

Shift

HUMAN RIGHTS REPORTING:

**Are companies telling investors
what they need to know?**



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“Human Rights Reporting: Are companies telling investors what they need to know?”
Shift, New York, May 2017.

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Shift is the leading center of expertise on the UN Guiding Principles on Business and Human Rights. Shift’s global team facilitates dialogue, builds capacity and develops new approaches with companies, government, civil society organizations and international institutions to bring about a world in which business gets done with respect for people’s fundamental welfare and dignity. Shift is a non-profit, mission-driven organization.

Shift was established following the 2011 unanimous endorsement of the Guiding Principles by the UN Human Rights Council, which marked the successful conclusion of the mandate of the Special Representative of the UN Secretary-General for Business and Human Rights, Professor John Ruggie. Shift’s founders were part of Professor Ruggie’s core advisory team that helped develop the Guiding Principles. Professor Ruggie is the Chair of Shift’s Board of Trustees. | www.shiftproject.org



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EXECUTIVE SUMMARY

“The UNGP Reporting Framework is about more than just asking the right questions. We want to see that companies have embedded human rights awareness and management within the firm. Their answers to the questions provided by the Reporting Framework demonstrate the often intangible corporate culture that helps us to evaluate human rights risks that companies might be exposed to. We can then assess their awareness, understanding, preparation, management and, potentially, the effectiveness of their human rights management. To sum up, applying the Reporting Framework enables us to evaluate the quality of business strategy and operations management through the human rights lens.”

PROFESSOR CHRISTINE CHOW, Associate Director and Team Lead on human and labour rights,
Hermes EOS of Hermes Investment Management

What is the value of reporting?

As corporate reporting on “sustainability” or “social responsibility” has become normal practice for leading companies, so too have concerns arisen about the lack of value of that reporting. Many companies complain that these reports are a significant drain on resources and fail to help the company improve its performance. Many readers, including investors and civil society organizations, find these reports offer little real insight into how well a company is managing its impacts on people.

Yet a smart approach to reporting can be a tremendous driver of improved performance. This is as true for reporting on human rights as for other non-financial or financial matters. It requires that the reporting process focus attention and resources on the critical questions the company needs to be able to answer internally, if it is to manage its risks and performance effectively. As such, **the process of smart reporting serves as much to improve management systems as to identify information for disclosure.**

This vision informed the design of the UN Guiding Principles Reporting Framework,¹ which Shift and our partner Mazars developed over a two-year period of global research and consultation. It is the only comprehensive framework for companies to report on how they respect human rights in line with the global standard set out in the United Nations Guiding Principles on Business and Human Rights.² The UNGP Reporting Framework, issued in February 2015, consists of a short series of smart questions that focus on how companies identify and manage the most severe human rights risks associated with their operations and value chains. More information about the development of the Reporting Framework and its various components can be found in Annex 2.

1. The UNGP Reporting Framework is available at www.ungpreporting.org.

2. The UN Guiding Principles on Business and Human Rights are the authoritative global standard on business and human rights, unanimously endorsed by the UN Human Rights Council in 2011. The 31 principles set expectations of states and companies about how to prevent and address negative impacts on human rights by business. Learn more at <http://www.shiftproject.org/un-guiding-principles/>.

We reviewed:

74 large, listed companies from seven sectors



Are companies meeting expectations on human rights reporting?

In this report we analyze the maturity of the human rights disclosure of 74 large, listed companies from seven sectors.³ To do so, we first mapped companies’ human rights disclosure against the questions of the UN Guiding Principles Reporting Framework.⁴ Then we analyzed their disclosure against two types of maturity scales: a six tier scale for each component of the corporate responsibility to respect human rights;⁵ and a five tier maturity scale that looks at the quality of reporting: its specificity, sharing of challenges and forward focus.

Looking at the sample group of companies in this study, the quality of corporate reporting on human rights is quite split across maturity levels.

The majority of companies fall somewhere in the middle of the maturity spectrum, with slightly more at “basic” or “improving” levels as compared to “established” or “mature” levels (see Annex 2 on methodology for detailed definitions of these levels). Perhaps not surprisingly, not many companies fall at the “negligible” level – no reporting on human rights – and not many companies fall at the highest maturity level. The graphic on page 7 illustrates the exact breakdowns, and section II.3 of this report provides details about overall maturity on corporate human rights reporting.

The real meat of our findings, however, is not this somewhat overgeneralized “overall maturity” category. Rather, we see the truly illuminating findings arising where companies display particular strengths and weaknesses in their disclosure – and likely thus also in their performance.

Disclosure analyzed according to:

Companies’ maturity levels



3. These companies were selected from the 2015 Financial Times (FT) Global 500 ranking and represent the largest companies by market capitalization in their respective sectors. See Annex 1 for a full listing of companies assessed.

4. The UNGP Reporting Database is a public, independent database run by Shift that shows companies’ disclosure on human rights mapped to the questions of the UNGP Reporting Framework. See <http://www.ungpreporting.org/reportingdatabase/>.

5. For more on the elements of the responsibility to respect, see <http://www.shiftproject.org/resources/respect/>.

For instance, we see a story emerging about various – and for some companies cumulative – failures in the governance of human rights risks, at least based on their disclosure:

- **Lack of oversight: 45%** of the companies reviewed do not clearly identify who is responsible and accountable for managing human rights risks.
- **Lack of clarity about internal controls:** approximately **90%** of the companies do not have a coherent narrative about how risk or impact assessments inform mitigation actions taken, how decisions are made or if senior management is ever involved.
- **Total silence on governance: 16%** of the companies provide no information at all about governance of human rights, nor even about governance of broader issues such as “sustainability” or “corporate social responsibility.”

Moreover, **far too few companies focus their reporting – and underlying resource investment – on the company’s most severe human rights risks.** Some companies do report on how they select the human rights issues on which they report – typically, materiality assessments – but only a few companies apply the lens of risk to people and recognize the value this brings to a better identification of risks to business as well. Finally, **fully 45 percent of companies provide no information about how they track their performance on human rights** – leaving readers in the dark about whether any of their efforts translate into positive outcomes for people.

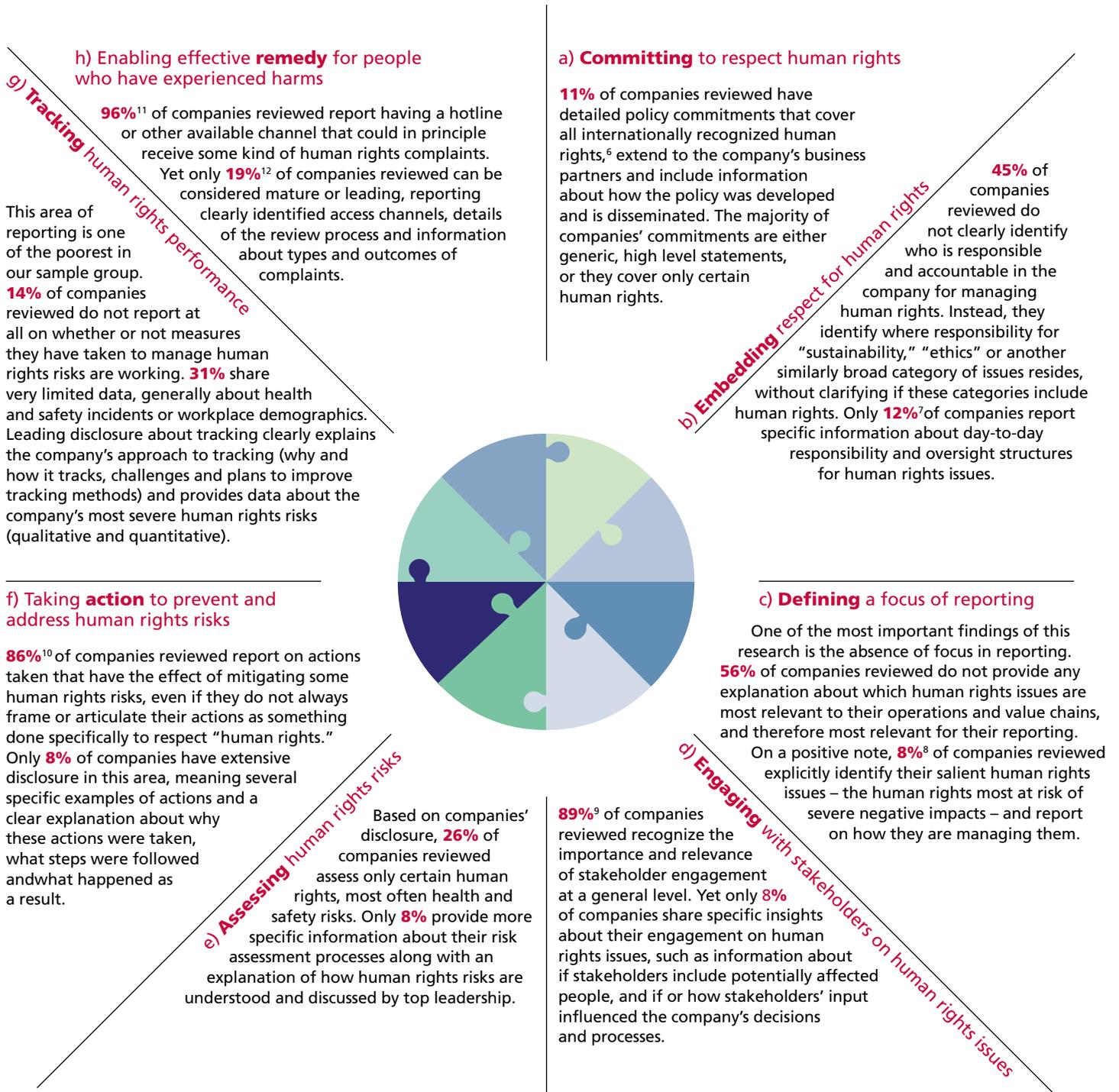
We should be clear that the above summary is very broad strokes. We encourage readers to dig into the detailed data we lay out in section II on findings. This data, we believe, can provide a basis for meaningful conversations with companies – and ultimately help and push companies to improve respect for human rights.

Key findings | How does company reporting match up to the expectations of the UN Guiding Principles?



INCREASING MATURITY

Key findings | How does company reporting match up to the expectations of the UN Guiding Principles?



6. More about the definition of internationally recognized human rights is available at <http://www.shiftproject.org/un-guiding-principles/#human-rights>.

7. 9 out of 74 companies, meaning all companies at maturity levels "mature" and "leading."

8. 6 out of 74 companies, meaning all companies at maturity levels "mature" and "leading."

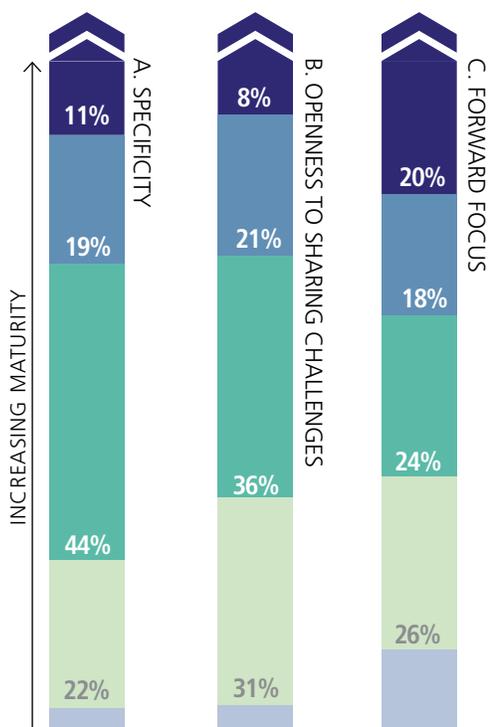
9. 66 out of 74 companies, meaning all companies at maturity levels "basic" through "leading."

10. 64 out of 74 companies, meaning all companies at maturity levels "basic" through "leading."

11. 71 of 74 companies, meaning all companies at maturity levels "basic" through "leading."

12. 14 out of 74 companies, meaning all companies at maturity levels "mature" and "leading."

Cross-cutting characteristics of quality



a) Specificity

We consider **11%** of companies reviewed to be “leading,” with specific human rights disclosure that is meaningfully illustrated by examples. Conversely, the majority of companies reviewed offer little insight into their processes and understanding of human rights, with **44%** of companies using very few examples, and **22%** disclosing generic, high level statements on human rights.

b) Openness to sharing challenges

8% of companies reviewed include clear statements and meaningful examples about the challenges they face in working to respect human rights. The majority of companies present more unbalanced reporting, by disclosing only successes or by appearing to give all anecdotes a very positive spin.

c) Forward focus

While **26%** of companies reviewed simply state their general intention to continue working on human rights issues, **20%** report on clear plans they have in place to enable further respect for human rights, with specific objectives.

Overall maturity of human rights reporting

See graphic on following page

45%¹³ of companies’ human rights disclosure can be considered either “basic” or “improving.” Indeed, the majority of companies provide generic, high level statements about committing to respect and manage human rights issues, but the level of insight into actual processes remains low.

Still, **35%**¹⁴ of companies have “established” or “mature” overall reporting. This includes coherent policy commitments that appear to be well-embedded in the company, clear top level support for human rights and more meaningful disclosure about stakeholder engagement and collaboration to prevent and address human rights risks.

Reporting leaders make up **5%** of companies reviewed. These leading companies do not just say that they took action on human rights issues during the reporting year; they explain *why* and *how* they did it, what outcomes were achieved for people and their plans to realize further progress the next year.

13. 33 out of 74 companies, meaning all companies at maturity levels “basic” and “improving.”

14. 26 out of 74 companies, meaning all companies at maturity levels “established” and “mature.”

Key findings | Overall maturity of human rights reporting

The table below provides a general description of each level of maturity in corporate human rights reporting. The elements described in the table are derived from the more granular maturity levels set out in section II of this report. It is important to note that this overall categorization of maturity is approximate, as a company's disclosure can be strong on some important elements while weak on others.

LEADING

- Disclosure is transparent, addresses challenges, lessons learned and includes concrete examples throughout
- Forward focused strategy to further embed respect for human rights, with clear, measurable objectives
- Commitment to respect human rights developed in collaboration with internal and external stakeholders, with top leadership involvement and sign-off
- Clear leadership understanding and messaging on human rights risks pertinent to the business
- Description of human rights governance demonstrates top level oversight and well-integrated cross-functional structures
- Human rights are continually assessed and integrated into enterprise risk management systems
- Stakeholders' inputs, especially from potentially affected stakeholders, are actively sought and taken into consideration, including to design and implement mitigation measures
- Human rights performance, including outcomes for people, is tracked and linked to performance incentives
- Grievance mechanism is independently reviewed, available to all potentially affected stakeholders, the process is explained, and examples of remedy are provided

5%

MATURE

- Disclosure includes a forward focused approach or strategy to further embed respect for human rights
- Commitment to respect human rights has top leadership sign-off and is supported by a coherent set of governance documents
- Top level messaging recognizes relevance of human rights for the business
- Responsibility and accountability structures for human rights are identified and explained
- Reporting and actions on human rights are prioritized based on risk to potentially affected stakeholders
- Human rights risks are assessed regularly and processes are explained in detail
- Stakeholders are engaged on human rights issues during the reporting period, and the company shares the purpose of the engagement(s) and inputs by stakeholders
- Disclosure provides a description of types of mitigation measures taken, with specific examples from the reporting period
- Human rights performance is tracked, based on the company's salient human rights issues.
- Process to address grievances is explained and examples of outcomes are provided

11%

ESTABLISHED

- Disclosure is specific to human rights and offers more details about the company's efforts to implement the elements of the corporate responsibility to respect human rights
- Commitment to respect human rights covers all internationally recognized human rights and extends across the value chain
- A governance structure for human rights is identified, with some level of leadership oversight
- Human rights risks are prioritized and identification process is explained
- Employees and business partners are aware of the human rights commitment and receive specific training or guidance
- Human rights risks are assessed with some level of regularity and integration
- Stakeholders are regularly engaged on human rights issues and general processes for that engagement are explained
- Grievance mechanism is available to all potentially affected stakeholders

25%

IMPROVING

- Disclosure is focused on "sustainability" and "CSR" issues, but it is clear that these labels include human rights
- High level commitment to respect human rights extends to the supply chain
- Some disclosure about the highest level of accountability in the company for human rights
- Disclosure focuses on human rights risks that have been traditionally addressed by companies, like health and safety and diversity, without an explanation that these issues are indeed salient for the company
- Human rights risks are assessed but no detail on the process is provided
- Disclosure focuses on basic stakeholder engagement on sustainability issues including human rights
- Description of mechanism to receive human rights related complaints

29%

BASIC

- Disclosure is focused on broad "sustainability" and "CSR" issues, with little clarity that these labels includes human rights
- Brief, high level commitment to respect human rights
- Little to no disclosure about who is responsible for human rights issues
- Little to no disclosure about a process to assess and mitigate human rights risks
- Hotline available to employees only for some human rights related complaints

Percent of companies at this level
16%

Comparative analysis: the most and least popular reporting areas

93%¹⁵ of companies reviewed have some type of commitment to respect some or all human rights, making this the most reported component of the responsibility to respect. On the other end of the spectrum, reporting how they assess the effectiveness of their efforts to respect human rights (tracking) is poorly reported, with only **9%** and **1%** of “mature” and “leading” companies respectively.

Recommendations

The following recommendations are based on the guidance set out in the UNGP Reporting Framework and insights gleaned from the analysis undertaken for this report.

What makes good reporting?

- ✓ Focus on the greatest risks to people that are connected to the company’s operations and value chain, and use these salient human rights issues to guide the company’s reporting and actions.
- ✓ Share examples that provide meaningful insight into how policies and processes are implemented in practice.
- ✓ Explain challenges faced by the company in working to respect human rights. This will help inform readers about operating realities and contextualize what the company is trying to achieve.
- ✓ Develop a clear narrative about the company’s approach to understanding and addressing human rights risks. It can then be drawn from to meet specific reporting needs.

How should investors engage with companies on reporting?

- ✓ Encourage companies to identify their salient human rights issues.
- ✓ Engage in a discussion about the company’s governance of human rights, especially salient human rights issues, including how and when the Board engages on these issues.
- ✓ Explore how the company understands who its stakeholders are in relation to human rights, how it engages with them, and how these relationships and insights inform its understanding and management of human rights risks.
- ✓ Explore how the company assesses its own progress in identifying and addressing human rights risks and impacts, and the effectiveness of those measures.
- ✓ Discuss challenges and dilemmas, enabling constructive dialogue on human rights issues and developing insight into the company’s level of awareness and engagement on human rights.

Leading companies do not just say that they took action on human rights issues during the reporting year; they explain *why* and *how* they did it, what outcomes were achieved for people and their plans to realize further progress the next year.

15. 69 out of 74 companies, meaning all companies at maturity levels “basic” through “leading.”

I. AIM AND STRUCTURE OF THIS REPORT

This report examines the extent to which companies' current human rights reporting reflects their responsibility to respect human rights, as set out in the UN Guiding Principles on Business and Human Rights and articulated through the questions of the UNGP Reporting Framework.

The aim of this report is to provide investors and other stakeholders with insights into strengths and weaknesses in current human rights disclosure, and offer recommendations about how companies can improve. The report does not rank or benchmark how well companies are implementing the UN Guiding Principles. Rather, **this report shows trends in the comprehensiveness, clarity and relevance of corporate reporting on human rights**. It also provides examples of leading disclosure that can help inspire improvements in companies' human rights reporting and performance.

While meaningful reporting can drive improved performance, it is not the intent of this report to imply that all examples of good disclosure necessarily indicate good performance. For example, frank and insightful disclosure may make it clear that adequate processes to manage a particular human rights risk are not yet in place, even while explaining the challenges identified and setting out future plans. Good disclosure may also depict strong performance in one area, but convey that the company is less advanced in another. Moreover, any assessment of performance would naturally need to take into account information that may not be disclosed at all. Hence, while disclosure can be a strong indicator of performance, it does not directly equate with performance. Instances where certain kinds of information should raise concerns about performance are denoted in this report with red flag symbols.

Corporate reporting on each component of the corporate responsibility to respect human rights was analyzed against a maturity scale from least to most mature. In total, the disclosure of 74 of the world's largest companies is reviewed in this report. Seven sectors are covered: apparel and footwear; banking and financial services; extractives; food and beverages; information and communications technology; oil equipment and services; and tobacco.¹⁶ Results are anonymized but companies are identified by name when used as examples of good disclosure.

- This report contains two main sections on findings and recommendations. **Section II** presents the findings of this research as well as examples of good reporting. It is organized into four sub-sections: 1) findings about disclosure on each component of the corporate responsibility to respect human rights, with examples; 2) findings about cross-cutting characteristics of good disclosure, with examples; 3) findings about the overall maturity of disclosure; 4) comparative analysis of the most and least reported components of the responsibility to respect.
- **Section III** of this report offers recommendations to companies about how to improve their disclosure, and to investors about how to better engage with companies on reporting.

16. See Annex 1 for a full list of companies whose disclosure was reviewed for this report, as well as Annex 2 for more information about the methodology.

II. FINDINGS

1 How does company reporting today match up to the expectations of the UN Guiding Principles?

This section looks at corporate human rights reporting on each of the components of the responsibility to respect human rights, as set out in the UN Guiding Principles and articulated through the questions of the UNGP Reporting Framework.

A six tier maturity scale is used to assess the quality of reporting in this section. Explanations of what constitutes each tier are on the following pages.



2 Cross-cutting characteristics of quality

3 Overall maturity of human rights reporting

4 Comparative analysis: the most and least popular reporting areas

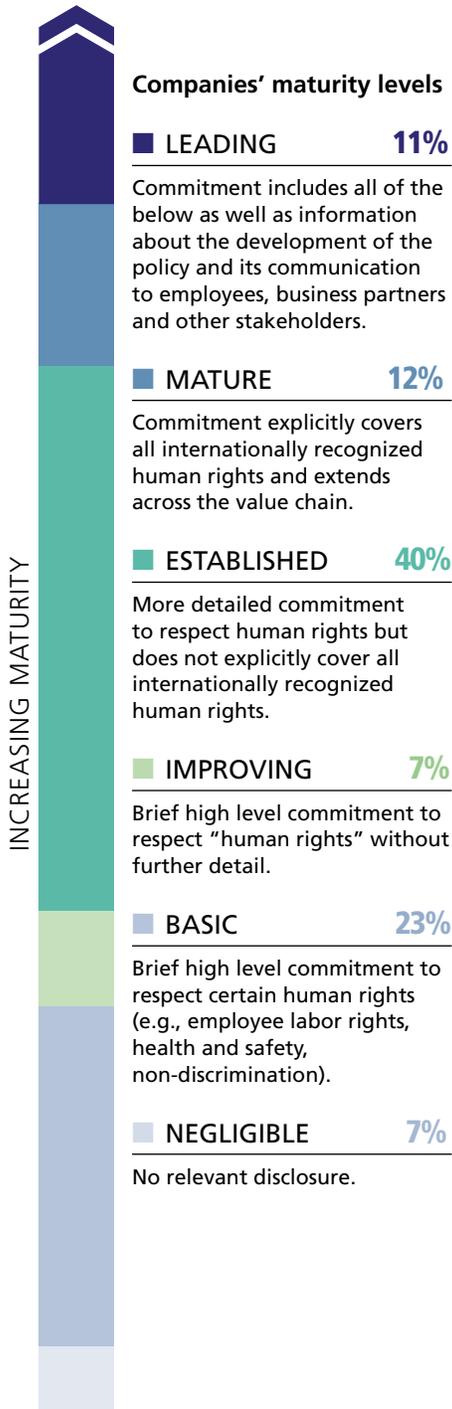
COMMITTING TO RESPECT HUMAN RIGHTS

REPORTING FRAMEWORK QUESTION: A1

What does the company say publicly about its commitment to respect human rights?

KEY QUESTION FOR ANALYSIS:

Does a public statement of policy provide essential elements of a good human rights commitment?



FINDINGS

- The majority of human rights commitments reviewed in this research lack essential elements.
- Twenty-three percent of companies only articulate a public commitment to respect certain human rights, such as non-discrimination, health and safety or child labor, rather than all internationally recognized human rights.
- A few companies included in this research do not have an overarching human rights policy covering the company's own commitment to respect human rights, but do have a human rights policy for suppliers. This "partial" commitment usually takes the form of a supplier code of conduct that includes expectations related to some human rights.
- The leading human rights commitments reviewed include information about the applicability of the commitment to different groups (e.g., employees, business relationships) and their respective roles in its implementation. These commitments also include the identification of focal human rights issues or particular groups to be protected (e.g., migrant workers, women, children), a clear sign-off of the policy by the company's top leadership, and coherent links with other corporate policies that point to a well-embedded commitment. Details about the process behind the adoption of the policy are also signs of good disclosure, such as if internal and external stakeholders were consulted, and how the policy is communicated across the value chain and to potentially affected stakeholders. Only 11 percent of commitments fall in this category.
- Notably, seven percent of companies reviewed do not have any type of commitment to respect human rights.

EXAMPLES

Extending the human rights commitment to the value chain

Coca-Cola clearly lays out the scope of its Human Rights Policy:

“The Human Rights Policy applies to The Coca-Cola Company, the entities that it owns, the entities in which it holds a majority interest, and the facilities that it manages.

The Company is committed to working with and encouraging our bottling partners to uphold the principles in this Policy and to adopt similar policies within their businesses. The Supplier Guiding Principles applies to our bottling partners and our suppliers and are aligned with the expectations and commitments of this Policy.”

Focusing on priority issues

In its Human Rights Policy, **H&M** not only commits to respecting all internationally recognized human rights, but also briefly explains which human rights issues are most relevant to its business activities and clarifies that those issues may change over time:

“Due to the nature of our business we are focusing our efforts on human rights related to labour conditions. We also focus on women’s rights and the right to water, as these are areas of specific importance to our industry. H&M does, however, recognise that other human rights may become greater priorities over time and we will regularly review our focus areas.”

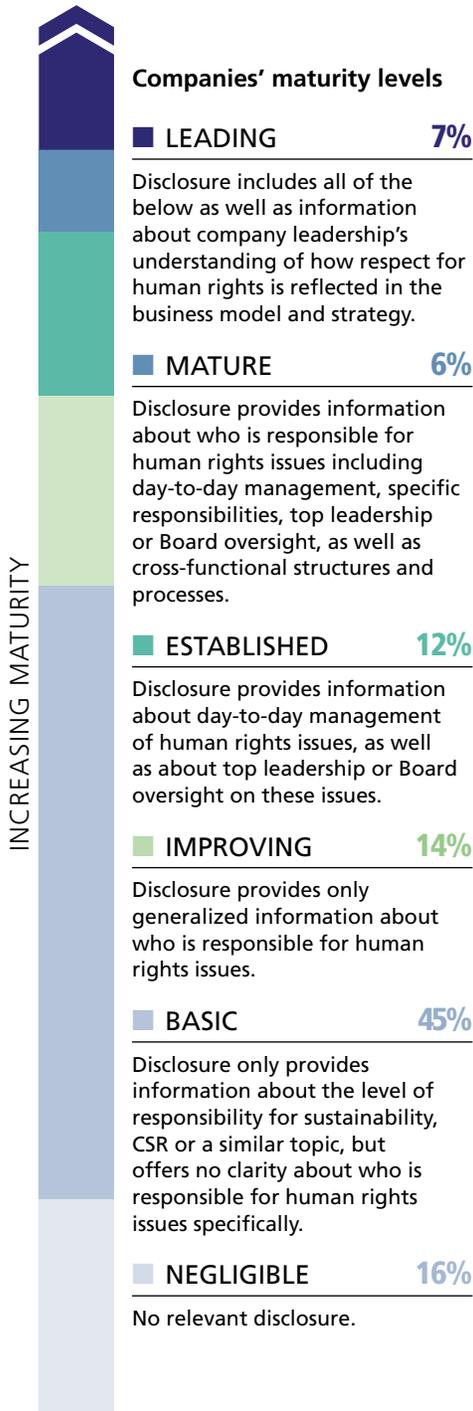
EMBEDDING RESPECT FOR HUMAN RIGHTS

REPORTING FRAMEWORK QUESTION: A2

How does the company demonstrate the importance it attaches to the implementation of its human rights commitment?

KEY QUESTION FOR ANALYSIS:

Does the reporting identify and explain the company’s governance structures to manage human rights issues?



FINDINGS

- Sixteen percent of companies reviewed do not provide any information whatsoever about governance of human rights or even governance of broader issues such as “sustainability” or “corporate social responsibility.”
- Forty-five percent of companies do not clearly identify who is responsible and accountable for managing human rights risks. Instead, some identify where responsibility for “sustainability,” “ethics” or another similarly broad category of issues resides, without clarifying if this includes human rights. Others, especially in the extractives and oil equipment and services sector, disclose having “health, safety and environment” (HSE) committees, while some refer to “environment, social and governance” (ESG) committees, again not clarifying if these committees have a mandate on human rights specifically.
- Fourteen percent of companies address human rights governance specifically, but with very short, generic statements such as “an executive body governs the human rights policy.” These types of statements provide little insight into how the company is embedding respect for human rights in practice.
- Thirty-eight percent¹⁷ of companies disclose having some type of structure to govern implementation of respect for human rights. Twelve percent¹⁸ provide more specific information about that accountability structure, making clear who is responsible for day-to-day management as well as who is ultimately accountable (who has the highest level of oversight) for human rights within the company.
- The most insightful disclosure reviewed explains how information on human rights risks travels between different parts of the company, and how cross-functional structures or processes handle issues, with illustrations of how top management speaks out on these issues.

17. 28 out of 74 companies, meaning all companies at maturity levels “improving” through “leading.”

18. 9 out of 74 companies, meaning all companies at maturity levels “mature” and “leading.”

EXAMPLES

Specific explanation of day-to-day responsibility and oversight of human rights risks

Nestlé offers specific information about its human rights accountability structure in its 2015 Nestlé in Society: Creating Shared Value report (p. 235):

“The Nestlé in Society Board is the highest level where an update on human rights is provided to Executive Board members on a regular basis. The Nestlé in Society Board is assisted in this task by the HRWG [Human Rights Working Group]... The heads of the following departments and functions are members of the HRWG: Human Resources (Co-Chair); Public Affairs (Co-Chair); Legal; Compliance; Security; Procurement; Safety, Health and Environment; and Risk Management. In addition to the HRWG, other groups that are chaired by an Executive Board member have human rights as part of their scope of work, including: Group Compliance Committee; Issues Round Table; Child Labour and Women’s Empowerment Steering Group; Operations Water Task Force; Nestlé Water Task Force; and Seafood Task Force.”

Top leadership messaging on human rights issues

H&M provides specific statements by its CEO on priority issues for key stakeholders, like living wages, in its Conscious Actions Sustainability Report 2015 (p. 3):

“[W]e believe that everyone working in the textile industry, no matter what brand they are producing for, should earn a fair living wage. For H&M, this is indisputable and the reason why we have developed a global fair living wage strategy that I am really proud of... We continue to support the establishment of good pay structures as well as empowering textile workers to negotiate their wages and working conditions directly with their employers... Equally important, is a commitment from governments. This is why our dialogue with them will continue – on how to improve labour laws and why wages need to be negotiated annually in a process overseen by democratically elected unions.” [KARL-JOHAN PERSSON, CEO]



While responsibility for human rights can justifiably be allocated to various staff functions, good reporting provides clarity on how responsibility is organized and shared within the company. Vague language about responsibilities sometimes goes together with similarly broad language about “social risks” without clarity as to what that comprises. This can diminish readers’ confidence that the company truly understands how human rights relate to its business, and that it has effective systems in place to manage these risks.

DEFINING A FOCUS OF REPORTING

REPORTING FRAMEWORK QUESTIONS:

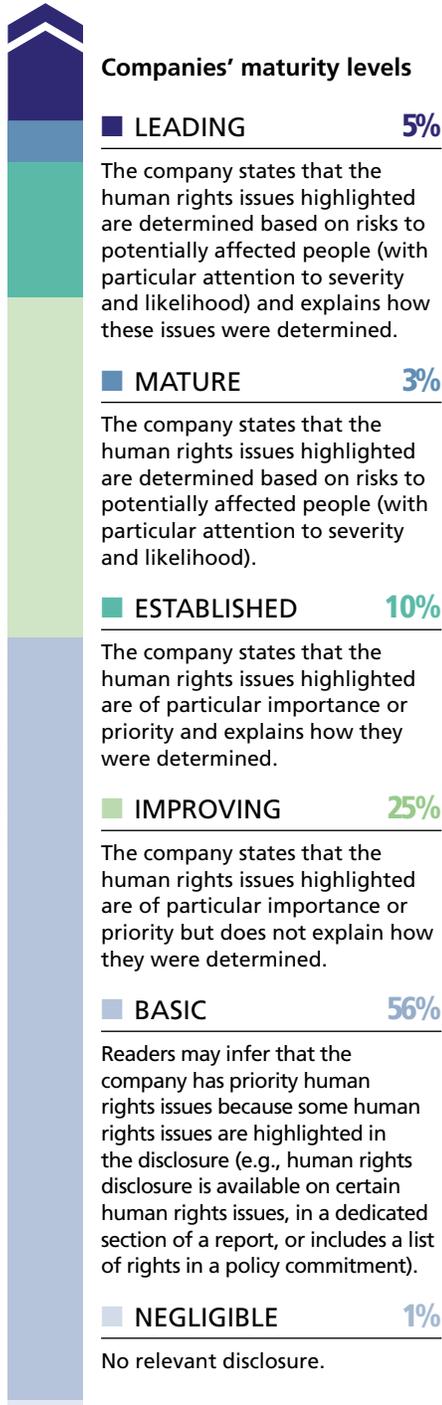
B1 State the salient human rights issues associated with the company's activities and business relationships during the reporting period.

B2 Describe how the salient human rights issues were determined, including any input from stakeholders.

KEY QUESTION FOR ANALYSIS:

Is the company's reporting focused on its greatest risks to people?

INCREASING MATURITY



FINDINGS

- One of the most important findings of this research is the absence of focus in human rights reporting. Fifty-six percent of companies reviewed do not provide any explanation whatsoever about which human rights are at greatest risk in connection to their operations and value chains. At best, unfocused human rights disclosure is the result of deficient communication; at worst, it can reflect poor understanding and management of these risks.
- Twenty-five percent of companies reviewed offer a brief statement about prioritization, usually by reporting that certain human rights issues are important or relevant to their operations, without clarifying what criteria were used to make that determination.
- While eight percent¹⁹ of companies reviewed explicitly identify their salient human rights issues, only three percent of companies in the full sample group provide further details by explaining how such issues were determined. Those leading companies have a clear and precise narrative about which rights are most at risk and which processes are in place to prevent negative impacts. Moreover, they recognize that these narratives may change over time and require adaptation.
- The majority of companies in this study do reference the use of materiality assessments to determine priority issues. Amongst these companies, in multiple instances, companies listed issues like “human rights,” “labor rights” and “child labor” as separate material issues. This kind of split reveals a failure to understand what human rights are and to properly distinguish and prioritize issues of importance. Furthermore, some of the companies that identify human rights issues as material – sometimes *highly* material – then provide little to no information on this topic elsewhere in the report.

While materiality assessments can be a methodology for companies to identify priority issues, too often they focus solely on risk to the business, rather than risk to people. When it comes to human rights, the focus must be on the most severe risks to people – this is what we call “salient human rights issues.”

¹⁹. 6 out of 74 companies, meaning all companies at maturity levels “mature” and “leading.”

EXAMPLES

Clearly identifying salient human rights issues and explaining the process

In its *2016 Human Rights Briefing Paper* (p. 16-17), **Total** identifies its salient issues (excerpt not included here) and explains how they were determined:

“How we identified our Salient Issues...

Based on earlier consultations with our internal and external stakeholders, including peers, our Code of Conduct and Human Rights Guide identified three broad and important focal Human Rights areas that are relevant to our operations...

Building on these three focal areas, we then sought to identify more specific Salient Human Rights Issues associated with our activities and business relationships, based on the UN Guiding Principles Reporting Framework. The process of identifying our Salient Human Rights issues involved in particular the following:

1. We organized three internal, multi-disciplinary workshops in March 2016, reflecting each of our three focal Human Rights areas mentioned above. Participants and contributors were drawn from our corporate and business segments' headquarters and our business units (including Nigeria, Bolivia and Myanmar). These workshops were organized with the assistance of independent third parties including Shift.

2. A series of follow-up discussions and interviews were then set up with representatives from our various business segments and some of our business units from all over the world. Interviews were also set up with external stakeholders such as GoodCorporation, Danish Institute, International Alert and CDA, who have been involved in assessments of some of our business units most exposed to Human Rights risks and impacts, over the years.

3. We also took into account issues which have been raised in our: Group Ethics Committee, Human Rights Coordination Committee, independent internal survey on workplace situations and perceptions amongst our employees (“Total Survey”), International Procurement Office China and Sustainable Procurement Working Group. Some key take-aways from our 1st Business Ethics Day (held in 2015) were also helpful in the process.”

What are salient human rights issues?

In line with the UN Guiding Principles, the UNGP Reporting Framework asks companies to focus their reporting on **salient** issues: those human rights at risk of the most severe negative impact through the company's activities or business relationships. This helps the company focus its resources on finding the information that is most relevant for its own ability to understand and manage risks to human rights. Indeed, using the “salience lens” can help companies shift the reporting exercise from being a resource drain to being a valuable investment in processes that enable the company to understand and address the greatest risks to people, and the related, fast-growing risks to the business.

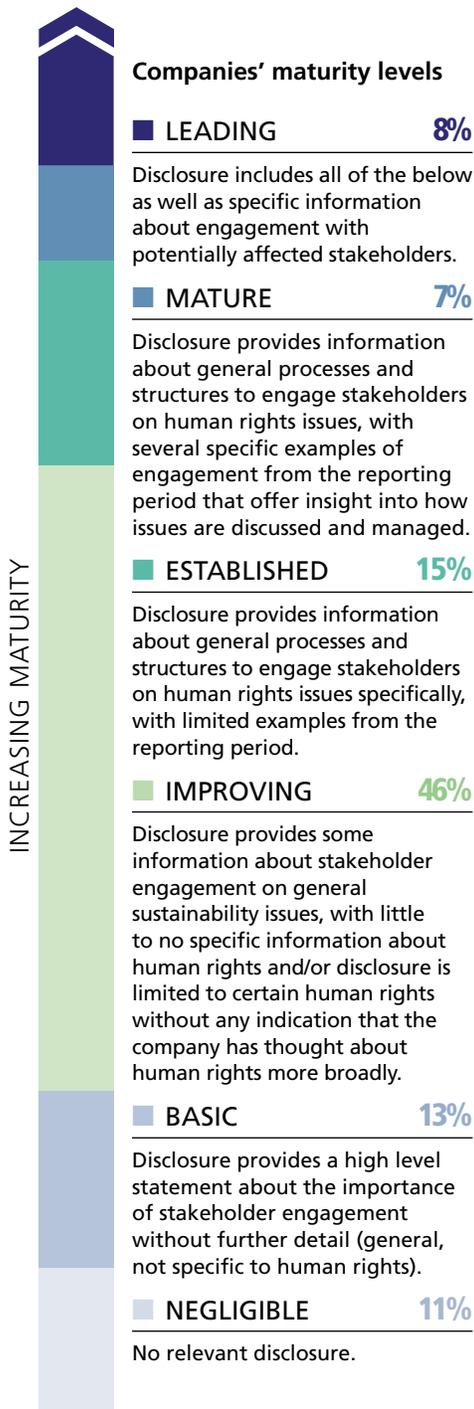
ENGAGING WITH STAKEHOLDERS ON HUMAN RIGHTS ISSUES

REPORTING FRAMEWORK QUESTION: C2

What is the company's approach to engagement with stakeholders in relation to each salient human rights issue?

KEY QUESTION FOR ANALYSIS:

Does the disclosure explain how the company considers the perspectives of stakeholders, especially those who could be negatively impacted?



FINDINGS

- Eighty-nine percent²⁰ of companies reviewed recognize the importance and relevance of general stakeholder engagement. Still, companies have poor disclosure in this area: 46 percent provide information about engagement on general sustainability issues and/or the disclosure is limited to issues that companies have traditionally considered, like health and safety, without an explanation that these are indeed salient issues. This provides no clarity about who their stakeholders are, how often the company engages with them, in which context, and which human rights issues are discussed.
- Only eight percent of companies share insightful examples of engagement on human rights issues, including information about how stakeholder inputs were considered, including from potentially affected stakeholders or credible proxies, and how they influenced the company's decisions and processes.
- Some companies report engaging with non-governmental organizations (NGOs) on different human rights issues. However, there was far less evidence of engagement with potentially affected stakeholders or their legitimate representatives. This latter group are particularly important in the context of human rights due diligence, as set out in the UN Guiding Principles.



The point here is not to devalue companies that report on their efforts to address issues like health and safety and diversity, if those were indeed identified as salient. Instead, we want to highlight the importance of demonstrating that companies have thought about their salient human rights issues, rather than simply reporting on issues that they traditionally consider whether for regulatory, staff morale or other reasons.

²⁰ 66 out of 74 companies, meaning all companies at maturity levels "basic" through "leading."

EXAMPLES

Training staff on stakeholder engagement

In its Sustainable development 2015 report (Strategy:09), **Rio Tinto** discloses information about how it trains its employees to better engage with stakeholders:

“Stakeholder engagement is core to the role of many of our employees. Enhancing our skills in stakeholder engagement is crucial to addressing the challenges we face in delivering growth and sustaining our social licence to operate. In 2011, we created our Stakeholder Engagement Academy, to help our people develop their capabilities in stakeholder engagement. It provides learning and development courses and resources for frontline project managers, leaders and stakeholder engagement professionals around the business. Both external academic providers and Rio Tinto practitioners are involved in delivering the courses. In total we have delivered 30 courses in 12 countries, with 841 employees having completed the course. We also have an online knowledge base available for all employees.”

Engaging with potentially affected stakeholders and disclosing their inputs

In its 2015 Human Rights Report (p. 37), **Unilever** shares a case study on harassment prevention in Kenya:

“In 2014, we conducted a survey that uncovered large support for our work by our employees and powerful advocates, including male workers. We asked female workers what would make them feel safe. Their answers included a need for further understanding, more information on what constitutes sexual harassment, and the creation of opportunities for girls to engage in social activities and mentorship.”

Building programs with inputs from a variety of stakeholders

Mondelēz International explains its multistakeholder engagement model in their Cocoa Life program, as explained in the Cocoa Life Guidance Document (p. 4):

“The Cocoa Life approach has been developed with input from those currently running origin programs within the company, our implementing partners (IPs) and external advisors. This input is directly informed by the participation of cocoa farming communities, with whom our IPs have daily contact as well as more structured opportunities to gain feedback.”



Good reporting gives insights into what the company's general approach to stakeholder engagement means in practice, with illustrative examples of how stakeholder engagement influences the company's understanding, decisions and actions.

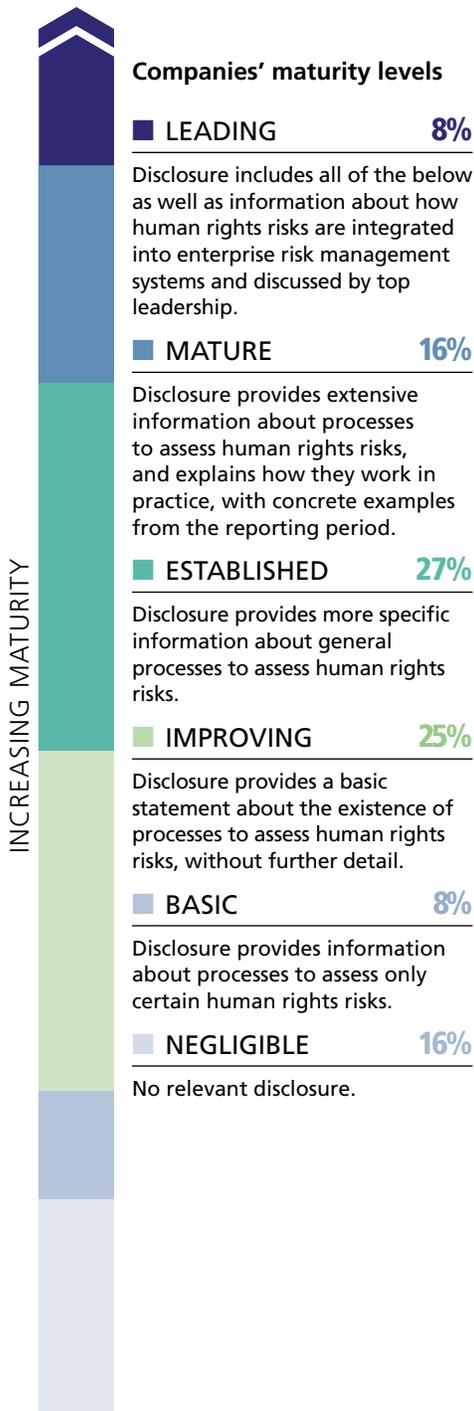
ASSESSING HUMAN RIGHTS RISKS

REPORTING FRAMEWORK QUESTION: C3

How does the company identify any changes in the nature of each salient human rights issue over time?

KEY QUESTION FOR ANALYSIS:

How does the company maintain an ongoing approach to assessing human rights risks?



FINDINGS

- While the majority of companies report having processes in place to assess at least some human rights risks, only 24 percent²¹ show a higher level of transparency by sharing details of their human rights due diligence processes along with practical examples and/or assessment results.
- The majority of companies' disclosure on human rights due diligence is high level, general, and makes heavy use of jargon. This can make it difficult to understand how processes are implemented in practice and, more importantly, whether they are effective or not.
- Fewer than one-fifth of companies clarify whether human rights are part of enterprise-wide risk assessments. This type of information is relevant to show that risks to people are well embedded and thoroughly considered by the company.
- Supply chain audits are still used extensively by companies to assess compliance with human rights commitments, particularly in industries with very long supply chains like food and beverages, ICT and apparel and footwear. Despite the amount of auditing apparently going on, only a handful of companies openly share audit results and information about how these results help suppliers implement corrective action plans.
- The bridge between assessing human rights risks and taking action is weak. Approximately 90 percent of companies in this study do not have a coherent narrative about how risk or impact assessments and mitigation actions work together, how decisions are made or if senior management is ever involved.

21. 18 out of 74 companies, meaning all companies at maturity levels "mature" and "leading."

EXAMPLES

Developing a strong overall narrative on human rights due diligence

Coca-Cola reports on multiple of ways in which it assesses risks to human rights. In its *Human rights and a global corporation* (p. 93), the company provides a strong summary of its approach:

“The company utilizes numerous tools to identify human rights impacts. These tools have evolved and been refined over time. In 2007, our primary human rights due diligence tools were drawn from three sources: (1) information provided by critical stakeholders such as the International Union of Foodworkers, Human Rights Watch, socially responsible investors and many others; (2) human rights audits conducted of the company, bottling partners and supply chain; and (3) issues raised by the company’s human rights grievance mechanisms. Today, the due diligence tool box is improved and continues to expand. We now conduct 2,500 human rights audits with corrective action plans put in place, as needed, for the company, bottling partners and suppliers each year, and we have a Global Human Rights Scorecard that reflects overall compliance with the company’s standards.”

Integrating human rights into enterprise-wide risk management

Nestlé incorporates human rights into its enterprise risk management system, as explained in its *2015 Nestlé in Society: Creating Shared Value* report (p. 233):

“Our exposure to human rights risks (reputation, liability, operations, etc.) is evaluated annually at corporate level by the HRWG [Human Rights Working Group], with inputs from the DIHR [Danish Institute for Human Rights]. Each risk entry is rated across four different levels: Nestlé facilities, Tier 1 suppliers, upstream suppliers (including farmers) and local communities. Risk ratings are based on likelihood and impact. Information and data from issue and crisis management systems, media (including social media) monitoring mechanisms, and CARE and Responsible Sourcing Audits, as well as the results of the HRIAs, feed into the annual review process. The results of this exercise are integrated into our Enterprise Risk Management (ERM) system. Each risk identified as high comes with a specific action that is presented to the Executive Board as part of the annual ERM review process. This risk-to-the-business approach complements the concept of “salience”, which focuses on risks to the rights holders.”

Using grievance mechanisms to help assess risks

Rio Tinto’s resource guide *Why human rights matter* (p. 83) explains how lessons have been drawn from abuse claims that then inform future risk management:

“The human rights abuse claims at Kelian, their investigation and the resulting settlement process yielded important lessons for Rio Tinto. Human rights training for employees and contractors, especially security personnel, police and army personnel posted at company operations, was recognized as critical. Also highlighted was the need to exercise due diligence...”



Although it is useful for companies to share information about their health, safety and environment (HSE) or environmental, social and governance (ESG) risk management processes, many companies do not specify which human rights are addressed in these processes, or provide information on whether or how human rights risks are assessed and managed. For instance, the extractives and oil equipment and services sectors tend to report extensively on HSE risk management, but only a few of these companies clarify whether or not these processes address only health and safety, or indeed consider other human rights impacts.

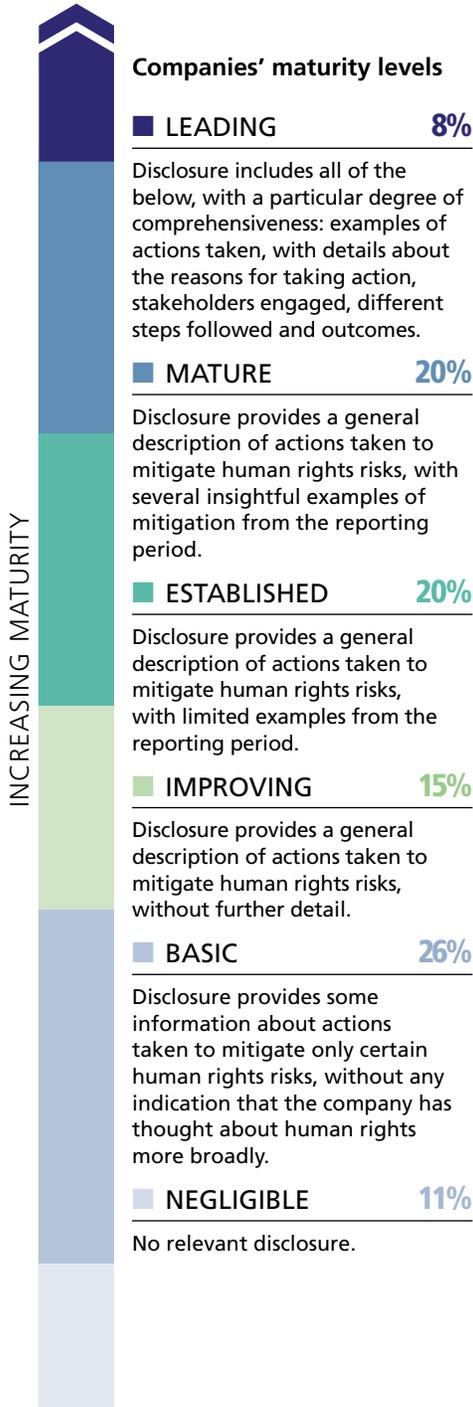
TAKING ACTION TO PREVENT AND ADDRESS HUMAN RIGHTS RISKS

REPORTING FRAMEWORK QUESTION: 4.3

During the reporting period, what action has the company taken to prevent or mitigate potential impacts related to each salient issue?

KEY QUESTION FOR ANALYSIS:

Does the reporting provide clear, relevant examples of measures taken to mitigate human rights risks?



FINDINGS

- Although some companies do not articulate the risks or measures they take in human rights terms, 86 percent²² of companies reviewed mention at least one action or general process to prevent and mitigate some human rights risks. Yet 15 percent of the companies disclose only very brief, high level information about general processes, and a further 26 percent have processes to manage some human rights risks (generally health and safety and diversity), but do not explain why they have a focus on those particular issues.
- Twenty-eight percent²³ of companies provide particularly insightful examples of mitigation actions taken during the reporting period. The most reported mitigation measures are capacity building for employees and suppliers, corrective action plans following audits (especially in the ICT and apparel sectors), and collective awareness raising on salient human rights issues. It is also very common for companies to mention their participation in human rights related industry associations, although it is not always clear how membership in these associations is helping the company better respect human rights.
- Looking at disclosure on a per sector basis, the tobacco companies reviewed in this study provide insightful information about several measures and programs to eliminate child labor in tobacco growing areas. Most of the extractive companies and those in oil equipment and services have extensive reporting on how they address health and safety, but little information about other human rights issues. Financial institutions tend to do poorly in this area of reporting, as many focus their disclosure entirely on the general processes they have in place to *identify* human rights risks in project financing (often referred to as “social risks”), while failing to report on the actual actions taken to *address* those risks.

22. 64 out of 74 companies, meaning all companies at maturity levels “basic” through “leading.”

23. 21 out of 74 companies, meaning all companies at maturity levels “mature” and “leading.”

EXAMPLES

Responding to human rights issues in the tea industry

In its *2015 Human Rights Report* (p. 50), **Unilever**'s disclosure on mitigation measures includes this example related to migrant workers in the Turkish tea industry. The company clearly lays out the problem, then continues with a comprehensive explanation of its response:

"In September 2014, we engaged an external organisation to carry out an independent assessment of our tea supply chain in Turkey. Our goal was to understand the working conditions of a large population of migrant workers from neighbouring Georgia who are regularly employed by our suppliers during Turkey's short harvest season. We asked the auditors to use a human rights—including labour rights—lens to review these workers" conditions across our own operations and our extended supply chain. The assessment found significant and pressing challenges [including excessive working hours, several health and safety non-conformances, and inadequate accommodation]...

Our response was:

- *We will remediate the issues identified by the assessment at the individual site level and also work with external multi-stakeholder groups to address systemic challenges. An internal cross-functional group will spearhead this work.*

- *We have started a capacity building initiative in Turkey that focuses on human rights.*
- *A specific workshop will emphasise a number of the identified issues and foster a discussion on how we can work together collectively to begin to improve practices.*
- *We are planning an RSP [Responsible Sourcing Policy] event with local suppliers. We will be focusing on tea and foods suppliers and labour related issues. We will concentrate on educating suppliers on labour rights and best practices and on implementing effective and sustainable solutions."*

Supporting legislation on living wages

H&M includes an example of the company's support for legislation on living wages in Asia and Africa in its *Conscious Actions Sustainability Report 2015* (p. 48):

"[W]e, from the beginning of the development of our Fair Living Wage roadmap, have also taken the importance of involving governments in the process into account and sent a clear signal to them: we are committed to markets where fair living wages are implemented while we also support markets in remaining competitive. To expand these efforts strategically, we are following annual engagement plans for four priority countries:

Bangladesh, Cambodia, Myanmar and Ethiopia. These countries have been chosen due to great potential and needs for government actions on wage issues. We are engaging with the concerned governments on various levels both directly and indirectly through partners such as the ILO and multi-stakeholder initiatives. The aim is to support stronger minimum wage legislation, for example, in the form of annual minimum wage revisions, and to strengthen the legal framework and reinforce the right to freedom of association."

Reporting that is supported by examples offers concrete insight into what the company has done during the reporting period. It also distinguishes companies who actually "walk the talk" from those that simply claim to have processes in place. Consequently, an absence of practical examples in a company's human rights reporting should raise a red flag for investors, indicating potentially poor performance.

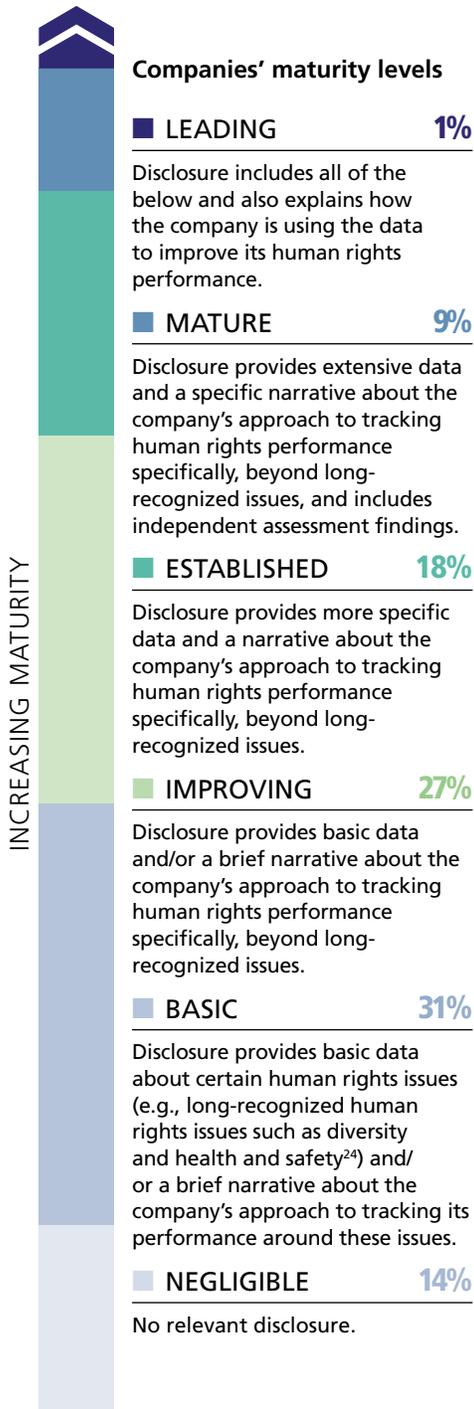
TRACKING HUMAN RIGHTS PERFORMANCE

REPORTING FRAMEWORK QUESTION: C5

How does the company know if its efforts to address each salient human rights issue are effective in practice?

KEY QUESTION FOR ANALYSIS:

Does the disclosure include performance indicators (whether qualitative or quantitative) or other metrics to measure the effectiveness of prevention or mitigation measures taken?



FINDINGS

- Overall, company reporting on tracking is very weak. Fourteen percent of companies reviewed do not report at all on human rights performance, and 31 percent only share very limited data, generally about issues where data gathering methods are easier or better established, like health and safety incidents and percentages of women and minorities in the workplace (level “basic” maturity). Yet the fact that a company *can* gather data does not mean that this data is meaningful for the company’s management of human rights. Therefore, disclosure of only the most easily gathered types of data – without a clear explanation of how they demonstrate the effective management of salient human rights issues – may indicate that the company has not thought about human rights in a meaningful manner.
- Twenty-seven percent of companies provide some information about their approach to measuring human rights performance as a whole. Typically, this includes a brief narrative about the company’s approach to tracking, and some basic data about their salient issues.
- Leading disclosure on tracking clearly explains the company’s rationale for tracking (why and how it tracks, challenges and plans to improve tracking methods) and real data about its salient issues (quantitative and/or qualitative, including outcomes achieved for people). Leading disclosure also stands out by recognizing and explaining the challenges the company may face to develop meaningful indicators of human rights performance. Only 11 percent²⁵ of companies fall in the “mature” or “leading” levels of our analysis.

24. While diversity and health and safety may indeed be salient human rights issues for companies, we distinguish them here because very often these are the *only* issues companies report on. Often, companies report data on these issues because the data is easy to gather, because of regulatory pressures, or because these issues are well established within companies’ management systems. These reasons are different from expectations on human rights reporting, which requires a focus on information on the company’s greatest risks to people (its salient human rights issues).

25. 8 out of 74 companies, meaning all companies at maturity levels “mature” and “leading.”

EXAMPLES

Sharing suppliers' compliance scores

On its [website](#), **H&M** discloses the compliance level of their supplier base:

"We are committed to transparent reporting. And we dedicate major resources to monitor our suppliers' sustainability performance and support them in making improvements. That's why we disclose the compliance level of our entire supplier base in detail, down to every single question from our Sustainable Impact Partnership Programme (SIPP), which we started implementing in 2015.

Child Labour...

Young Workers' Requirements...

Workers' Basic Rights... Workers' Rights...

Health and Safety... Environment...

Housing Conditions... Home Workers...

Chemical Handling... Metal Plating...

Transparency and Monitoring..."

[See link for compliance levels.]

Explaining the challenges faced in tracking human rights performance

Philip Morris International (PMI) has leading disclosure around tracking. The company publishes its own progress reports on the Agricultural Labor Practices (ALP) program, as well as several third party assessment reports (see all reports [here](#)). In its [ALP Program 2014-2015 Progress Report](#), PMI not only shares a significant amount of data, but it also has a strong narrative about its current and planned processes to measure human

rights performance, and the challenges it faces in doing so:

"Going forward, systematic evaluation of the effectiveness and impact of the ALP program will continue to be one important area of focus for PMI and a significant challenge. As indicated in this report, the challenges of building up and using data have been considerable in these early years of the ALP program... Conducting accurate evaluation of the impact of large scale and complex development projects is notoriously difficult to do in practice. This is particularly true in the agricultural sector, where causal connections are often complex, and key practices tend to be embedded in multiple cultural and institutional frameworks. Factors such as crop cycles and seasonality can also lead to challenges in evaluation design and timing; context-dependent variables such as weather and political factors may distort the measurement of effects of specific interventions; demonstration and self-selection biases may skew results; and changing national policies or programs may amplify or undermined program impacts, making it difficult to isolate the effects of particular interventions. In the case of the ALP program, the different realities and stages of implementation in the approximately 30 countries involved, and the sheer scale and complexity of a program involving over 50 organizations and 3,500 people providing support to farmers and workers on over 450,000 farms, make these challenges particularly significant.

• To address these challenges, PMI and Vérité have developed a broad strategy for ALP impact assessment that will

draw upon multiple methodological approaches in combination, in order to fill gaps and triangulate findings. PMI is committed to communicating both the methods used and the results obtained, regularly and transparently, and to build evaluation capacity over time, including involving independent stakeholders and experts...

- For assessing the impact of narrowly-focused, programmatic interventions such as the deployment of clips and after-school programs to reduce child labor, ALP staff are currently generating case studies to track the experience of particular projects. In some countries (such as the Philippines or Pakistan), ALP staff have also begun exploring intervention effects through experimental or quasi-experimental methods comparing participating populations with those in control populations...*
- To assess the impact of more general ALP implementation at the level of entire countries, trends in the internally-generated data will continue to be assessed by local management teams. In countries where support services with grievance mechanism procedures exist or have been implemented in conjunction with the program, data on program impact will be gleaned from them and compared with internally-generated data. Independent external assessments conducted by Control Union (CU) will continue to provide a crucial counterpoint to the narratives emerging from the internal monitoring systems..."*

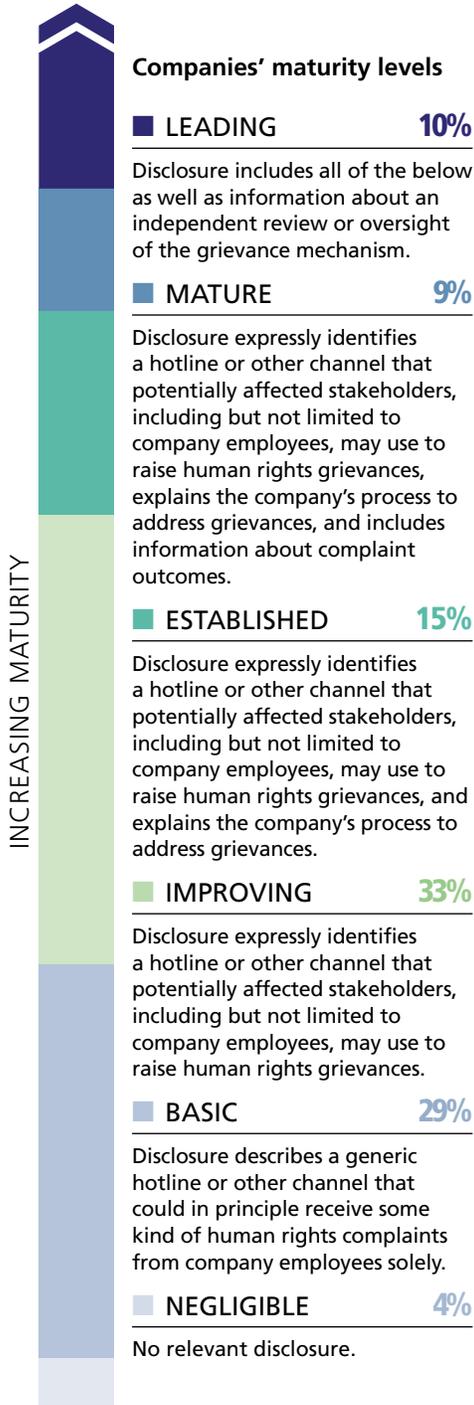
ENABLING EFFECTIVE REMEDY FOR PEOPLE WHO HAVE EXPERIENCED HARMS

REPORTING FRAMEWORK QUESTION: C6

How does the company enable effective remedy if people are harmed by its actions or decisions in relation to the salient human rights issues?

KEY QUESTION FOR ANALYSIS:

Does the company explain how it enables effective remedy if people are harmed by its actions or decisions?



FINDINGS

- The majority of companies reviewed have a hotline or other publicly available channel to receive complaints related to human rights. However, the quality of disclosure on this practice varies widely. Some companies share only a mailing address or telephone number for the mechanism, while others clearly explain their approach to remediation alongside data and case studies that demonstrate how the mechanism is used.
- Four percent of companies do not disclose any point of contact for human rights grievances, and an additional 29 percent do not clarify if complaint channels are open to stakeholders who are not employees of the company (e.g., workers at supplier facilities). Channels available to employees include open door policies, hotlines, compliance helplines, online portals, annual surveys and ombudsmen, among others. Yet, many companies provide little information about options available to other potentially affected people, such as supply chain workers and impacted communities.
- Nineteen percent²⁶ of companies have mature or leading disclosure on remedy. The leading disclosure in this area includes well-identified channels to submit human rights complaints, details of the review process, numbers and types of complaints received and examples of outcomes.
- Many companies report having grievance mechanisms in line with their code of conduct or human rights policy, but a closer look at the documents reveals that some potential human rights impacts are not covered in the relevant code or policy, possibly making access to remedy difficult or impossible for affected stakeholders.
- In a handful of cases, company policies require the creation of human rights grievance mechanisms, but the disclosure contains no information about how the mechanisms are implemented in practice, or if they exist at all.
- While companies may find it challenging to report on remedy for impacts, child labor seems to be one issue where companies are more open to sharing information. About 10 percent of companies reveal the remediation approach they take when a child is found working in their operations or value chains.

26. 14 out of 74 companies, meaning all companies at maturity levels "mature" and "leading."

EXAMPLES

Communicating the company's commitment to effective remedy

Unilever's disclosure on remediation includes information about complaint channels for workers and farmers, as well as measures taken to encourage suppliers and their employees to raise concerns. The following excerpt is from Unilever's Human Rights Policy Statement (p.3) and explains the company's commitment to providing effective remedy for human rights impacts:

"We place importance on the provision of effective remedy wherever human rights impacts occur through company-based grievance mechanisms. We continue to build the awareness and knowledge of our employees and workers on human rights, including labour rights, encouraging them to speak up, without retribution, about any concerns they may have, including through our grievance channels. We are committed to continue increasing the capacity of our management to effectively identify and respond to concerns. We also promote the provision of effective grievance mechanisms by our suppliers."

Remediating cases of child labor

H&M's *A clear stand against child labor*

explains the company's approach to dealing with cases where children were found working in their supplier factories:

"On the few occasions on which we have discovered underage workers at our suppliers we have acted in accordance with our policy. In co-operation with the supplier we have tried to find a solution that is in the best interests of the child. The family is contacted and in most cases the family accepts that the child should continue with some kind of education until he or she is 15 years old, or until the legal working age in the country in question (but not lower than 14 years). Wages continue to be paid during the study period so that the family does not lose its income. In some cases an older member of the household has been offered work instead of the child. In a few cases the child and the family concerned preferred the solution of the child returning to his or her home, which may be hundreds of kilometres away. In such cases the supplier has made a one-off payment to compensate for the cost of the ticket and loss of wages."



We do recognize that it is particularly challenging to determine from a company's disclosure the effectiveness in practice of its grievance mechanisms. That being said, certain kinds of information can provide readers with some confidence that the company is paying due attention to ensuring such mechanisms are effective. That information may address co-design of mechanisms with affected stakeholder groups, independent reviews of the effectiveness of mechanisms, independent feedback on the satisfaction level of complainants with how their complaint was handled, and evidence of changes made on the basis of complaints received.

2 Cross-cutting characteristics of quality

In addition to assessing how companies' human rights reporting stacks up against the specific questions of the UNGP Reporting Framework, this report examines the following three cross-cutting indicators of good human rights reporting: **specificity**, **openness to sharing challenges** and **forward focus**.

Of course, an assurance provider will look at several additional qualities of a company's reporting, such as reliability, timeliness and balance, relying on access to internal evidence to support their opinion. But for the purpose of this study, the focus is on the three indicators above, which can all be reasonably judged based on disclosure alone.

A five tier maturity scale is used to assess the quality of reporting in this section. Explanations of what constitutes each tier are below.

A. Specificity

B. Openness to sharing challenges

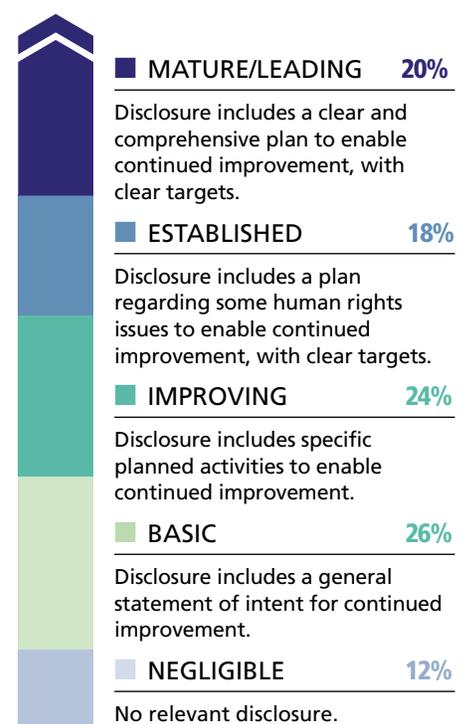
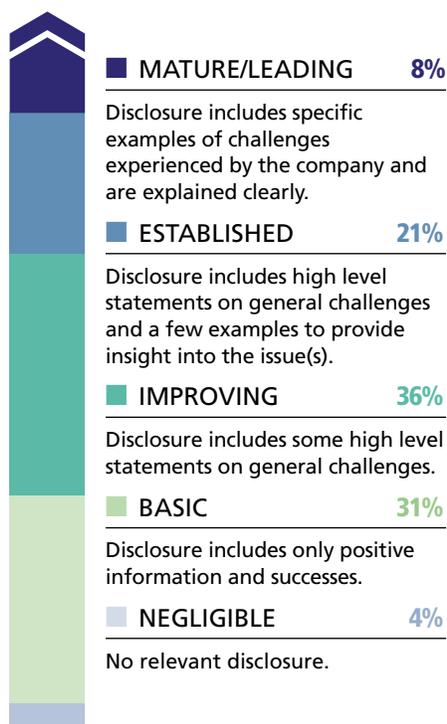
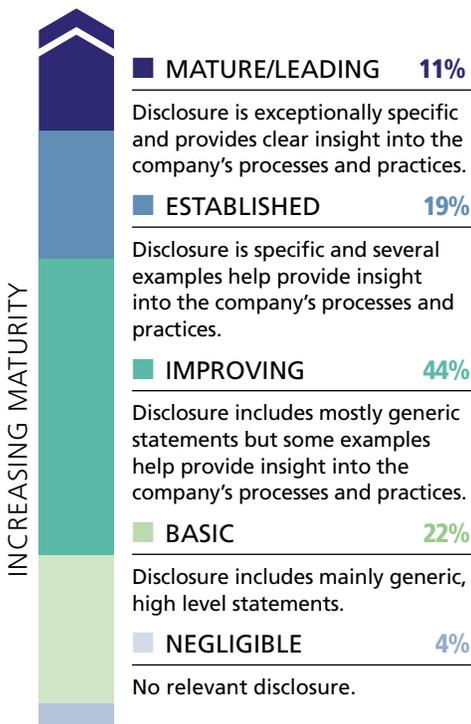
C. Forward focus

KEY QUESTIONS FOR ANALYSIS:

Does the reporting go beyond high level statements of policy and commitment and discuss specific processes and practices for implementing respect for human rights?

Does the reporting discuss complex or systemic human rights challenges and how the company grapples with them?

Does the reporting include information about the company's plans and/or strategy for advancing its efforts to respect human rights?



FINDINGS

In terms of all three cross-cutting indicators outlined above, good human rights reporting:

Is specific and supported by concrete examples. In other words, the company goes beyond high level policy statements to discuss specific processes for implementing respect for human rights. This level of reporting shares clear, relevant examples from the reporting period and from prior years (if the examples are representative of current practice). Meaningful examples, like case studies or anecdotes from the field, are illustrative and support the authenticity of a company's reporting. They can offer a window into companies' sometimes opaque or jargon-heavy process descriptions. **Eleven percent of companies reviewed can be considered "leading," with highly specific, examples-driven human rights disclosure. Around three-quarters of companies in this study offer only generic statements supported by few examples.**

Discusses challenges openly. Leading companies report on complex or systemic human rights challenges they face, and how they are managing them. Companies that explain challenges openly and clearly also indicate that they understand the issues. To avoid weak disclosure, companies should provide explanations for any cases where they cannot report relevant information. **Eight percent of companies share specific examples of human rights challenges and explain them clearly, while 31 percent disclose information focused entirely on successes.**

Includes information about the company's plans to advance its efforts to respect human rights. This forward looking information, whether on high level priorities or specific human rights issues, shows the company's intention to continue improving its policies and processes. By developing measurable goals and targets and communicating them publicly, the company also holds itself accountable. **Twenty percent of companies report having a "roadmap" or some specific plan to further embed human rights throughout the company.**



Good human rights reporting:

- Is specific and supported by concrete examples
- Discusses challenges openly
- Includes information about the company's plans to advance its efforts

EXAMPLES

Specificity: getting into details

Rio Tinto provides good insight into the company's approach to addressing human rights issues. For instance, instead of including a generic statement about how the company "identifies and mitigates human rights risks," Rio Tinto shares in its [Sustainable development 2015 report](#) (Case study: 30) a case study offering some insight into its processes to manage human rights issues as they arise:

"Rio Tinto Marine charters a large number of ships each year to provide efficient shipping services for a broad range of commodities. In July 2015 it was alleged that the crew of a ship, chartered by Rio Tinto from a commercial operator, were underpaid and forced to live and work in poor conditions. When Rio Tinto was made aware of the allegation, Rio Tinto Marine boarded immediately to investigate. Once the allegation was confirmed, we requested the ship's head owner address the incident with immediate and adequate remedy. Rio Tinto also provided funds to immediately improve the poor work conditions.

Following this event, Rio Tinto has taken a number of measures to mitigate the risk of future incidents. In addition to blacklisting the head owner and commercial operator, Rio Tinto Marine has reviewed its time chartering and due diligence processes leading to an improved approach to time charter vessels. The review also recommended

Rio Tinto avoid chartering from disponent owner vessels wherever possible to ensure we have greater visibility of the operations. Rio Tinto Marine also obtains written assurance from its charter counterparties that the ship crews have timely remuneration and adequate living conditions."

Openness to sharing challenges: explaining an issue meaningfully and openly

In its [2016 Human Rights Briefing Paper](#) (p. 24), **Total** openly shares some of the challenges it experienced with regards to community conflicts in Uganda:

"Despite forward planning, stakeholder engagement on the ground and the use of a specialized land valuation agency to determine fair compensation for land access, Total E&P Uganda experienced a number of challenges. These included a lack of reliable land demarcation and land title resulting in conflicts between community members... Our teams are aware that such issues arise, hence the emphasis placed on having one of the Total affiliate's societal teams present on the ground. These teams are our eyes and ears on the ground. The objective is to quickly identify any problems that come up, consult with those affected, identify remedial actions if necessary, and work with the contractor to ensure that they are not repeated."

Forward focus: developing clear objectives on human rights issues

In its [2015 Nestlé in Society: Creating Shared Value report](#) (p. 227, 234), Nestlé describes its work to develop action plans and targets for each human rights risk identified as salient:

"Our Objective

By 2016 – Develop action plans and targets for each human rights risk identified as salient (Freedom of association and collective bargaining; Working time; Workers' accommodation and access to basic services; Safety and health; Living wage; Data protection and privacy; Child labour; Forced labour; Land acquisition; Access to water and sanitation; Access to grievance mechanisms)...

By 2018 – Carry out six additional human rights impact assessments in countries where we have significant business operations..."

FINDINGS ON OVERALL MATURITY OF CORPORATE HUMAN RIGHTS REPORTING

- **Forty-five percent²⁷ of companies' human rights disclosure can be considered either "basic" or "improving."** Indeed, the majority of companies provide general, high level statements about committing to respect and manage human rights, but the level of insight into actual processes and practices remains low. Notably, 14 percent of companies reviewed do not even reach the "basic" level of reporting, meaning that they disclose very little to no information about human rights.
- **Thirty-five percent²⁸ of companies have "established" or "mature" overall reporting,** which typically includes coherent policy commitments, clear top level support for human rights, and meaningful disclosure about stakeholder engagement and collaboration. Companies at these levels also articulate clearly their approach to managing human rights specifically, rather than reporting under broad labels like "sustainability."
- **Five percent of companies reviewed can be considered reporting leaders.** These companies report specifically on human rights issues and explain clearly the different policies, processes and collaborations they have in place to further embed respect for human rights. More importantly, leading companies regularly provide in their disclosure concrete examples to support their assertions. In other words, leading companies do not just say that they took action on human rights issues during the reporting year; they explain *why* and *how* they did it, what outcomes were achieved for people and their plans to realize further progress the next year.

27. 33 out of 74 companies, meaning all companies at maturity levels "basic" and "improving."

28. 26 out of 74 companies, meaning all companies at maturity levels "established" and "mature."

4 Comparative analysis: the most and least popular reporting areas

- Ninety-three percent²⁹ of companies reviewed have some type of **commitment** to respect certain or all internationally recognized human rights, making this the most reported component of the corporate responsibility to respect. Even if many companies disclose only generalized commitments that do not always include all internationally recognized human rights or extend to their business partners, they generally have at least some statement about their intention to respect human rights. Quality certainly varies, and a commitment can only go so far. This is especially true if there is no evidence that the commitment is approved by top leadership and is being embedded throughout the company. It is therefore more interesting to look at what kinds of processes the company has in place, what it does to mitigate risks, and with whom it engages and collaborates to address issues that may arise.
- Eighty-six percent³⁰ of companies reviewed report at least some actions to **mitigate human rights risks**. At a minimum, most companies describe some type of program on diversity, and strategies to manage issues that many companies traditionally consider, like employee health and safety. Although incomplete, this kind of reporting on mitigation measures is still relevant, even if companies do not always frame or articulate their actions as something done specifically to advance human rights.
- While 84 percent³¹ of companies have some kind of process to **assess human rights risks**, the level of detail and insight into these processes varies widely. Only 24 percent³² of companies reviewed have “mature” or “leading” disclosure in this area.
- While reporting on **governance** of human rights issues is more often general and limited to brief statements on the role of the Board, 38 percent³³ of companies disclose having some type of structure to govern implementation of respect for human rights specifically. Twelve percent³⁴ share well-explained information about day-to-day responsibility and oversight structures for human rights issues.
- Eighty-nine percent³⁵ of companies reviewed state that **stakeholder engagement** is important to them, but only 30 percent³⁶ provide specific information about engagements on human rights issues.
- One of the least reported areas is **remediation**. Four percent of companies reviewed do not mention having any point of contact for human rights grievances, and an additional 29 percent do not clarify if complaint channels are open to stakeholders who are not employees of the company, but who

Percent of companies reporting on individual elements of the responsibility to respect human rights



29. 69 out of 74 companies, meaning all companies at maturity levels “basic” through “leading.”

30. 64 out of 74 companies, meaning all companies at maturity levels “basic” through “leading.”

31. 62 out of 74 companies, meaning all companies at maturity levels “basic” through “leading.”

32. 18 out of 74 companies, meaning all companies at maturity levels “mature” and “leading.”

33. 28 out of 74 companies, meaning all companies at maturity levels “improving” through “leading.”

34. 9 out of 74 companies, meaning all companies at maturity levels “mature” and “leading.”

35. 66 out of 74 companies, meaning all companies at maturity levels “basic” through “leading.”

36. 22 out of 74 companies, meaning all companies at maturity levels “established” through “leading.”

may be adversely impacted by the company's activities. More importantly, companies rarely disclose information about providing remedy to affected stakeholders. Being able to submit a complaint for adverse impacts is essential, but the company should also explain how it enables effective remedy if and when complaints are received.

- **Tracking** is the least reported component of the responsibility to respect. Seventy-two percent³⁷ of companies do not have a coherent narrative about tracking performance of human rights. Instead, reporting focuses mainly on basic data related to issues that many companies have tracked for some time, but are not necessarily salient, like diversity (e.g., women on the Board, minorities hired), health and safety (e.g., number of incidents, deaths) and audits.

37. 53 out of 74 companies, meaning all companies at maturity levels "negligible" through "established."

III. RECOMMENDATIONS

1 What makes good (and bad) reporting?

2 How should investors engage with companies on reporting?

III. RECOMMENDATIONS

1 What makes good (and bad) reporting?

Based on the analysis conducted for this report, we can derive some overarching elements that can help or hurt the quality of companies' reporting on human rights. The red flags adjacent to the Do's and Don'ts are tips for investors about "red flags" to watch out for in corporate reporting.

DO

Do focus on the greatest risks to people connected with the business, and identify your salient human rights issues as a means to prioritize what you report on and which risks you address first.

Do share examples that provide meaningful insight into how your policies and processes are implemented.

Do explain how human rights specifically fit into the company's approach to sustainability or other broader areas like ethical business and ideally the company's broader business model and strategy.

Do explain gaps in reporting or implementation and share forward looking plans to further embed respect for human rights.

Do explain the challenges that the company is facing in working to respect human rights – it will help inform readers about operational realities and contextualize what the company is trying to achieve.

Develop a clear narrative about the company's approach to understanding and addressing human rights risks. This narrative can then be drawn from to meet various reporting needs.

Do make smart use of "reporting real estate" by using formal and informal reporting effectively. For example, more permanent information on topics like governance structures, policies and general processes to identify and manage human rights risks can live on permanent webpages on the company website. Other types of communications like reports and case studies can be used to share information from the reporting period, or highlight issues of particular interest.



Companies that do not use the "salience lens" for reporting
– focusing on greatest risks to people
– may also be overlooking critical issues for their risk management processes.
For instance, materiality processes often miss significant risks to human rights, and by extension have blind spots on risks to the business as well.

DON'T

Don't leave the reader guessing why you are telling them about certain human rights issues and not others.

Don't offer only high level, unsupported statements about how policies and processes are implemented in practice.

Don't use broad terms like "sustainability" without explaining what the company means by it – and whether or not it includes human rights.

Don't assume that the reader will not notice gaps in reporting. Provide explanations if some issues are not reported on, and offer insight into the kind of information you plan to be able to share in the future.

Don't disclose only success stories, or report in a way that feels like greenwashing.

Don't communicate bits and pieces of information that lack a clear connection to each other and are evidently not underpinned by a coherent strategy on human rights.

Don't leave the reader searching for information. Explain where different pieces of information can be found, whether within a report or on the company website. Use hyperlinks to help readers navigate the disclosure efficiently.

Companies that do not have an explanation for why they are reporting on certain issues or that refer to human rights as a single risk, without breaking it down into specific issues.

Companies that never or rarely share practical examples, or that disclose old examples from previous reporting periods without clarifying why more recent examples are not disclosed.

Companies that use blanket terms without clarifying if they include human rights.

Reporting that is generic or that describes only positive results or outcomes.

Soundbites of data that look as if they are produced to tick some box, without context or explanation of their relevance.

2 How should investors engage with companies on reporting?

The investor statement signed by the members of the investor coalition³⁸ backing the UNGP Reporting Framework states: “Beyond ethical concerns, companies that do not proactively assess and manage human rights risks face potential legal, reputational, and other risks with financial implications. Meaningful disclosure of human rights performance can play a significant role in reducing a company’s human rights risks, contributing to a company’s competitive advantage, and strengthening its long-term financial stability.”

The statement also signals signatory investors’ commitment to engage with companies on these issues.

Based on the findings of this study, investors may want to consider the following tips when engaging with companies about human rights risk management and reporting:

- ✓ Encourage companies to identify their salient human rights issues.
- ✓ Engage in a discussion with companies about their governance of human rights, including how and when the Board engages on these issues.
- ✓ Seek insights into how top management and the Board understand the company’s salient human rights issues.
- ✓ Ask for concrete examples that provide insight into how policies and processes are applied in practice.
- ✓ Discuss challenges and dilemmas in order to enable constructive engagement on these issues and develop insights into how aware and engaged the company is on human rights.
- ✓ Insist on any quantitative data being placed in context so that its utility is clearly demonstrated, and probe its relevance as a means of assessing if human rights risks are effectively managed.
- ✓ Have a dialogue about providing qualitative information that offers valuable insights to performance.
- ✓ Explore how the company understands who its stakeholders are in relation to human rights, how it engages with them, and how these relationships and the insights they yield inform the company’s understanding and management of human rights risks.
- ✓ Discuss how human rights performance is factored into performance incentives, including for staff whose jobs are most able to increase and decrease human rights risks.
- ✓ Explore how the company assesses its own progress in identifying and addressing human rights risks and impacts.

38. See <http://www.ungpreporting.org/early-adopters/investor-statement/>.

Concluding reflections and thoughts on future opportunities

We are living in an era when companies face serious challenges to doing business responsibly. Yet expectations are only rising as increasing numbers of people around the world realize the significant implications – both negative and positive – of corporate conduct toward people and our environment. In 2016 the international community introduced the Sustainable Development Goals, with the ambition for all actors – including companies – to help more people live better lives around the globe. Doing business responsibly – respecting people’s human rights throughout the company’s own operations and value chains – represents the single greatest contribution that companies can make to the social dimensions of the Sustainable Development Goals. This is a potentially transformative opportunity for companies at a major scale – and it begins with doing business with respect for human rights.

With this sharpened focus on the role of business in the world, the value placed on sound information, transparency, dialogue and accountability should increase. As the research and analysis in this report clearly demonstrate, **good reporting and good performance are integrally related when it comes to corporate respect for human rights**. Good reporting processes bring to light within companies gaps in knowledge and practice that need to be addressed. Good reporting outputs also enable more informed discussions with investors and other stakeholders, which in turn help identify ways to improve systems and practices. And as performance improves, this enables companies to report on their progress and become investments, partners and employers of choice.

Ultimately all this managing, reporting and engaging should drive towards one tremendously important and positive result: that people affected by companies’ operations and value chains are better able to live lives of dignity, equality and opportunity.

IV. ANNEX

ANNEX 1 – LIST OF COMPANIES REVIEWED

SECTOR	COMPANY NAME	COUNTRY	FT500 GLOBAL 2015 RANKING
Apparel and footwear (General retailers, personal goods)	Fast Retailing	Japan	259
	Hennes & Mauritz	Sweden	160
	Inditex	Spain	76
	LVMH	France	91
	Nike	US	130
	Target	US	185
	TJX Cos	US	199
	Wal-Mart Stores	US	12
	Walmex	Mexico	228
	Wesfarmers	Australia	286
Banking and financial services (Banks, financial services)	Agricultural Bank of China	China	27
	American Express	US	105
	Banco Santander	Spain	71
	Bank of America	US	37
	Bank of China	China	24
	China Construction Bank	China	21
	Citigroup	US	40
	Commonwealth Bank of Australia	Australia	61
	Goldman Sachs	US	100
	HSBC	UK	35
	Industrial and Commercial Bank of China	China	9
	JP Morgan Chase	US	17
	Lloyds Banking Group	UK	99
	MasterCard	US	80
	Mitsubishi UFJ Financial	Japan	93
	Royal Bank of Canada	Canada	94
	Toronto-Dominion Bank	Canada	107
	Visa	US	48
	Wells Fargo	US	7
	Westpac Banking	Australia	82
Food and beverages (Beverages, food producers, personal goods)	Ambev	Brazil	88
	Anheuser-Busch InBev	Belgium	25
	Coca-Cola	US	32
	Diageo	UK	129
	Kraft Foods Group (now Kraft Heinz)	US	187
	Mondelez International	US	161
	Monsanto	US	179
	Nestlé	Switzerland	14
	PepsiCo	US	45
	Unilever	Netherlands/UK	56

ANNEX 1 – LIST OF COMPANIES REVIEWED continued

SECTOR	COMPANY NAME	COUNTRY	FT500 GLOBAL 2015 RANKING
Extractives (Mining, oil and gas producers)	BHP Billiton	Australia/UK	51
	BP	UK	58
	Chevron	US	23
	ConocoPhillips	US	111
	ExxonMobil	US	2
	PetroChina	China	6
	Rio Tinto	Australia/UK	110
	Royal Dutch Shell	UK	26
	Sinopec	China	55
	Total	France	57
Information and communication technology (Technology hardware and equipment, software and computer services, mobile telecommunications, fixed line telecommunications)	Apple	US	1
	AT&T	US	34
	China Mobile	Hong Kong	11
	Facebook	US	29
	Google	US	4
	Microsoft	US	5
	Oracle	US	28
	Samsung Electronics	South Korea	19
	Tencent	Hong Kong	31
	Verizon	US	22
Oil equipment and services	Baker Hughes	US	435
	Enbridge	Canada	260
	Halliburton	US	293
	Kinder Morgan	US	89
	Schlumberger	US	69
	TransCanada	Canada	380
	Williams Cos	US	284
Tobacco	Altria Group	US	78
	British American Tobacco	UK	79
	Imperial Brands	UK	246
	ITC	India	251
	Japan Tobacco International	Japan	140
	Philip Morris International	US	60
	Reynolds American	US	306

ANNEX 2 – BACKGROUND TO THE REPORT AND METHODOLOGY

1. Background to the UNGP Reporting Framework

Improved disclosure on areas of a company's non-financial performance is increasingly recognized as essential to understanding companies' medium- to long-term abilities to protect and create value. Non-financial reporting is therefore highly relevant for companies' shareholders, as well as other stakeholders. And investors, regulators, stock exchanges, government agencies, civil society organizations and other stakeholders have been paying growing attention to non-financial reporting in recent years. Additional reasons include increasing regulations, growing scrutiny on companies' role in human rights harms and rising awareness that human rights harms can also harm the business's financial bottom line.

Human rights reporting is a critical component of non-financial disclosure. Yet this type of reporting has, to date, usually been the weakest part of companies' non-financial disclosure. In fact, such reporting is often discounted altogether, solely dedicated to projects and activities divorced from the company's core business, or narrowly focused on a particular area of the business such as certain labor rights in the supply chain. Moreover, the preparation of human rights information for reports is often siloed within sustainability or social compliance departments, keeping it separate from core business departments and

functions. This reinforces the sense that human rights is something apart from the company's daily business, rather than a key component of how the business is run and its sustainability.

Companies' responsibility when it comes to their impacts on people is clearly defined in the global standard set by the UN Guiding Principles on Business and Human Rights, unanimously endorsed by the UN Human Rights Council in 2011. The 31 principles set expectations of states and companies about how to prevent and address negative impacts on human rights by business, including the responsibility of companies to know and show their human rights impacts through human rights reporting.

However, at the time of the endorsement of the Guiding Principles, there remained little clarity on what good human rights reporting entails. In response, Shift worked with international accountancy firm Mazars to address this gap through a two-year global process of research and consultation involving all stakeholder groups. This process led to the development of the UNGP Reporting Framework, which was launched in February 2015.

What is the UNGP Reporting Framework?

The UNGP Reporting Framework is the first comprehensive framework for companies to report on how they respect human rights in practice, in line with the UN Guiding Principles on Business and Human Rights. The Framework consists of a short series of smart questions that relate to the company's governance of human rights risks and its management of its salient human rights issues: its most severe potential impacts on people.

The UNGP Reporting Framework is backed by an international investor coalition representing over US\$5.3 trillion assets under management. Companies from multiple sectors and countries are already using the Framework for public reporting, and many more are using it to strengthen internal management systems. Because it is wholly aligned with the global standard on business and human rights, companies that report using the Reporting Framework can easily

and appropriately respond to various disclosure requirements and other inquiries, from the EU non-financial reporting Directive to the UK Modern Slavery Act to questionnaires from investors, rankings and ratings groups and civil society organizations. The guidance for the Reporting Framework also includes extensive cross-references to other reporting initiatives, such as the International Integrated Reporting Framework and the Global Reporting Initiative.

Complete information about the Reporting Framework is available at [UNGPreporting.org](https://www.ungpreporting.org).

2. Methodology

a. Companies reviewed

The companies reviewed in this report are included in the [UNGP Reporting Database](#), an online repository of corporate reporting on human rights that is organized around the questions of the Reporting Framework. Shift launched the UNGP Reporting Database in March 2016 to support further awareness of companies' human rights reporting and enable more effective and informed conversations between companies and their stakeholders, including shareholders, about companies' progress in implementing respect for human rights.

This report draws from the UNGP Reporting Database's coverage of 74 top global companies. These companies were selected from the 2015 Financial Times (FT) Global 500 ranking and represent the largest companies by market capitalization in each of the following seven sectors:

- apparel and footwear (general retailers, personal goods);
- banking and financial services;
- extractives;
- food and beverages;
- information communication technology (ICT);
- oil equipment and services;
- tobacco.

The companies reviewed are headquartered for the most part in Asia, Europe and North America. There are also a small number of companies from Australia and South America.³⁹

The results of this research have been anonymized for the purposes of this report. However, trends are discussed at the sector level, and companies are identified by name when used as examples of good disclosure.

b. Disclosure reviewed

The disclosure reviewed is not limited to formal reports, but includes all information accessible via the company's website. This includes, for example, any annual, sustainability or other reports; statements, policies or procedures; and blogs or interviews with company leadership. Information about company activities that exists only on websites not controlled by the company is not included. The terms "disclosure" and "reporting" are used interchangeably in this report.

Corporate reporting on philanthropic activities is not included unless the company explains how they are part of a strategy to prevent and address risks to human rights associated with its core business.

What is the UNGP Reporting Database?

The UNGP Reporting Database maps the human rights reporting of a broad array of companies and assesses the extent to which such reporting addresses the responsibility to respect human rights under the UN Guiding Principles.

The Reporting Database does not rank or rate companies. Rather, it enables investors and other stakeholders to see how a company is reporting on its progress in implementing the Guiding Principles. The Database makes it easy to

see strengths and areas for improvement, as well as find examples of leading practice that can help inspire progress in human rights reporting across sectors.

The methodology for this research uses the questions in the Reporting Framework as the basis for each company's review. Each review is conducted by human analysts, not algorithms. Every company that is the subject of this research has the opportunity to review the assessment,

provide feedback and suggest adding or changing relevant information based on the company's body of disclosure on its website. Where Shift agrees that a change is appropriate, such additional disclosure is included in order to make sure that the Reporting Database is as complete and objective as possible. More information about the methodology, and the Database itself are available [on the website of the Reporting Framework](#).

39. See Annex 1 for a full listing of companies included in this report's analysis.

2. Methodology continued

Disclosure that refers generally to “sustainability,” “social impact,” “ethics” and other similar terms is included where the company specifies that those topics include human rights aspects. However, a lack of precision in terminology often indicates poor human rights reporting, and this is taken into account in the maturity assessment.

Readers should be aware that it is not within the scope of this research to verify if companies have actually taken the actions they state they have undertaken in their disclosure. Later in 2017 Shift and Mazars will publish guidance to support internal auditors and external assurance providers who assure companies’ human rights performance and reporting.

c. Maturity levels

In this report, companies’ human rights disclosure is categorized into maturity levels. Each component of the corporate responsibility to respect human rights is measured against the following levels, from least to most mature:

- negligible
- basic
- improving
- established
- mature
- leading

The cross-cutting indicators of quality reporting are also analyzed against a maturity scale, but with five tiers rather than six.

Companies’ disclosure is analyzed at three levels:

- A **micro** level, where each component of the corporate responsibility to respect human rights is examined under the specific questions of the UNGP Reporting Framework⁴⁰ (see section II-1);
- A **macro** level, where a company’s overall reporting on human rights is assigned a maturity level (see section II-2);
- A **cross-cutting** level, where reporting is measured against three indicators of good reporting: specificity, openness to sharing challenges and forward focus (see section II-3).

It is important to note that the macro categorization is approximate. A company’s disclosure can be strong on some important elements while weak on others. As this makes generalization a particularly difficult exercise, this report also takes a more granular look at what companies are reporting.

40. Questions C.1 of the Reporting Framework (“Does the company have any specific policies that address its salient human rights issues, and, if so, what are they?”) was not included in this report’s analysis as all policy issues are considered together under question A.1.