

Translating values into metrics: 5 guiding principles in measuring the 'S' in ESG across the workforce



Introduction

In the shared pursuit of reaching net zero, it is important that no one is left behind. As companies embark on their journey towards a greener future, they need to recognise and embrace the pivotal role they play in fostering a just transition.

Among the 166 companies engaged for Climate Action 100+ 2022 Benchmark assessments – representing many of the largest global emitters, 73% are not sufficiently prepared to deliver a just transition. Companies, often driven by stakeholder pressure and reputational risk, need to realise that expectations on the 'S' in ESG are increasing from all parties.

83% of Malaysian respondents surveyed in PwC's 2023 Consumer Insights Survey said they will pay more for products associated with ethical practices. Looking at the wider market, EU's Corporate Sustainability Due Diligence Directive will require both EU and some non-EU companies to prove their efforts on safeguarding environmental and human rights.

Latest guidelines and taxonomy could indicate the potential direction of social disclosure for both the country and region. Bursa Malaysia's ESG reporting guidelines prioritised both environmental issues as well as key social considerations such as good labour standards. Besides that, the ASEAN taxonomy (Version 2) for sustainable finance included company assessment guides for social aspects in which workforce elements were identified as essential.



There are many facets from which companies can approach the just transition agenda from - workforce, customers, local communities, and suppliers within the value chain. But, it is important to first understand and meet the needs of the company's lifeblood, its **workforce**.

You can't manage what you can't measure. In this publication, we explore 5 guiding principles in measuring the 'S' in ESG across the workforce which includes ***employing a structured and adaptive approach, empowering human resources as change agents, starting within the organisational boundaries, leveraging on existing resources and investing in digital technologies***.

Every action carries an impact. Measuring the 'S' in ESG across the workforce would help transform companies' social initiatives from being an aspirational exercise into an important part of corporate strategy. More importantly, it substantiates and reinforces a company's purpose statement.

1

Employ a structured and adaptive approach

Any transformation exercise of significance is expected to create disruption. Take the energy transition for instance, where increasing environmental pressures are pushing almost all companies out of their comfort zone in the transition to net zero. Given the potential range and depth of a company's social impact, such as employee wellbeing and influence on surrounding communities, a structured approach in integrating social performance metrics is imperative in streamlining the data collation process and producing insightful analysis. Business leaders should start with a company-wide framework to provide a strategic direction for stakeholders by highlighting potential risks and areas of opportunities.

The framework has the potential to foster collaboration among stakeholders by identifying key teams responsible for driving the agenda and establishing standardised reporting language across the workforce, thereby mitigating silo mentality.

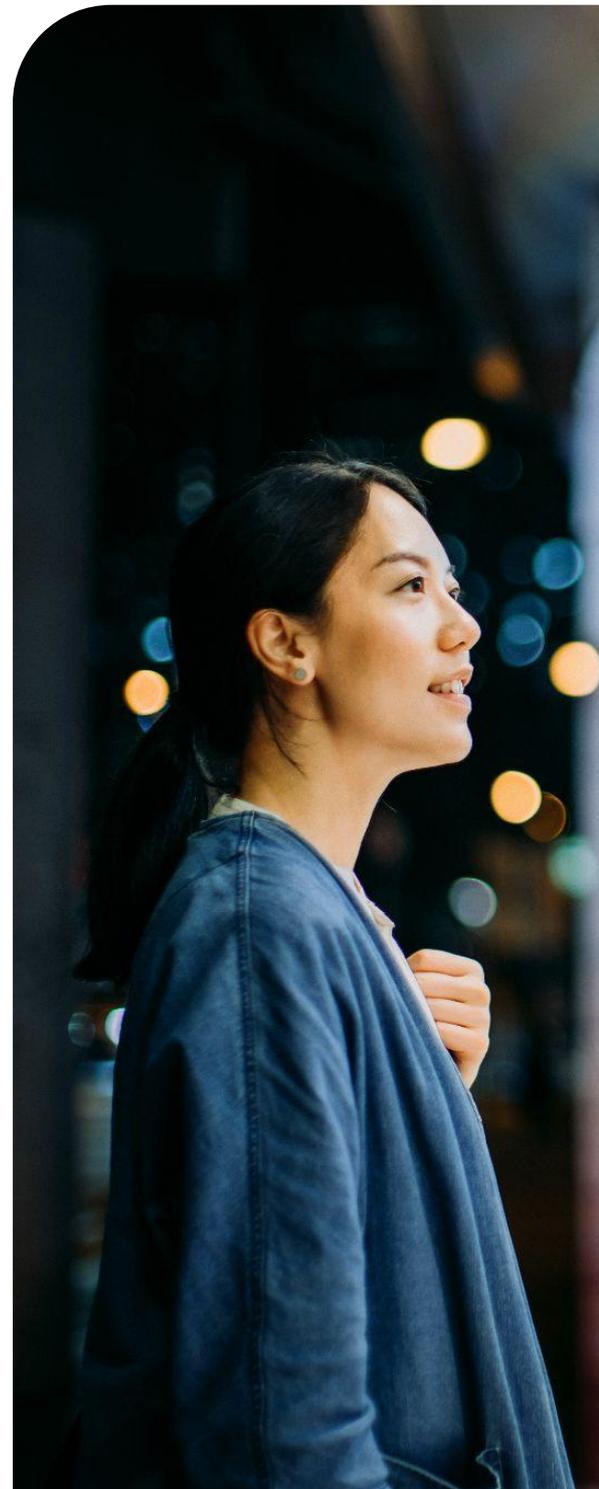
However, it is important to realise that change is often not a linear process. As the organisation navigates through the change, new information may emerge, unexpected challenges may arise, and the market may shift. Therefore, the framework should be viewed as a living document that requires constant monitoring, evaluation, and adjustment to ensure that it remains relevant and effective.

Case Study

A finance corporation was looking to restructure its company-wide environmental and social (E&S) framework.

The initial step involved evaluating the effectiveness of the company's existing programmes and then, assessing the maturity within the region itself. This involved conducting a regional survey of financial institutions, regulators and supporting institutions.

Findings from the survey were then used to adapt the company's current E&S framework towards more formal principles and risk management procedures. Ultimately, it allowed better positioning of future E&S programmes and optimal use of resources.



2 HR as a change agent

Human resource (HR) professionals are key players in managing the workforce life cycle. This encompasses aspects of the workforce such as compensation and benefits, workplace safety, compliance, and talent management. Hence, they are well-positioned to drive and facilitate initiatives in measuring companies' social impact across the workforce.

A strategic approach needs to be added to transactional HR activities. For example, on top of collating data commonly associated with a business's workforce such as payroll, HR can take a step further by analysing these data to report on the business's efforts in managing a diverse and skilled workforce.

HR leaders need to get on the same page as leadership on future priority objectives. This includes knowing how to influence and implement ideas. Acquiring good ideas is possible through various means such as through structured training efforts, attending conferences and performing analytics. However, transforming those good ideas requires the confidence that comes with knowledge and exposure to scenarios that demand adaptability.

This signals a shift in the expectations of the roles chief human resource officers (CHRO) and HR departments will play. HR practitioners will need to equip themselves with the necessary knowledge and skills. The HR curriculum can include sustainability elements such as sustainable business practices, social and environmental impact assessments, responsible sourcing and supply chain management.



3

Start within the organisational boundaries

Measuring a company's social performance requires taking into account the perspectives and needs of employees, consumers, local communities, and society as a whole. Although not uniform, there are some references concerning social performances that companies can use - Global Reporting Initiative, SASB Standards, UN Sustainable Development Goals. However, as a start, it is important to focus on the wellbeing of those within the boundaries of the organisation itself. This means focusing on the needs and concerns of employees such as their **earnings, health** and **effective work-life practices**.



Earnings

The growing call for workplace transparency has made pay equity more than just a standard compliance issue. It builds trust within the workforce while boosting engagement. Aon's 2022 Diversity, Equity and Inclusion Survey Report noted that close to 70% of companies with a highly engaged workforce practices pay equity reviews.

Besides equal pay for equal work, the compensation given should take into account the various economic factors at play such as different standards of living across different locations. A 2017 proposal by Bank Negara Malaysia currently being reviewed by the government suggested a living wage of RM2,700 for an unmarried adult in urban areas, RM4,500 for a couple without children, and RM6,500 for a couple with two children.

Time to bridge the gender pay gap

Among ASEAN countries included in the WEF Global Gender Gap Report 2022, Malaysia is lagging behind its neighbours in terms of gender wage equality for similar work. It is imperative for Malaysia to work on the current gender pay disparity in its journey towards a fair and inclusive society.

Country	Ranking
Singapore	5th
Philippines	12th
Thailand	13th
Indonesia	23rd
Malaysia	25th
Vietnam	27th



Health

Taking a holistic approach in caring about workforce health keeps absenteeism and turnover rates low, meaning lower retraining costs. Looking at physical health, some progress have been made. 2021 data from the Department of Statistics Malaysia showed that occupational injuries have dropped since 2017.¹ But, mental health may still be a challenge.

Besides financial concerns, misalignment of organisational values can result in poor mental health. In a Qualtrics survey done in 2022, more than half of respondents said they would not consider a job at an organisation where there is a values mismatch.

31%

Malaysian employees experience high levels of worry on a daily basis

50%

Malaysian employees felt uncomfortable discussing mental health in the workplace

67%

Malaysian workers are feeling stressed about money

Sources: Wellness at work 2022 report, State of the Global Workplace 2022 report

1. The occupational injuries rate per 1000 workers dropped from 2.93 in 2017 to 1.43 in 2021. The fatal occupational injuries rate per 1000 workers dropped from 4.90 in 2017 to 2.00 in 2021.

Start within the organisational boundaries (cont'd)



Work-life practices

Effective work-life practices are important in keeping retention, workforce well-being and productivity high. A 2022 study found that Malaysian employees who felt that they had a poor work-life balance were 45% more likely to feel burnt out.

Being home to the third most overworked city in the world, there is room for improvement in Malaysia. A possible pathway is to encourage flexible work arrangements. Ipsos's 2021 'Are we ready to be back in office?' survey reported that Malaysian employees believe flexibility will help with their productivity and stress levels.

Besides that, employers who offer effective work-life practices may have a competitive advantage in attracting and retaining top talent, as job seekers are increasingly looking for employers who prioritise employees' well-being as found in PwC's Malaysia Workforce Hopes & Fears Survey 2022.

Types of work-life practices according to UNDP and TalentCorp

Flexible work arrangements



Compressed Work Week



Employees' Choice of Day Off



Flexi Hours



Job Sharing



Leaving Early from Work



Modified Role



Phased Retirement



Reduced/Part-time Work



Seasonal Work



Shift Swapping



Staggered Hours



Telecommuting

Work-life benefits



Childcare Subsidy



Extended Maternity Leave



Family Care Leave



Paternity Leave



Study Leave



Support Network

Family-friendly facilities



Car Park for Pregnant Women



Childcare Centre at the Workplace



Nursing/Mothers' Room



Leverage on existing resources

There are opportunities within the existing business workflow. Routine workforce data, especially those collated by the human resources department, may prove useful in measuring businesses' social performance. However, merely measuring inputs can be inadequate in capturing progress towards the social goals that stakeholders truly care about.

Examples of metrics

Earnings



- Average pay of employees in various demographic and occupational subgroups
- Actions taken and the timeline to adjust pay gaps
- Processes implemented to mitigate future disparities

Health



- Employee injury rates
- Employee work-related fatalities
- Lost time/ productivity due to work-related injury or illness
- Healthcare surveys to measure engagement, satisfaction, climate, inclusion and Net Promoter Score
- Comprehensive platform that allows channeling of employees' opinions

Work-life practices



- Parental leave
- Wellness and employee assistance programmes

To gain better insights into how a company's social performance can influence enterprise value, business leaders should consider quantifiable outcomes as well. For example, when it comes to employees' mental health, data inputs such as expenditure on well-being programmes does not furnish valuable information on the business's social performance. Including outputs such as employee participation in these wellbeing programmes can provide a more well-rounded picture of the business's efforts towards promoting good mental health practices amongst its employees.

Hence, by considering the impact of the efforts undertaken, in addition to inputs being invested, businesses would have a more holistic picture of their social initiatives.

Case study

A large telecommunications company was looking to design a benefits platform for employees to access the rewards and benefits which were of most value to them.

TrueChoice technology enabled the company to measure employee preference in real time and optimise remuneration frameworks by revealing insights on possible compensation and benefits plans that were cost efficient and aligned to employee preference.

The insights gained from existing resources, and subsequent changes made supported talent attraction and retention through a greater consideration of preference and wellbeing to create meaningful employee experiences for their workforce.

5

Invest in digital technology

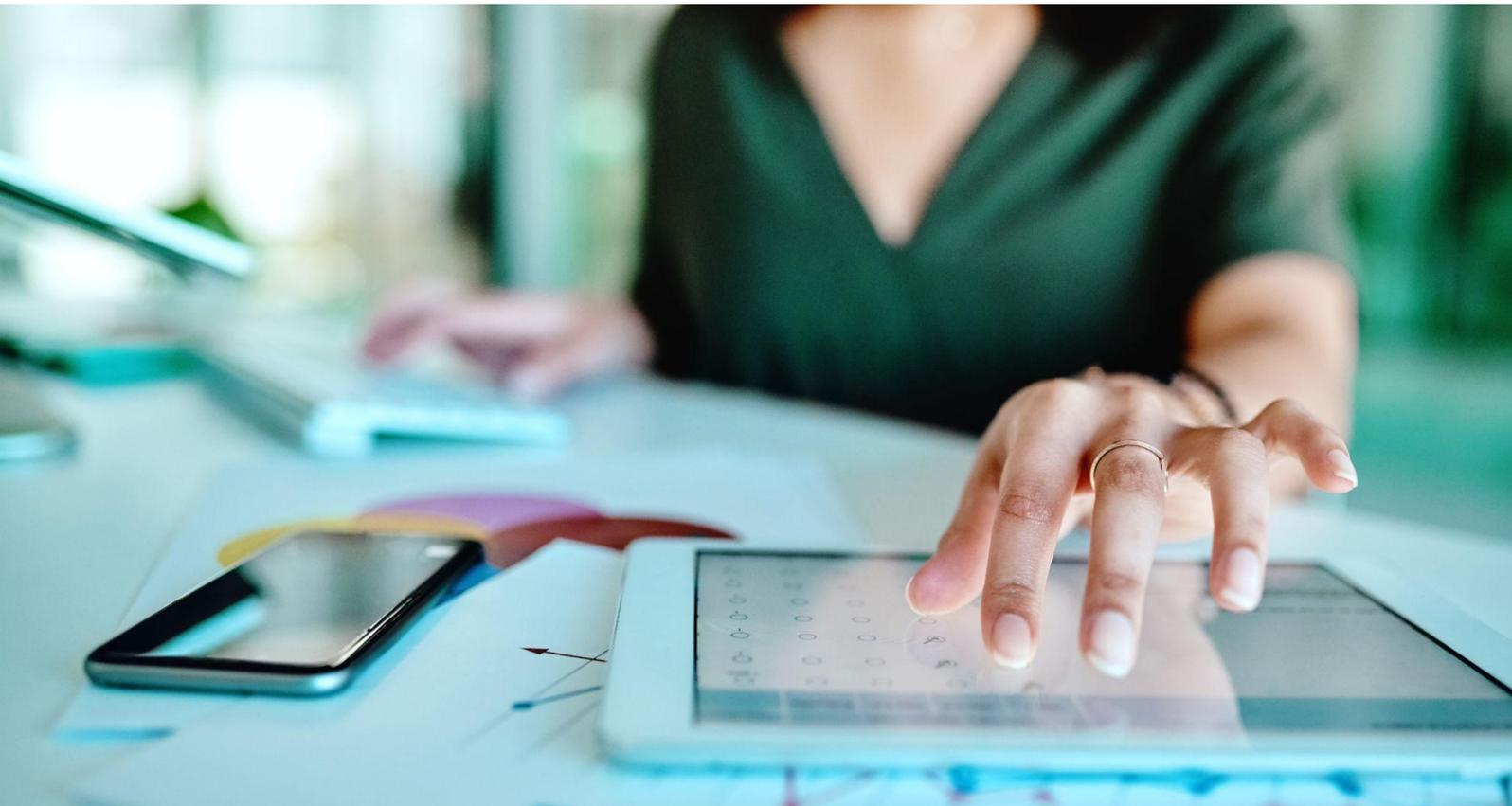
The momentum towards more robust sustainability reporting is gaining pace. Generating reliable and accessible data requires substantial time, effort and investment. Sustainability reporting necessitates sourcing data from multiple sources. Any discrepancies in the data must be detected and current data collation system reconfigured to prevent future discrepancies.

Digital technology holds the promise of bolstering strategies in measuring social performance. A variety of technologies have made in-roads within the sustainability arena with positive impact. By leveraging on digital technologies to generate, store and process data, businesses can ensure robustness of the controls and systems. This in turn provides stakeholders assurance on the reported information and facilitates data-driven decisions for the company moving forward.



PwC's Listen Platform

PwC's use of the Listen Platform, a survey and analytics solution allows HR practitioners to understand more precisely what employees and customers are thinking. It helps to develop, plan, execute and continuously deliver better experiences through AI-driven analytics. It removes the guesswork in identifying areas to improve employee and customer experience.



Conclusion

For every action, there is an equal and opposite reaction. Newton's third law of motion applies not only in the physical realm, but often at the intersection of business. Therefore, every moment counts. The way businesses measure and evaluate their social performance has a significant impact on how they address the welfare of their employees and other stakeholders. Moreover, the approach that companies take to measure their social impact can affect how stakeholders and right holders perceive their commitment to social responsibility.

Rapidly evolving sustainability expectations have underscored the importance of constantly adapting and actively listening to stakeholders' concerns. Ultimately, measuring social performance is an ongoing and dynamic process that can hold companies accountable and drive positive change towards a more sustainable and equitable future. Holding fast to the five guiding principles will help companies chart a course towards a more equitable future.

Five guiding principles

-  **1** **Employ** a structured and adaptive approach
-  **2** **Empower** human resources as change agents
-  **3** **Start within** the organisational boundaries
-  **4** **Leverage on** existing resources
-  **5** **Invest** in digital technologies



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