Introduction to the Workforce Disclosure Initiative

What is it?

The Workforce Disclosure Initiative (WDI) brings institutional investors together to secure comparable workforce reporting from listed companies on an annual basis. The data requested covers employees in companies' global operations and workers in their supply chains. The WDI is modelled on the Carbon Disclosure Project.

The initiative builds on existing reporting standards, and the data requested from companies covers workforce composition, stability, development, and worker engagement.

As of December 2017, the WDI is backed by over 90 institutional investors, responsible for more than $8.6 trillion in assets. The 2017 pilot survey was sent to the FTSE 50 and an additional 25 mega-cap firms on other global exchanges. The survey will evolve over time in response to learning that emerges from the process. The number of companies surveyed will grow substantially year on year.

What do signatories receive?

Investors are invited to join the growing coalition calling for better workforce reporting and become signatories to the WDI. Signatories receive special access to the data generated by the surveys, along with detailed analysis of trends and sector comparisons.

The WDI provides opportunities for knowledge-sharing and networking through a signatory bulletin, case studies, webinars, and events. The WDI team, based at ShareAction, will support signatories wanting greater involvement to develop engagements with companies to address risks highlighted by the data that is generated.

Signatories wanting greater involvement are welcome to play a role in shaping the methodology and research process.

Why take part?

There is a growing body of evidence supporting the materiality of companies' management of human capital.

As an example, companies listed in the '100 Best Companies to Work for in America' generated between 2.3% and 3.8% higher stock returns per year than their peers in comparable companies from 1984 through to 2011.[1]

On the flipside, the high-profile example of Sports Direct plc showcases the financial and reputational risks of poor workforce management. Failures at Sports Direct to comply with minimum wage requirements led to multi-million pound fines and settlements.[2] Following the very public exposé of poor working conditions, the company's share price fell by over 50%.[3]

The financial risks and opportunities associated with human capital management are equally pronounced further down supply chains. The collapse in 2013 of the Rana Plaza building in Bangladesh resulted in the death of 1129 workers and injuries of a further 2500, sending shockwaves through the global garment sector. Global brands named as sourcing from the factory suffered major fluctuations in their returns, and longer-term negative impacts on revenues and costs.[4]

There is also increased regulation designed to hold firms accountable for their supply chains including the EU's non-financial reporting directive, the UK's Modern Slavery Act, and the California Transparency in Supply Chains Act.

Violations of the law can come with significant financial penalties, as in the case of Signal International LLC, which was ordered to pay $20 million in compensation for complicity in forced labour.[5] The firm later filed for bankruptcy.

Institutional investors increasingly want to integrate workforce management into their investment analysis and to engage with companies to reduce risks in this area.

However, the lack of comparable data reported by companies is a major barrier at present. An analysis of the world's 4609 largest listed companies in 2014 found that only 12% disclosed rate of employee turnover, and only 11% reported workforce injury rates.[6]

In 2015, the Pensions and Lifetime Savings Association found that less than half of FTSE 100 companies disclosed levels of staff turnover, less than a quarter reported on workforce training and development, and one in ten provided information on the composition of their workforce.[7]

Even when data is reported by companies, it is rarely comparable across peers in a sector, making it difficult for investors to incorporate into analysis.

Environmental risks and performance are today well integrated into investment analysis. This can largely be attributed to the pioneering work of the Carbon Disclosure Project in mainstreaming environmental data and providing a framework for investors to analyse how companies compare to their peers. Requesting data from companies as an individual investor is a costly and labour intensive process, for the investor and company alike. A collaborative effort such as the WDI is designed to overcome this barrier and create an efficient process for all parties.

What does being a signatory require?

Signatories agree for the name of their institution to appear on letters to the chief executives of surveyed firms, asking for the company to complete the survey. The names of the signatories will be published.

How is this project financed?

ShareAction is funded by the UK's Department for International Development (DFID) to pilot two rounds of the survey, to prepare analysis for investors based on the resulting data, and to support collaborative engagements with surveyed companies. There is no fee for signatory investors in the 30-month pilot phase.

The Workforce Disclosure Initiative is run in partnership with Oxfam, who are feeding into the survey development and undertaking work in developing countries to bring to life issues faced by workers. A WDI steering group has been established to govern the programme including members from DFID, Oxfam, project consultants Lake Advisory, ShareAction's senior team, and Paul Dickinson, Executive Chair of CDP, and Trustee of ShareAction. A wider WDI advisory group is made up from a cross-section of representatives from the investment community, academic institutions, NGOs and trade unions.

The WDI team are working on the development of a sustainable business model that will ensure the longevity of the programme.

References

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About ShareAction

ShareAction (Fairshare Educational Foundation) is a registered charity that promotes responsible investment practices by pension providers and fund managers. ShareAction believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits.

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