owing to the alignment to the traditional role of the accountancy and finance profession. Even so, it does show that if the profession is to play its full role in a just transition, then more emphasis may need to be placed on both the social and the environmental aspects. When taking into account first and second preferences, there was a closer alignment of social with governance aspects, although environmental aspects still lagged.

The future of the profession is about the furtherance of the sustainability agenda. It may not be the only player, but it cannot afford to be a bystander. There is an urgency in the just transition such that all organisations need to embark upon it. Whether as members of the profession we choose to stand by is a personal choice, but one which may be is non-negotiable.

FIGURE 4.2: Which of the following areas are most important when it comes to your organisation's corporate responsibility?



4.2 Moving the agenda forwards

A UK ACCA member said, 'We are the ones who have control over the money in organisations. If we understand that we have to measure some things and some things will be mandated by law, other things will be things that we ought to be looking at anyway because we think they could be coming over the hill even if [they are] not here yet. But we have to have that broader view as well, not just on the money side of it, but also on the impact that that money has'.

In *Transformational Journeys: Finance and the Agile Organisation* (ACCA / Chartered Accountants Australia and New Zealand / Generation CFO 2021), the concept of value in transformation was discussed. The comments of the CFOs who contributed to that research made it clear that they struggled with the traditional view of investment appraisal. As noted by the UK ACCA member quoted in the previous paragraph, the finance professionals, as the purse holders in organisations, are often seen as blockers to the future. In the economic conditions of 2023, it may be tempting for organisations to postpone investments in an effort to control costs. Several of the CFOs interviewed for this report referred to the dichotomy between the need to control costs, ensuring survivability in the short-term and the medium-term imperative of building a sustainable organisation. Several also concurred with a view that, with hindsight, it may well be that the 2010s, and earlier years for some, were a wasted opportunity in that the overwhelming emphasis on the return to shareholders during that time may well be regarded as the wrong focus. Whether or not this is the case will be debated. What is clear is that the way forwards requires investment. For us as a profession, it is important that we ensure that this is done. Finance professionals need to be enablers of a social transformation, not blockers, looking to measure value, as commented in [section 3.1](#), rather than just financial return.

The choices made will affect societies and communities. They are intrinsically linked to livelihoods and well-being. The wrong choices lead to reputational damage, to bad publicity and, as the power of consumers grows, to threats to the survivability of organisations.

The agenda has no finite end. Several of the roundtable participants referred to this as a perceived difference from the environmental agenda, which has a target of limiting global warming to an increase of 1.5°C (although in practice this may not be an endpoint either). As the agenda moves forwards, so must the profession. Being able to embrace the inevitable evolution of the social agenda is essential. As has been demonstrated earlier in this report, it is a question of evolving supply chains or trade positions and of economic and social sustainability. Not being informed is not an option.

4.3 A question of attractiveness?

The opportunity that presents itself is also about the future attractiveness of the finance and accountancy profession. An ACCA member commented, 'when I speak to [my daughter's] generation very few of them now are going into financial services, banking or other high-powered professions because they feel that they are not helping to address societal issues'.

For the profession to play the role that is required of it now and in the future, it needs to attract the best talent. Having a strong role in addressing the social agenda is a key element of this. That requires accountancy and finance professionals, whether in business or in practice, to recognise and perform the role that is required for developing the social agenda.

To draw on one example of this, in [Figure 1.2](#) the role of equitable tax was highlighted as a key component of the social agenda. Indeed, several of the contributors to this report highlighted that as a factor in achieving social justice. In 2018, ACCA published its report *Tax as a Force for Good: Rebalancing our Tax Systems to Support a Global Economy Fit for the Future* (ACCA 2018). The key message from that report was that 'Considering the challenges societies are facing today, it is time to rebalance our tax systems and use tax as a force for good' (ACCA 2018: 6). With the increasing

demands of an aging society and advances in health care, the costs of society are increasing. As accountancy and finance professionals, we are often associated with negative connotations of the taxation policies of the organisations that we serve. It is inevitable that over the coming years, societies will face challenging choices about what services they need to sustain the life choices of the population. Whether the organisations accountants serve pay an equitable amount of tax is one component of how the profession is perceived. Determining how that tax is calculated is one of our ethical choices.

4.4 Ethics and the social agenda

The profession has a key role in society, for example, by providing trust between investors and organisations. This trust is fundamentally based on belief in our ethical stance. The social agenda is about doing the right thing for the range of stakeholders and communities with which the organisation interacts. Applying that ethical lens also has a key role in guiding the organisation to make the appropriate decisions. The choices may sometimes be painful and not always the most financially rewarding.

A UK roundtable participant noted, 'as a person who works in finance, those kinds of ethics should be governing us throughout our whole life. You know, everything that we do should be those kinds of elements and not just trying to find the expectation from society on people who are finance professionals are not to be greedy. But to be fair, [we need] to always look for equitable solutions in whatever we do'.

Our ethics also reflect the challenges and choices over a sustainable future. Does our profession believe in a just and ethical society? Do we steer the organisations that we are part of and engage with them towards that future? What is our belief in social justice? Destroying nature and the social fabric affects our profession as finance leaders – in the medium term there may not be organisations to lead, investments to be made.



Conclusion

'As accountancy professionals we have traditionally satisfied the major stakeholder, which is our shareholders, but now we must also satisfy another stakeholder component, the community'.

ACCA member resident in the Middle East

The social agenda is a fundamental part of the just transition that organisations need to progress through if they are to be sustainable in the medium and longer term. It is a complex narrative that is changing and highly influenced by context – be that geographical, economic or political. It is, however, one that is highly relevant to the business community. Whether or not organisations create structural changes in the coming years will depend on the decisions and the investments that they choose to make now and in the near future. Standing still is clearly not an option that we can afford, for the planet or ourselves. Change must happen.

The nature and extent of that change is, in part, in the hands of the accountancy and finance profession. We are not bystanders. We are key players. Whether in responding to new reporting requirements, or enabling investment decisions, ignorance is not bliss. The social agenda is part of what we do and of the future of the profession. Opting out is not an option – engaging is our moral and ethical obligation.

At the end of the Republic of Ireland roundtable a participant commented: 'We have answered the question. What does the "S" stand for. It stands for "social" and it is our role to engage with it'.

Glossary

Bluwashing	A term that used to describe deceptive marketing that overstates an organisation's commitment to responsible social practices. It has a greater focus on economic and community factors. It may also be interpreted as a way that organisations hide the social damage that their policies have caused.
Child labour	The exploitation of children through any form of work that deprives children of their childhood, interferes with their ability to attend regular school, and is mentally, physically, socially and / or morally harmful.
Decent work	Productive work which delivers a fair income, with security in the work place and social protection, alongside prospects for personal development and social integration, freedom of expression and organisation, equality of opportunity and equal treatment for women and men
Diversity	Diversity describes a wide variety of differences that may exist among people in any community, including characteristics such as race, ethnicity, nationality, gender and sexual identity, disability, neurodiversity. (Diversity, equality and inclusion are considered in the context of the accountancy and finance profession in ACCA 2021.)
Double materiality	The concept of double materiality extends the traditional concept of materiality one step further: it is not just climate-related impacts on the organisation that can be material but also impacts of an organisation on the climate – or any other dimension of sustainability, for that matter (often subsumed under the ESG label).
Environmental, social and governance (ESG)	An investor community construct which focuses upon the core elements of the just transition (qv) through decision-making processes and providing confidence to markets in certain areas. Often used synonymously with sustainability but has subtle differences.
Equality	Each individual or group of people is given the same resources or opportunities.
Equity	Recognises that each person has different circumstances and allocates the exact resources and opportunities needed to reach an equal outcome.
Forced labour	All work or service which is exacted from any person under the menace of any penalty and for which the individual has not offered themselves voluntarily.
Greenwashing	Statements by organisations in which statements are deceptively used to persuade the public that an organisation's products, aims and policies are environmentally friendly.
Inclusion	Inclusion specifies the desired outcome, namely, ensuring that all individuals find opportunities and spaces to participate, regardless of their differences.



Just transition	A process that seeks to ensure that no one is left behind as we move to a net-zero economy, while the benefits are maximised in a way that is fair and inclusive. This requires management of financial, political and social risks, while balancing complex trade-offs between social, economic, environmental issues and carbon reduction goals.
Living wage	<p>A living wage is defined as the minimum income necessary for a worker to meet their basic needs. The needs are defined as including food, housing and other essential needs such as clothing. The goal of a living wage is to allow a worker to afford a basic but decent standard of living through employment, without government subsidies.</p> <p>Owing to the flexible nature of the term 'needs', there is not one universally accepted measure of what a living wage is and as such it varies by location and household type.</p> <p>This is not the same as a subsistence wage, which refers to a biological minimum, or a solidarity wage, which refers to a minimum wage that tracks labour productivity.</p>
Minimum Wage	Minimum remuneration that an employer is legally required to pay wage earners, and which cannot be reduced by collective agreement or individual contract.
Slavery	The status or condition of a person over whom any of, or all, the powers attaching to the right of ownership are exercised.
Social licence to operate	The ongoing acceptance of a company or industry's standard business practices and operating procedures by its employees, stakeholders, and the general public. The concept of social license is closely related to the concept of sustainability and the triple bottom line.
Sustainable development goals (SDGs)	Global Goals adopted by the United Nations in 2015 to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.
Sustainability	An organisation's approach to creating long-term value by taking into consideration how it operates in its ecological, social, and economic environments. The concept is built on the assumption that developing such strategies ensures an organisation's longevity.
Triple bottom line	An accounting framework with three parts: social, environmental and economic. Some organisations have adopted the triple bottom line framework to evaluate their performance in a broader perspective to create greater business value.



Appendix 1 – the protocols and declarations

PROTOCOL OR DECLARATION	DATE	OVERVIEW
Universal Declaration of Human Rights	1948	<p>An international document adopted by the UN General Assembly that enshrines the rights and freedoms of all human beings. It contains 30 articles covering the following areas.</p> <ul style="list-style-type: none"> • Basic concepts of dignity, liberty, and equality (articles 1 – 2) • Individual rights (articles 3 to 5) • Fundamental legality of human rights (articles 6 to 11) • Rights of individuals towards their community, including freedom of movement and residence (articles 12 to 17) • 'Constitutional liberties' and spiritual, public, and political freedoms (articles 18 to 21) • An individual's economic, social and cultural rights (articles 22 to 27) • The general means of exercising these rights (articles 28 to 30) <p>All 193 member nations of the UN have ratified at least one of the nine binding treaties that are influenced by the Declaration.</p>
International Covenant on Economic, Social and Cultural Rights	1966	<p>A multilateral treaty adopted by the UN General Assembly on 16 December 1966 through GA Resolution 2200A (XXI), which came in force from 3 January 1976. It commits its parties to working toward the granting of economic, social and cultural rights to the Non-Self-Governing and Trust Territories and individuals, including labour rights and the right to health, the right to education, and the right to an adequate standard of living. As of July 2020, the Covenant has 117 parties. A further four countries, including the United States, have signed but not ratified the Covenant.</p> <p>The rights included within the Covenant are as follows.</p> <ul style="list-style-type: none"> • To work under 'just and favourable conditions', with the right to form and join trade unions (articles 6, 7, and 8) • A right to social security, including social insurance (article 9) • A right to a family life, including paid parental leave and the protection of children (article 10) • The right to an adequate standard of living, including adequate food, clothing and housing, and the 'continuous improvement of living conditions' (article 11) • The right to health, specifically 'the highest attainable standard of physical and mental health' (article 12) • The right education, including free universal primary education, generally available secondary education, and equally accessible higher education. This should be directed to 'the full development of the human personality and the sense of its dignity', and enable all persons to participate effectively in society (articles 13 and 14) • A right for the individual to participate in cultural life (article 15)

PROTOCOL OR DECLARATION	DATE	OVERVIEW
OECD Guidelines for Multinational Enterprises	1976	<p>The Guidelines are recommendations on responsible business conduct addressed by governments to multinational enterprises operating in or from the 50 adhering countries. The Guidelines provide non-binding principles and standards for responsible business conduct in a global context that are consistent with applicable laws and internationally recognised standards.</p> <p>The Guidelines cover business ethics on a range of issues, including:</p> <ul style="list-style-type: none"> • employment and industrial relations • human rights • environment • information disclosure • combating bribery • consumer interests • science and technology • competition • taxation. <p>In addition, the OECD has developed additional guidance notes that cover several sectors.</p>
ILO Declaration on Fundamental Principles and Rights at Work	1998	<p>The declaration is an umbrella document that expresses that even if a member has not ratified each of the conventions of the ILO but ratifies the declaration, it is deemed to have ratified the conventions themselves. The eight core conventions of the ILO cover the following areas:</p> <ul style="list-style-type: none"> • the freedom to join a union, bargain collectively and take action • the abolition of forced labour • the abolition of labour by children before the age of compulsory schooling • that there should be no discrimination at work.
UN Global Compact	2000	<p>A non-binding UN pact to encourage businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The UN Global Compact is a principles-based framework for businesses, stating 10 principles in the areas of human rights, labour, the environment and anti-corruption. Under the Global Compact, companies are brought together with UN agencies, labour groups and civil society. According to UN data, more than 16,000 participating companies and 3,800 non-business participants have already embraced the commitments of the UN Global Compact (UN n.d.).</p>
UN Declaration on the Rights of Indigenous Peoples	2007	<p>The declaration is a legally non-binding resolution passed by the UN in 2007. It delineates and defines the individual and collective rights of Indigenous peoples, including their ownership rights to cultural and ceremonial expression, identity, language, employment, health, education, and other issues. Their ownership also extends to the protection of their intellectual and cultural property. The declaration does not create any new rights, rather, it positions existing rights in the context of indigenous people.</p>

PROTOCOL OR DECLARATION	DATE	OVERVIEW
UN Guiding Principles on Business and Human Rights	2011	<p>The principles are an instrument consisting of 31 principles implementing the UN's 'Protect, Respect and Remedy' framework on the issue of human rights and transnational corporations and other business enterprises. The objective of the framework is to provide the first global standard for preventing and addressing the risk of adverse impacts on human rights linked to business activity and to continue to provide the internationally accepted framework for enhancing standards and practice on business and human rights.</p> <p>The framework consists of three pillars that outline how states and businesses should implement it. These are as:</p> <ul style="list-style-type: none"> • the state's duty to protect human rights • the corporate responsibility to respect human rights • access to remedy for victims of business-related abuses.
ILO Forced Labour Protocol	2014	<p>The protocol brings the existing ILO Convention 29 on Forced Labour, adopted in 1930, into the modern era to address practices such as human trafficking. The accompanying Recommendation 203 provides technical guidance on its implementation.</p>
UN Sustainable Development Goals (SDGs)	2015	<p>A collection of 17 interlinked objectives designed to serve as a shared blueprint for peace and prosperity for people and the planet now and into the future. The goals were formulated by the UN General Assembly in succession to the Millennium Goals. In 2017 the UN made the goals more actionable, with specific targets and indicators to measure progress. Most of the goals are intended to be achieved by 2030.</p>
Davos Manifesto: The Universal Purpose of a Company in the Fourth Industrial Revolution	2020	<p>The proposition of stakeholder capitalism within the context of the Fourth Industrial Revolution. It states that companies should, among other things, uphold human rights throughout their supply chains and advocate a level competitive playing field.</p>
EU Draft Mandatory Human Rights and Environment Due Diligence Directive	2022	<p>The Directive would require EU Member States to transpose into national law a corporate due diligence duty to identify, prevent, end, mitigate and account for adverse human rights and environmental impacts. The duty would apply to a company's own operations, its subsidiaries, and their value chains. An adverse human rights impact would be either:</p> <ul style="list-style-type: none"> • an adverse impact on a protected person resulting from the violation of one of the enumerated human rights or prohibitions or • a violation of a prohibition or right not listed that directly impairs a legal interest protected in an international human rights instrument listed in the Annexe to the Directive.

Appendix 2 – the standards and guidance

STANDARD	ISSUING BODY	CURRENT VERSION	OVERVIEW	APPLICABILITY	ATTESTATION / CERTIFICATION POSSIBLE
SA8000	Social Accountability International	2014	A management systems standard modelled on ISO standards. The criteria require that facilities seeking to gain and maintain certification must go beyond simple compliance with the standard. Prospective facilities must integrate it into their management practices and demonstrate continuous compliance with the standard. It is based on the principles of international human rights norms as described in ILO conventions, the UN Convention on the Rights of the Child and the Universal Declaration of Human Rights. It measures the performance of companies in eight areas important to social accountability in the workplace: child labour; forced labour; health and safety; free association and collective bargaining; discrimination; disciplinary practices; working hours; and compensation.	Global	Yes – through accredited certification bodies worldwide
IFC Performance Standards on Environmental and Social Sustainability	International Finance Corporation (IFC; part of World Bank Group)	2012	<p>These standards articulate the IFC's strategic commitment to sustainable development and are an integral part of IFC's approach to risk management. The Sustainability Framework comprises IFC's Policy and Performance Standards on Environmental and Social Sustainability, and IFC's Access to Information Policy.</p> <p>The Performance Standards are directed towards clients, providing guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage (as applicable) risks and impacts as a way of doing business in a sustainable way, including stakeholder engagement and disclosure obligations of the client in relation to project-level activities. Together, the eight Performance Standards establish standards that the client is to meet throughout the life of an investment by IFC.</p>	Global	No
ISO26000 – Social Responsibility	International Organization for Standardization (ISO)	2010	An international standard providing guidelines for social responsibility (often referred to as CSR – corporate social responsibility). An organisation's relationship with the society and the environment in which it operates is a critical factor in its ability to continue operating effectively. This standard is used as a measure for an organisation's performance as it provides guidance on how it should operate in a socially responsible way.	Global	No
GRI Standards	Global Reporting Initiative (GRI)	2021	<p>The GRI Standards enable any organisation – large or small, private or public – to understand and report on its impacts on the economy, environment and people in a comparable and credible way, thereby increasing transparency on its contribution to sustainable development. In addition to companies, the Standards are highly relevant to many stakeholders – including investors, policymakers, capital markets and civil society.</p> <p>The standards are divided into two groups, Universal standards and Sector-specific standards.</p>	Global	No

STANDARD	ISSUING BODY	CURRENT VERSION	OVERVIEW	APPLICABILITY	ATTESTATION / CERTIFICATION POSSIBLE
OECD Due Diligence Guidance for Responsible Business Conduct	OECD	2018	The Guidance provides practical support to enterprises for the implementation of the OECD Guidelines for Multinational Enterprises by providing plain-language explanations of its due diligence recommendations and associated provisions. Implementing these recommendations can help enterprises avoid and address adverse impacts on workers, human rights, the environment, bribery, consumers and corporate governance that may be associated with their operations, supply chains and other business relationships. The Guidance includes additional explanations, tips and illustrative examples of due diligence.	Global	No
PAS 808	British Standards Institution (BSI)	2022	BSI gives guidance to governing bodies and executive managers on what purpose is, how a purpose-driven organisation (PDO) approaches decisions, and how it acts. It outlines the worldviews, principles and the associated behaviours and activities of a PDO and establishes common terms and definitions related to purpose.	UK	No
European Sustainability Reporting Standards (ESRS)	European Financial Reporting Advisory Group (EFRAG)	Draft 2022	ESRS are a key element of the European Union's Corporate Sustainability Reporting Directive. The aim of the standards (in draft as of January 2023) is to provide a consistent basis for comparable, relevant and reliable sustainability information. There are four standards specifically focusing on the social component, which cover: <ul style="list-style-type: none"> • S1: Own workforce • S2: Workers in the value chain • S3: Affected communities • S4: Consumers and end-users Small and medium-sized business versions are expected to be released during 2023.	EU and organisations with turnover generated in the EU above a certain level.	No

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