WDi

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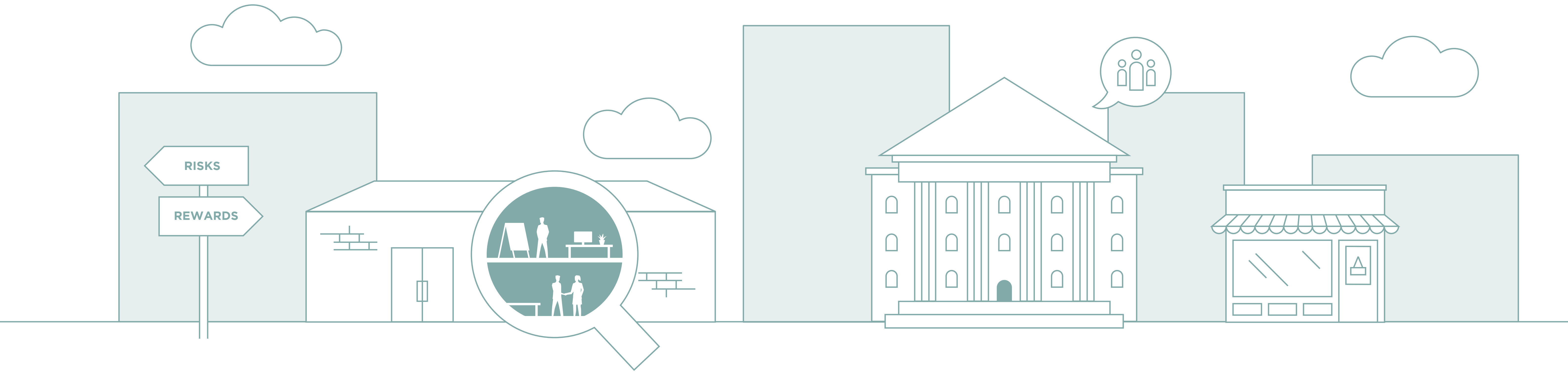
The New Frontier: Data, Transparency and Decent Work



Contents

Executive summary

The business landscape is at a critical juncture: companies face growing pressure to justify their social licence to operate while remaining competitive.

At the heart of this challenge is the required transformation of the relationship between business, investors, regulators, consumers, and workers themselves. Companies can do more to acknowledge the role workers play in creating company value and contributing to the overall success.

Companies are under significant pressure to deliver financial outcomes and minimise costs in the short term. However there is a strong economic and social case for ensuring workforce policies and practices are sustainable over the long term.

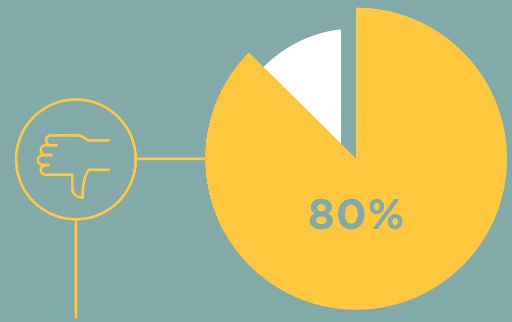
The growing evidence on the materiality of the workforce has strengthened the links between strong workforce practices and positive financial performance of the company. The consequences of failing to integrate worker considerations can be damaging for the long term success of the company (and the workers and communities on whom it depends).

Increasingly, companies are also expected to demonstrate how their workforce practices are delivering value for the company and for workers alike. Calls for greater transparency and better reporting are growing from investors, regulators and consumers. Investors want to know how companies are managing the financial, reputational and operational risks and opportunities linked with workforce practices, as well as how business is contributing positively to society. Regulators are intensifying reporting requirements on business' and workers' human rights performance. Society, consumers and workers themselves also want to see companies making a positive impact on the world around them.

ESG stands for environmental, social and governance

Investor demand for workforce data

Investor demand for ESG data is increasing, with total global assets operating on ESG issues expected to double to over 50 per cent in the next five years.[1]



Yet, 80 per cent of investors say they do not think company reporting reflects the full extent of ESG risks.[2]

Investors have increased their interest in social performance. They are demanding more data on companies' workforce practice, recognising that this kind of information provides important insight on corporate culture, governance and risk oversight. At

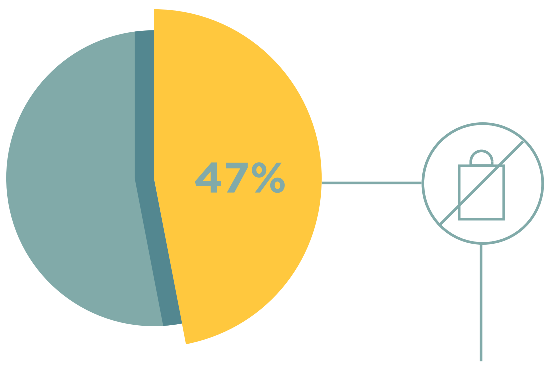
Increasing corporate reporting requirements

the national level, the regulatory landscape is evolving with requirements to report human rights due diligence. A number of countries now have mandatory provisions to identify risks of modern slavery and child labour in company supply chains.[3]

Efforts to improve the standardisation of corporate reporting are making progress as well. Governments in 38 of the 50 largest global economies have introduced corporate disclosure requirements covering ESG issues.[4]

Proactive consumers and society

Consumers are more discerning about their purchasing practices.



A recent global survey found that 47 per cent had stopped buying from a company when disappointed with its words or actions on social issues.[5] Workers are interested in their employers' practices.

Transparency is important to build trust with consumers and wider society.

Companies that fail to disclose information on working conditions or sourcing practices have experienced severe reputational damage and loss of public trust.[15-18]

Workers are increasingly calling out companies for poor workforce practices.

Recent polling by PwC and Mercer suggests that the trend for workers to seek jobs and employers that have a clear and positive social impact is growing.[6]

Why does this matter?

Despite the significance of good workforce management on company success and positive social outcomes, there continues to be a lack of meaningful public reporting by companies on their workforce policies and practices.

This prevents investors, shareholders and consumers from assessing how a company manages its workforce, and crucially, prevents discussion about how practices can be improved.

At a time of rapid change in the labour market, stark social and economic inequalities and a lack of distrust in the corporate sector – transparency is a way for companies to hold a mirror to their own activities, and begin the process of aligning themselves with the needs and interests of others.

About the WDI

The Workforce Disclosure Initiative (WDI) calls on companies to publish wide-ranging data on topics including:

- Governance and oversight of workforce
- Risk assessment
- Diversity and inclusion
- Worker voice
- Supply chain due diligence

All of which, if not managed effectively, can hamper progress towards securing decent work for all.

The WDI is backed by investors calling for better data on the social dimension of ESG principles, ultimately to improve existing working conditions in companies' supply chains and direct operations.

The WDI is backed by over 40 investor signatories with $4 trillion of assets under management

SUSTAINABLE DEVELOPMENT GOALS

8 DECENT WORK AND ECONOMIC GROWTH

"Promote sustained, inclusive & sustainable economic growth, full and productive employment and decent work for all."

Introduction

While there has been steady growth in the number of companies submitting data to the Workforce Disclosure Initiative (WDI), several factors can act as barriers to participation, including multiple reporting priorities, limited company resources and a lack of available data.

This briefing makes the case for why companies should increase their reporting of workforce information.

It begins by setting out why the workforce matters both as a critical asset to any business, and as a result of obligations to respect workers' rights.

It then outlines how workforce practices can have material implications for company performance and for wider economic growth.

It goes on to explain that despite the recognised importance of workers to company performance, too little information is currently publicly reported by companies.

It then makes the case for increased disclosure and transparency, which it is argued should be a commercial priority in light of three rapidly emerging trends: growing demand for workforce data from investors; increasing corporate reporting requirements; and the changing expectations and interests of wider society.

Why the workforce matters

The workforce – those employed directly or via global supply chains – are critical to the delivery of any business. They provide the labour needed to deliver an end product or service to a customer or client. As the labour market continues to evolve, business will need to be more alert than ever to both the opportunities and challenges its workers face. In turn, business plays a vital role in enabling people to grow and flourish in the economy and wider society, providing a salary and lifelong skills which support livelihoods and personal development.

Companies also have a responsibility to respect workers' rights and deliver decent work. These obligations are set out in multiple international frameworks.[7] Safeguarding workers' rights has never been more important in the context of complex and unstable geopolitics where workers' rights are increasingly under threat. Companies can not rely on governments alone to address workers' rights issues.

The workforce is therefore a critical asset for companies, and the workplace a critical space to protect workers' rights and promote decent work. This section considers some of the consequences of failing to properly manage this asset, as well as some of the benefits, both having implications for workers, the company itself and wider society.

> "[The WDI] is the high watermark for social disclosure… it has been helpfully aligned with the existing frameworks and it takes it a step further in a number of directions."
>
> – Corey Klemmer
> **Domini Impact Investments**

Decent work makes business sense

Workforce practices have implications for the financial performance of a company. Companies that integrate workforce considerations and decent workforce practices into their own operations and supply chains are likely to receive rewards and benefits over the long term, while those that fail to do so increase their exposure to a number of risks and negative impacts. The treatment of workers can also provide a proxy for wider corporate governance and risk management. Far from being a financial cost to the company, the workforce is a key company asset and fundamental to its long-term success.[8]

Higher workforce standards

A 2015 study showed there is a positive correlation between higher workforce standards, including human resource policies and financial outcomes, and return on equity, return on investment and profit margins. Training, when combined with other workforce policies and practices, can lead to positive outcomes including increased productivity and employee commitment and was also associated with superior investment outcomes.[9]

Employee satisfaction

Another study, this one by the European Corporate Governance Institute in 2014, found that employee satisfaction was positively correlated with the value of a firm. In some instances generating up to 3.8 per cent higher stock returns per year than their peers in the US.[10]

3.8% higher stock returns

Productivity & profitability

There is evidence to show how improvements in labour practices in company supply chains have a demonstrable impact on productivity and profitability.

+ 8% more profitable

In some cases, this meant workers reaching daily production targets nearly 40 minutes faster and were "up to eight per cent more profitable than their counterparts."[11]

Increased diversity

Increased gender and racial diversity at the Board and employee level means that companies better reflect the society they are part of, while also producing better returns in comparison to local peers.

15% more likely to produce better returns

Companies in the top quartile for gender diversity are 15 per cent more likely to produce better returns than their local peers.[12]

35% more likely to produce better returns

Those in the top quartile for racial and ethnic diversity are 35 per cent more likely.[13]

Training

\+ +

A study into the ILO Better Work Programme also found that supervisors who receive training oversee factories with lower worker injury rates, more effective production lines and lower staff turnover.[14]

Conversely, there are numerous examples demonstrating how mistreatment of workers limits the company's ability to realise the benefits.

The case studies below, and throughout this document, illustrate that poor workforce practices can pose serious operational, legal and reputational risks which can undermine the company's licence to operate and ability to execute its business strategy over the long term.

Wells Fargo 2016 banking scandal

In 2016, Wells Fargo's agreed to settle a $185 million fine when it was found that its employees had created millions of fraudulent bank accounts.

Subsequent investigations revealed a culture of excessive pressure through high sales targets for low-level employees, poor leadership and a lack of appropriate means for employees to raise concerns, which all contributed to a culture of widespread unethical behaviour.

The aftermath of the scandal involved the CEO appearing before the US Senate and mass-layoffs have had a long lasting impact on the company's reputation and financial performance.[15]

Ryanair 2018 strikes

Following failed talks between the company and unions, cabin crew from budget-airline, Ryanair, went on a series of strikes across Europe to protest over pay and other working conditions.

Impact:

- 250+ flights grounded[16]
- Mass disruption to thousands of travellers
- Profit warning
- Share price on the London Stock Exchange more than halved[17]

The company was sued by a group of shareholders who claimed Ryanair overstated its ability to manage labour relations and keep costs down. The investors argued that worker unrest was inevitable because success was heavily dependent on keeping costs low by 'underpaying and even exploiting' staff, making crew members cover the costs of training and uniforms, meals and accommodation when abroad for work.[18]

While Ryanair were slow to enter into negotiations with unions, low-cost rival easyJet, which has long-standing union agreements, saw its share price rise by a fifth over the same period.

A knock on impact: society and the economy

Workforce practices can have consequences for society and the wider economy, and in turn the economic conditions under which business operates.

The remuneration practices of employers play a role in stimulating economic growth by determining consumer spending power. US economic growth was hampered by inequality and the rise of lower wage jobs according to a study by Morgan Stanley, which found "weak wage growth tends to lead to weaker domestic demand, which has seen a general lack of US households' willingness to fuel spending via debt accumulation."[19]

$12 trillion

Growing inequality can slow economic growth.

The OECD found that the rise of inequality by more than 2 Gini points across 19 OECD countries between 1985 and 2005 is estimated to have knocked 4.7 percentage points off cumulative growth between 1990 and 2010.[20]

This effect is even larger on emerging economies, undermining their long-term growth potential.[21]

Conversely, companies with diverse and inclusive workforces have shown to benefit positively in terms of improved innovation and financial performance. Advancing women's equal participation in the economy could add $12 trillion to global growth.[22]

300 million

Similarly, companies that invest in their workers through skills and development programmes see improved productivity and growth, while the ILO has also argued that skills development and training are an important part of strong, sustainable and balanced growth that supports good quality jobs.[23]

Climate change presents significant risks and opportunities for business and the economy as a whole. The effects of climate change have already resulted in significant costs for companies. In 2015, the CEO of global consumer goods company Unilever said that natural disasters cost the company 300m a year.[24]

As pressure grows on companies to implement climate mitigation and adaption strategies, these will need to account for the potential impact on workers and communities.

A disruptive and poorly managed transition to an environmentally sustainable future is likely to lead to significant job losses and stranded communities, while a well-managed and inclusive transition is likely to result in job creation, social justice and resilient communities.[25]

The case for greater disclosure and transparency

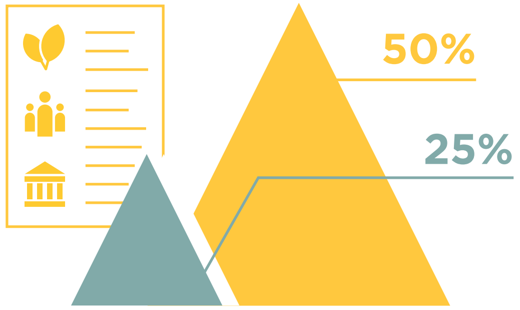
Despite the significance of workforce practices to individual company success and wider social outcomes, there continues to be a lack of meaningful public reporting by companies on contract types, the median pay gap, commitments on labour rights and more. This reporting gap creates a barrier for investors, consumers and workers when assessing how companies treat their workers. A lack of transparency can limit improvements within companies and the quality of jobs more broadly.

Public reporting can be an effective way for companies to hold a mirror to their own activities. The collection of information can provide insights to identify and address strengths and weaknesses in their approaches. The process of collecting and reporting workforce information can help companies identify early signs of workforce risks before they manifest themselves in the future, as well as opportunities to improve existing practices and generate operational efficiencies.

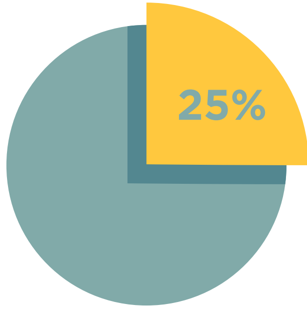
Increased transparency can help companies meet the requirements of a complex regulatory landscape, and anticipate emerging regulatory trends, as well as mitigate the financial, legal and reputational risks associated with non-compliance.

Investor demand for workforce data

Investors play an important role as stewards of a company. As stewards they have a strong interest in the financial performance and profitability of a company.[26] Increasingly, investors have begun to understand that financial returns are contingent on a number of other factors. This is demonstrated by the surge in investors integrating Environmental, Social and Governance (ESG) factors in their investment decision making[27]:



Investor demand for ESG data is increasing, with total global assets operating on ESG issues expected to double in the next five years.[28]



A quarter of the largest economies in the world

...have, or are developing, guidelines on investor stewardship which require them to consider long-term value drivers including ESG factors in their investment decisions.[29]

Assets under management incorporating sustainability investment strategies

$30.7 trillion 2018

$22.9 trillion 2016

Assets under management incorporating sustainability investment strategies reached $30.7 trillion at the beginning of 2018, up 34 per cent in the last two years according to the Global Sustainable Investment Review.[30]

Companies with highly rated ESG data are rewarded with lower costs of capital, and those that take a longer-term view outperform their short-term orientated peers in revenues, as well as adding more to national economic output through job creation.[31] Investors have signalled a clear direction of travel which involves deeper integration of ESG data and long-term interests.

High profile scandals involving the poor treatment of workers have emphasised the need to re-evaluate and evolve traditional approaches to 'social' issues, which are neglected in favour of environmental and governance issues. The narrow emphasis on issues such as executive remuneration or health and safety reporting has provided an incomplete picture of the health of a company.[32]

Investors are increasingly interested in a wider range of issues which act as important proxies for corporate culture, governance and risk oversight, such as:[33]

- **Worker engagement**
- **Training**
- **Mechanisms for workers to flag concerns**

> **After climate change, labour force related issues are definitely what our clients care about the most.**
>
> – Lottie Meggitt, ESG analyst
> **Newton Investment Management**

The market is growing for investors showing leadership on addressing ESG issues amongst beneficiaries of pension funds and their clients. Beneficiaries for instance, are as interested in pay and employee conditions as they are in the financial performance of their pension fund, while asset managers are increasingly taking stewardship activities and policies into account when selecting asset managers. Indeed, at a recent MSCI annual conference 40 per cent of attendees cited 'client demand' as the primary driver for ESG integration.[34]

Suppliers struggle for tech firms

Demanding and competing timelines of major technology firms, including Apple and Samsung, led to action from workers in the supply chain. Supplier shortcuts are having an impact on how workers are treated, as well as the delivery and quality of the final product.[35]

Worker strikes and supplier bottlenecks caused delays to the highly anticipated iPhone 8 release, which also forced Apple to modify the phone's design. Samsung who share many of the same suppliers as Apple, also experienced disruption to its roll out of the Galaxy Note 7.[36]

Impact:

- Profit expectations cut by $11 million and $6 million for the company's September and December quarters, respectively.
- Market share fell in several major markets in the three months ending in October 2017[37]
- Explosions scandal and cost of the full product recall was estimated to be least £4billion
- Analysts suggested that the wider damage to the Samsung brand could be between $10bn to $20bn.[38]

Companies can expect the demand for workforce data to grow both as investors increasingly recognise the value the insights provide, and as they respond to wider investment trends.

A number of efforts have emerged in recent years in response to this growing demand for ESG data and in particular to address the lack of corporate reporting on 'Social' issues (see pages 30-33). Many of these efforts are either led or supported by members of the investor community. All share a common goal of improving transparency and the quality of human rights and workforce disclosure. These efforts also demonstrate a growing preference for investors to work collaboratively with unions and civil society organisations. This approach is likely to intensify as investors seek to improve their ability to identify and manage risks and opportunities in their portfolios, and respond to increased pressure on the financial sector to demonstrate its positive impact on society.

The drive to gain competitive advantage by integrating ESG considerations is also being hastened by a changing regulatory landscape for investors which is transforming the concept of fiduciary duty, essentially requiring investors to consider factors beyond financial returns.[39] A 2015 UNPRI (the UN's Principles for Responsible Investment) report stated that:

"failing to consider long-term investment value drivers – which include environmental, social and governance issues – in investment practice is a failure of fiduciary duty."[40]

In a significant step in February 2017, a group of US and global institutional investors with $17 trillion in assets under management launched the US stewardship code.[41] At the state level, countries are also requiring pension funds to integrate ESG criteria. The EU's Institutions for Occupational Retirement Provision Directive (IORP) contains clear requirements for IORPs to consider ESG factors.[42] In March 2019 the EU's Sustainable Finance Action Plan set out how financial actors must integrate ESG risks and opportunities and disclose adverse impacts from those factors.[43]

In light of these shifts, investors are likely to become more emboldened and discerning of the data companies report. For instance, a survey of 320 institutional investors showed that 80 per cent of investors do not think company reporting reflects the full extent of their ESG risks and how they affect their business models.[44] The survey also showed that while investors are increasing their demand for ESG data, they are also increasingly critical over the quality and comparability of the information companies disclose.

Increasing corporate reporting requirements

Emerging national legislation

In recent years a number of new national laws have sought to embed 'soft law' standards such as the corporate responsibility to respect human rights as set out by the United Nations Guiding Principles on Human Rights. Examples of recently enacted and emerging legal frameworks are included. While the scope and purpose of each differ, they share the common goals of increasing reporting of and accountability for adverse human rights impacts on workers. There has been a notable ratcheting up in the requirements with each successive law or regulation. For instance, the French Corporate Duty of Vigilance Law introduced in 2017 includes a financial penalty for companies that do not comply (a feature which is notably absent from other similar laws), while some suggest that the stronger Swiss proposal for a mandatory human rights due diligence law will place Switzerland at the forefront of such legislation.[45]

In countries where reporting is consistently poor, there will be calls to strengthen existing and emerging regulation both from civil society organisations who will continue to monitor new legal requirements, and from business who may consider their efforts to adopt responsible business practices undermined by non-compliant competitors.[46]

Regulation timeline

● Legislations ● Standards

2010

California Transparency Supply Chains Act requires reporting on efforts to eradicate forced labour and human trafficking in their supply chains[47]

2014

EU's Non-Financial Reporting Directive requires companies with more than 500 employees to disclose, among other things, information regarding social responsibility and treatment of employees and respect for human rights[48]

2015

UK's Modern Slavery Act requires disclosure on measures to identify and prevent slavery and human trafficking within own operations or supply chain[49]

2015

UN Principles of Responsible Investment statement "failing to consider long-term investment value drivers – which include environmental, social and governance issues – in investment practice is a failure of fiduciary duty"[50]

2017

USA's investor stewardship code launched by a group of US and global institutional investors with $17 trillion assets under management[51]

2017

France's Corporate Duty of Vigilance Law requires companies to disclose and implement a due diligence plan to identify and prevent human rights and environmental risks in its operations & supply chain[52]

2018

Australia's Modern Slavery Act similar to the UK Act with additional mandatory reporting requirements[53]

2018

UK's Financial Reporting Council introduce revisions to the Corporate Governance Code, following a consultation that concluded that increased "transparency can lead to improved levels of trust" between companies and stakeholders[54]

2019

Netherlands' Child Labour Due Diligence Law requires companies to disclose efforts to identify and address child labour risks in the supply chain[55]

2019

EU's Sustainable Finance Action plan set out how financial actors must integrate environmental, social or governance risks and opportunities and disclose adverse ESG impacts[56]

Proposed

Switzerland's mandatory human rights due diligence would require companies to disclose the due diligence on human rights and environmental impacts within Switzerland and overseas[57]

Proposed

Canada's Transparency in Supply Chains Act would require companies to disclose measures to reduce the risk of child labour and forced labour in their supply chains[58]

Strengthening voluntary reporting standards

Beyond legal efforts to mainstream human rights due diligence reporting and practice, there have also been concerted efforts to improve the standardisation of corporate reporting more generally. Governments in 38 of the largest 50 economies in the world have introduced corporate reporting requirements covering ESG issues including workforce information.[59]

For example, in 2018 the UK's Financial Reporting Council (FRC) introduced revisions to the Corporate Governance Code following a period of consultation in which the FRC concluded that increased "transparency can lead to improved levels of trust" between companies and their stakeholders.[60]

Companies are now required to report on a number of workforce-related issues such as the Board's responsibility for workforce policies and practices, efforts to improve Board diversity, methods to engage the workforce and mechanisms for directors and workers to raise concerns including how these concerns are dealt with. In the US, the Securities and Exchange Commission proposed rule amendments that would update the reporting requirements for 10-k filers. One of the proposed changes includes "any human capital measures or objectives that management focuses on in managing the business, to the extent such disclosures would be material to an understanding of the registrants business and workforce, measures or objectives that address the attraction, development, and retention of personnel.".[61]

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Purecircle, Stevia and Coca-Cola

In May 2016, U.S. Customs and Border Protection seized imports of stevia, a low calorie sweetener imported by PureCircle, after it obtained information that the products were made by convict labour in China.[62] PureCircle, a London Stock Exchange (LSE) listed company, subsequently released a statement disputing the allegations but also indicated that "there could be some impact on sales and profit in the current financial year" and on release of the statement, shares in PureCircle dropped by 10 per cent. The seizure of the goods affected not only PureCircle but also companies further along the supply chain. As stevia is increasingly used by leading beverage companies, Coca-Cola was forced to respond to PureCircle's news and confirmed that it had not received stevia produced by forced labour, and company policy prohibited the use of forced labour in its operations and supply chains.

At the regional level

At the regional level, the European Union's Non-Financial Reporting Directive (NFRD, 2014/95/EU) requires companies with more than 500 employees to disclose, among other things, information regarding social responsibility and treatment of employees and respect for human rights.[63] However, given that reporting to date has been relatively poor, there are calls for the EU to introduce revisions which improve the specificity of the current requirements and provisions for non-compliance.[64] For instance, a coalition of civil society groups have argued that the NFRD must provide clearer reporting requirements for human rights due diligence (by endorsing the United Nations Guiding Principles Reporting Framework), and introduce sanctions for failing to report "meaningful supply chain data, such as supplier lists".[65]

Globally

Globally, companies can also expect increased disclosure requirements from stock exchanges. A movement spearheaded by the Sustainable Stock Exchanges (SSE) initiative is working to "enhance corporate transparency – and ultimately performance – on environmental, social and corporate governance issues and encourage sustainable investment." To date, over 90 global stock exchanges have developed guidance on ESG reporting for companies listed on their stock exchanges. Some of the metrics to the Sustainable Development Goal of Decent Work, including CEO pay ratio, gender diversity, employee turnover, the percentage of non-full time positions held and the number of human rights grievances.[66]

The rise in both mandatory and voluntary reporting requirements is likely to intensify scrutiny of company reporting as stakeholders raise their expectations of corporate disclosure. There are clear advantages to companies grasping the fundamentals of human rights and workforce reporting, not least because of the benefits that legal and regulatory compliance confers, but also in order to stay ahead of future developments.

A selection of corporate reporting platforms

Improving workforce disclosure

Workforce Disclosure Initiative

The WDI asks companies to report information on a range of workforce topics from governance, turnover, training, wellbeing and supply chain management

Purpose: Provides companies with an efficient framework in which to report their workforce policies and practices to a significant group of investors so that they can in turn make informed decisions about their portfolios.[67]

The Human Capital Management Coalition (HCMC) is a cooperative effort of 28 institutional investors representing over $4 trillion in assets.

Purpose: The coalition seeks to further elevate human capital management as a critical component in company performance and in the creation of long-term value. In 2017, the HCMC submitted a rule-making petition to the U.S. Securities and Exchange Commission (SEC) to increase disclosure of human capital management information.[68]

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

The PLSA represents over 1,300 pension schemes in the UK with 20 million members and £1 trillion in assets, across master trusts and defined benefit, defined contribution, and local government funds.

Purpose: In 2016, the Association published a stewardship 'toolkit' for pension funds, advising members on the type of information they should request from the companies they invest in about their workforces and corporate cultures. The PLSA, in collaboration with the High Pay Centre, assessed the workforce disclosures of the FTSE 100 based on this toolkit and in 2019 it's Chief Executive wrote to all FTSE 100 firms to discuss reporting of employment models and workin practices. practices.[69]

Benchmarks and rankings of human and labour rights performance

CHRB Corporate Human Rights Benchmark

The CHRB methodology is the result of extensive multi-stakeholder consultation around the world, involving representatives from over 400 companies, governments, civil society organisations, investors, academics and legal experts.

Purpose: It assesses and benchmarks the public reporting of 200 of the largest publicly traded companies in the world on a set of human rights indicators, producing sector rankings for three high risk sectors (agricultural products, apparel, extractive industries). The CHRB seeks to tap into the competitive nature of the market as a powerful driver for change in confronting this challenge.[70]

JUST Capital was co-founded in 2013 by a group of concerned people from the world of business, finance, and civil society. It polls American citizens on the issues they consider most important for a just society, and ranks companies based on these topics. In 2019, four of the top five Issues that Americans prioritized were worker-related.

Purpose: Through its rankings, investable indexes, and in-depth financial analysis, Just Capital aims to drive investment capital toward more just companies, incentivising a more just and equitable marketplace.[71]

Know The Chain produces benchmarks of companies in high risk sectors (information and communications technology, food and beverage, apparel and footwear) and incentivises companies to improve their score over time through competition with peers.[72]

Purpose: Help companies and investors to understand and address forced labour risks within their global supply chains

Partenership between:

- Humanity United
- The Business & Human Rights Resource Centre
- Sustainalytics
- Verité

Active investor engagement on human and labour rights practices

INVESTOR ALLIANCE FOR HUMAN RIGHTS
AN INITIATIVE OF ICCR

Launched in 2018 by the Interfaith Center on Corporate Responsibility, to provide institutional investors with a dedicated platform to increase their capacity and impact in addressing human rights risks associated with business activities. Members currently include over 160 institutional investors, representing a total of nearly US$4 trillion in assets under management and 18 countries.

Purpose: Provides a collective action platform for responsible investment that is grounded in respect for people's fundamental rights, focused on the investor responsibility to respect human rights, corporate engagements that drive responsible business conduct, and standard-setting activities that push for robust business and human rights policies.[73]

SHARE
SHAREHOLDER ASSOCIATION *for* RESEARCH & EDUCATION

SHARE provides responsible investment services, research and education to a network of institutional investors. SHARE's decent work program encourages a dialogue between shareholders and companies about the link between decent work practices and long-term value,

Purpose: Through targeted briefings, events and coordinated engagement, SHARE are increasing the visibility of decent work as an important investment consideration in capital markets, and supporting investors advocate for robust decent work policies and practices through direct engagement and filing shareholder resolutions.[74]

Investor led initiatives addressing specific human rights issues

PLWF
Financials for living wage

The Platform Living Wage Financials (PLWF) is an alliance of 13 financial institutions with over 2.6 trillion of Assets Under Management. It assesses and benchmarks companies to determine performance on the topic of living wage in global supply chains.

Purpose: Aims to use investor influence and leverage to engage with investee companies who have been leading on the issue and which need to do more, and motivate the 'laggards' to follow their better-performing peers.[75]

LIECHTENSTEIN INITIATIVE
FOR A FINANCIAL SECTOR COMMISSION ON MODERN SLAVERY AND HUMAN TRAFFICKING

A public-private partnership between the Governments of Liechtenstein, Australia and the Netherlands, as well as Liechtenstein private sector actors and foundations. In 2019, it released its Unlocking Potential: A Blueprint for Mobilizing Finance Against Slavery and Trafficking – a collective-action framework for financial actors.

Purpose: Aims to puts the financial sector at the heart of global efforts to end modern slavery and human trafficking, by working together to address the sector's approach to anti-slavery and anti-trafficking compliance through responsible investment and lending practices and financial sector innovation to address modern slavery and human trafficking.[76]

Proactive consumers, workers and societies

Levels of public trust in the private sector are low, particularly since the 2008 financial crisis[77] but also as a result of successive corporate scandals around the world. High profile cases have drawn attention to excessive executive compensation, discrimination and harassment, worker exploitation in the supply chain and much more.[78]

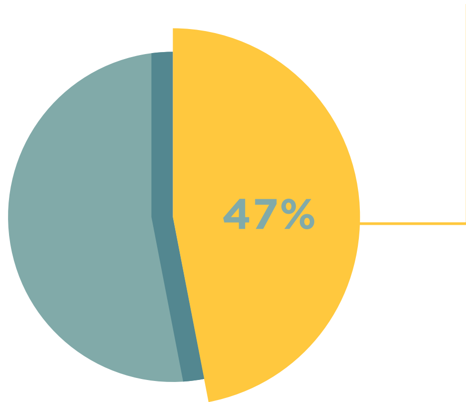
Underlying discontent over growing inequalities have spurred populist and anti-corporate movements, increasing public and political scrutiny over the role of business and its shareholders in determining the prosperity of individuals and communities on which it depends.[79] In turn, companies are increasingly looking to redefine their 'purpose' and relationship to wider stakeholders such as employees and workers.

A lack of transparency on these issues only serves to deepen mistrust and concern among certain sections of society about irresponsible business practices.

Discerning Consumers

Consumers are becoming more discerning about their purchasing practices.[80] Digital technology helps increase consumer awareness and knowledge about labour and environmental practices behind a product or service.[81]

Information on labour standards or environmental impact can empower consumers to campaign against unacceptable business practices. Recent examples of these protests include campaigns against Taco Bell, Amazon and Uber.[82] Consumer campaigns can damage a companies reputation and influence long-term consumer spending behaviour.[83] Indeed, a recent global survey of consumers found that 47 per cent of consumers had stopped doing business with a company as a result of its actions.[84]



Emergent consumer groups such as younger generations and those in developing markets are willing to pay more for products that have a positive impact on society. This is a trend identified by Nielson in their 2015 global consumer goods survey which stated that "consumers are starting to consider sustainable practices a basic cost of entry, rather than a market differentiator. Going forward, brands have to define a credible, relevant social purpose, deliver greater social value, and communicate that value effectively to attract and retain consumers."[85]

An MIT study also found that consumers are willing to pay 2 per cent to 10 per cent more for products from companies that provide greater supply chain transparency, valuing information about the treatment of supply chain workers and efforts to improve working conditions.[86] Disclosing information about how workers are treated can reduce the risk of malpractice being exposed and consumer activism developing, while also building relationships with future consumers.

Empowered workforce

Workers are an important group that should not be ignored when it comes to the practices of their employer. Recent polling by PwC and Mercer suggests that the trend for workers to seek jobs and employers that have a clear and[87] positive social impact is growing. Workers are actively trying to improve issues such as pay, equity, diversity and working practices in their supply chains. Employers will need to respond to the challenges and opportunities presented by technology and automation, as well as a workforce who expects employers to promote wellbeing, work-life balance and provide development opportunities.

Workers, like consumers, are also prepared to call out behaviour if it does not reflect their values. An example of this is the recent petition initiated by a Walmart employee calling for the retailer to end its sales of firearms and ammunition following a number of fatal incidents in Walmart stores. The petition argued that the company consider risks to employee safety, gaining hundreds of thousands of signatures and prompting the company to make a formal statement. Workers are also organising themselves outside of the traditional worker-union relationship to push for improvements in their labour standards.[88]

An example of alliances emerging between workers can be found at Google. Over 900 full-time Google employees published a letter in support of equal treatment for their temporary contractor colleagues.[89]

Support from consumers for workers with less bargaining leverage is also increasing – as seen during the Amazon Prime Day protest which urged global customers to end their subscriptions in solidarity with striking workers who demanded improved labour standards.[90]

Better transparency as an opportunity

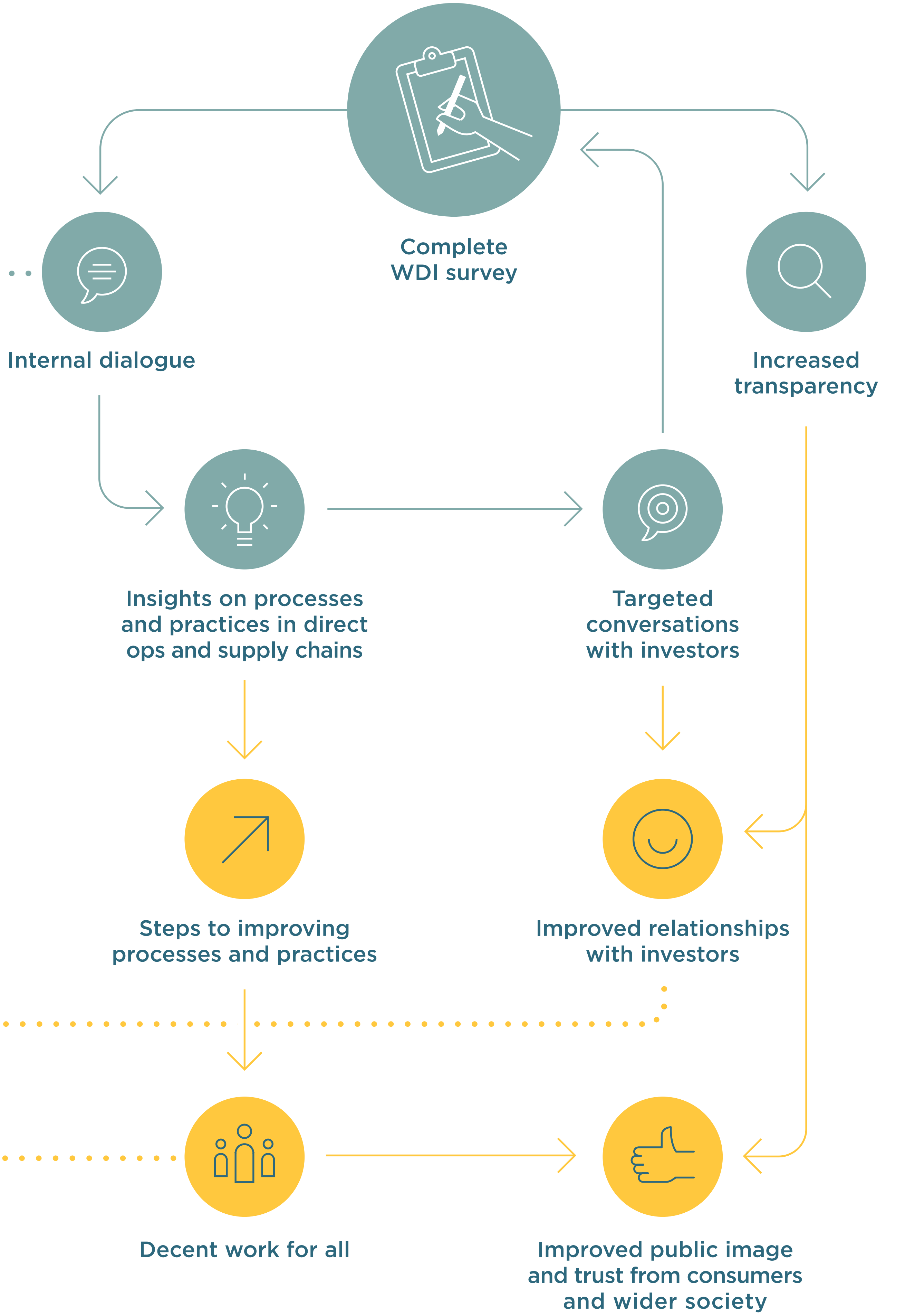
Given the shifts in societal expectations, better transparency gives companies an opportunity to connect and build trust with an increasingly engaged public who care about how their individual actions and choices impact the world around them.[91] Disclosing information about employment models and working practices helps create a dialogue, providing assurance that companies are working to improve practices and demonstrating leadership in important areas. Critically, at a time of unprecedented change in the global labour market and widespread economic uncertainty, transparency of labour practices offers a way for companies to demonstrate that they are creating value for wider society.

Conclusion

Transparency is crucial for empowering external stakeholders with information so that they can make informed judgments about company behaviour and actions. Companies that are open about workforce practices demonstrate a willingness to be scrutinised and ultimately to be challenged to improve. The process of reporting itself is a powerful activity which can increase the legitimacy and accountability of a business, and in turn help align the interests of corporate stakeholders from workers, to investors and governments.

> **Completing the [WDI] survey has given us insights into our own process and procedures. It has facilitated discussions between several different departments and has proved an invaluable exercise for us to establish what information we have available, and what it would take for us to provide more detailed disclosure in the future.**
>
> – InterContinental Hotels Group

> **Workforce data is important for us to conduct robust analysis on the companies we are invested in. This is for all of our investment strategies.**
>
> – Marie Fromaget
> **AXA Investment Managers**



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