World Economic Forum White Paper: 'Towards Common Metrics and Consistent Reporting on Sustainable Value Creation'

Comments from Shift

Shift welcomes the interest of the World Economic Forum's International Business Council in receiving feedback on the proposed metrics and disclosures contained in its White Paper, 'Towards Common Metrics and Consistent Reporting of Sustainable Value Creation'.

Shift is the leading center of expertise on the UN Guiding Principles on Business and Human Rights. We are a non-profit, mission-driven organization headquartered in New York City. Our global team of experts works across all continents and sectors to challenge assumptions, push boundaries and redefine corporate practice in order to build a world where business gets done with respect for people's dignity.

In partnership with the international advisory and audit firm Mazars, we developed the UNGP Reporting Framework, which launched in 2015, is backed by nearly 90 investors with over $5.3 trillion AUM, cited by numerous governments and regulators, used already by over 200 companies and reflected in numerous reporting standards and benchmarks. We have analyzed the human rights disclosure of hundreds of companies to provide both public and private insights on areas for improvement in both their reporting and underlying performance related to the management of risks to people.

Shift is currently leading a global consultation process through its Valuing Respect project to improve the evaluation of business respect for human rights. Following research reflecting the current problems with the indicators and metrics that dominate the 'social' component of companies' reporting as well as ESG rankings and ratings, we are developing tools, resources, methods and case studies to assist companies, investors and other stakeholders in six key areas:

- **Business Model Red Flags:** those features of business models that carry inherent human rights risks.
- **Leadership and Governance Indicators of Rights-Respecting Culture**: indicators of corporate cultures that foster respect for people.
- **A Tool for Indicator Design:** a resource for companies and their stakeholders to design interventions and indicators focused on improved outcomes for people.
- **Stakeholder Voice**: case studies and method notes setting out effective ways to bring the voice of affected stakeholders into evaluation processes.
- **Lessons from Behavioral Science**: experiments exploring opportunities to analyze and influence rights-respecting behaviors in company settings.
- **Accounting for Progress towards Fair Wages**: a collaboration with the Capitals Coalition to develop an accounting model for progress towards fair wages in company operations and value chains.

Based on this experience, combined with our experience working directly with companies, financial institutions and standard-setters to advance respect for people in business practices, we offer the following reflections on the World Economic Forum's White Paper.

1. Terminology

a. The document moves between the language of 'social and environmental' and the language of 'people and planet'. It uses the latter terms – along with 'principles of governance' and 'prosperity' as the titles of its four pillars. We would strongly advise using this terminology consistently throughout, and at a minimum replacing the term 'social' with that of 'people'. The amorphous language of 'social' dilutes and distracts from the important focus on how people are affected by business.

   - *Recommendation: align the language – at a minimum in the context of the 'Governance' and 'People' pillars – to focus on 'people' rather than 'social' issues or impacts, and consider doing so as far as possible in the 'Prosperity' pillar as well.*

b. The introduction refers to the framing idea of 'stakeholder capitalism', as espoused by the WEF in its Davos Manifesto 2020. Yet the concept of a 'stakeholder' is nowhere clearly explained. References are made throughout the document to various categories of people, as well as to the environment, an there are references to 'stakeholder engagement', 'material stakeholders' and 'key stakeholders', without clarity as to who is intended under these terms.

   Various public statements on 'stakeholder capitalism' (by the WEF, the Business Roundtable and individual others) refer to the following stakeholder groups: 'employees, suppliers, customers and communities'. This list itself raises questions and concerns as to who is covered. It leaves out workers who are not on employment status; does not clearly include workers in supply chains (as against their institutions or management); and explanations of 'communities' typically refer to those around company facilities who may benefit from philanthropy and investment, rather than the much wider array of communities that can be impacted by company decisions and actions across its value chain.

   COVID-19 has brought into sharp relief the vulnerability of non-employee workforce members and those on low wages in the upstream and downstream value chain of companies (in farms, factories, warehousing, retail and delivery). For stakeholder capitalism to signal a meaningful departure from business as usual, it is essential that any initiative such as this set out a clear understanding of the stakeholders who need to be prioritized in order to tackle inequality. In short, the focus must be on those individuals – among workers, community members, indigenous peoples, customers and end-users – who are most at risk of harm in connection with a company's operations and value chains

   - *Recommendation: The document should set out a clear definition of the stakeholders who are critical to sustainability under a new 'stakeholder capitalism', with the focus on those workers, communities and others who are most vulnerable to negative impacts connected to business actions and decisions.*

   - *Recommendation: Indicators and metrics that refer to stakeholders in overly narrow terms (eg 'employees', which excludes non-employed members of a workforce) or excessively flexible terms (eg leaving the term undefined) should be revised to include and focus on the most vulnerable people.*

2. Sources of metrics

The introduction on the website states that, ‘To the maximum extent practicable, the report incorporates well-established metrics and disclosures for the express purpose of building upon the extensive and rigorous work that has already been done by those who have developed the existing standards. The objective is to amplify those standards and more fully harness their synergies rather than create a new standard altogether.’ This implies that the metrics and disclosures selected have all proven to be of value for company managers, investors and other stakeholders in assessing a company’s holistic performance, including its impacts on people and planet.

While we agree that companies would benefit from clarity around a core set of cross-industry metrics, it would be a grave error to assume that the current metrics that relate to impacts on people are all appropriate and helpful. In practice, many have been shown to be superficial and misleading, while some have led to perverse consequences.[1] Therefore it is particularly important to be open to emerging and new metrics that can be of value to both the company and its stakeholders.

- *Recommendation: remove language that suggests that the necessary metrics in all four pillars can be found within the existing set of metrics and disclosures used in frameworks and standards.*

- *Recommendation: be more open to the need to take up emerging or new indicators that promise better insight into impacts on people and how effectively they are being identified and addressed, and avoid the assumption that ‘something is better than nothing’ given the evidence that some indicators are counterproductive*.

3. Principles of Governance

a. Stakeholder Engagement

(i) The third indicator in the section on ‘Principles of Governance’ is categorized as ‘Stakeholder Engagement’ and titled ‘Impact of material issues on stakeholders’. It seeks ‘a list of the material topics identified in the process of defining report content and how they impact stakeholders’, in line with GRI indicator 102-47.

The indicator is in fact about the identification of material impacts on stakeholders and not about the process of stakeholder engagement. By contrast, the ‘expanded’ metric is indeed about stakeholder engagement since it asks for ‘[t]he organization’s approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and processes for ensuring reliability of information’. The existing ‘core’ indicator could make sense under a ‘stakeholder engagement’ category if this expanded indicator were moved up into the ‘core’ category to precede it.

It is particularly important in the context of ‘stakeholder capitalism’ espoused by the WEF that companies show clearly the nature and extent of their engagement with stakeholders in the identification of material topics, as well as more broadly as part of their due diligence and risk management. An understanding of a company’s impacts on people cannot be developed without

[1] For more on this see: https://shiftproject.org/business-social-performance-measurement-not-working; and https://shiftproject.org/wp-content/uploads/2019/09/ValuingRespect_TwoPager_Sept2019.pdf

such engagement, which should wherever possible include engagement with affected groups themselves.

- *Recommendation: move current 'expanded' metric for stakeholder engagement into the 'core' section preceding the current 'core' metric.*

(ii) The core 'stakeholder engagement' indicator is drawn from GRI indicators. It is important to note that GRI has just issued a revised draft of its Universal Indicators, including in relation to the materiality process and stakeholder engagement. The draft revised indicator on the identification of material topics seeks clarity on:
"how [the company] has identified its material topics, including:
i. how it has identified actual and potential, negative and positive impacts on the economy, environment, and people, including impacts on human rights, across its own activities and business relationships;
ii. how it has prioritized impacts for reporting based on their significance;
iii. the stakeholders and experts whose views have informed the identification of material topics".

This revised draft indicator much better reflects what it means to identify material topics with regard to impacts on people, including impacts on people's human rights. It is particularly important to note that the focus is placed on the significance (ie severity) of the impacts on people (as well as the economy and environment), not just their significance for the business. The current draft indicator in the WEF draft loses this important focus.

- *Recommendation: revise the indicator to better reflect the draft revised GRI standard.*

b. Risk and Opportunity Oversight
The core 'Risk and Opportunity Oversight' indicator states: 'Company risk factor disclosures clearly identify the principal risks facing the company specifically (as opposed to generic sector risks), the Board appetite in respect of these risks, how these risks have moved over time and the response to those changes. These should include discussion of data security and other emerging principal risks and should disclose the number of data breaches in the reporting period.'

It is entirely unclear how this identification of principal risks facing the company is envisaged to relate to the material topics identified under the 'stakeholder engagement' core indicator. It may be inferred that the former is about risks to people and planet while this one is about risks to the business. Yet this would imply that the two are separate sets as against substantially and increasingly overlapping, as is now widely recognized. Moreover, the explanation of this indicator sees its value as lying in 'the need for boards to look beyond risks to acknowledge the opportunities provided to the business by emerging issues and those related to people, planet and prosperity'. This does not explain well the relationship between risk and opportunity, including the reality that there is tremendous opportunity for companies to contribute to positive outcomes for people by tackling challenging and often systemic human rights risks connected with their operations, products and services.[2]

We would strongly agree that there are considerable opportunities for businesses to contribute to a reduction in inequality and to a range of SDGs by addressing their risks to, and impacts on, people in

[2] For more on this much more interconnected relationship between risk and opportunity when it comes to impacts on people, see https://shiftproject.org/what-we-do/sdgs/.

their operations and value chains. However, the implication here is instead that the opportunities lie elsewhere – perhaps in new products and services with social benefit. This leaves it entirely unclear how principal risks discussed in this indicator connect with such opportunities.

- *Recommendation: be much clearer about the relationship between this indicator and the core indicator on 'stakeholder engagement'.*

- *Recommendation: improve the explanation to make clear whether and how the management of principal risks relates to opportunities regarding people, planet and prosperity. Avoid implying that opportunity lies only in new products and services with a social or environmental purpose, when the far greater contribution that most businesses can make to the SDGs lies in addressing the risks to people and planet in their operations and value chains.*

4. People

a. Framing

(i) The introduction to this section of the document states that, 'Organizations are expected to be committed to respecting health and safety, human rights, providing decent work standards for all women and men, including young and disabled people, and providing equal pay for work of equal value.'

Human rights include health and safety in the workplace and beyond, decent work standards for all women and men, including young and disabled people, and equal pay for work of equal value. It is unhelpful to have language that implies that these are not human rights issues, and perpetuates misconceptions among users as to what human rights consist of. Moreover, these issues cut far more widely than the SDGs that are connected with this pillar. Most striking is the fact that SDG 8 on decent work is connected solely with the 'Prosperity' pillar when its relevance to 'People' is far greater.

- *Recommendation: revise language to reflect that the areas highlighted are themselves human rights issues. Consider expanding the list more broadly to provide the reader with greater insight into the array of issues that are covered by internationally recognized human rights. It may be helpful to readers to reflect that human rights impacts are simply those impacts on people that rise to the level of affecting their basic dignity and equality as human beings. That is, they provide a helpful focus on the most significant impacts on people.*

(ii) The introduction further states that: 'People are crucial for every organization: they represent employees, customers, suppliers, distributors, retailers and neighbours. The value of people can be broken down into human capital (e.g. individual knowledge, skills, competencies and attributes) and social capital (e.g. networks, shared norms, values and understanding).'

The first sentence here again excludes key vulnerable stakeholders when it comes to those who can be most significantly affected by business – that is, that their human rights can be undermined. It does not recognize non-employees in the workforce such as contractors, temporary workers employed by an agency, or those designated 'self-employed'. It refers to people who 'represent' suppliers, which would seem to focus on management rather than the workers. This is mirrored in the case of distributors and retailers. The language of 'neighbours' ignores that impacted communities can be far more remote and reflects a common approach to communities that sees them as beneficiaries of social investment, rather than groups of people whose lives can be impacted by how the business is run.

The second sentence uses narrow definitions of human and social capital that view the workforce solely in terms of what the business can extract from them, and social capital in entirely dehumanized terms. While the language of the capitals is valuable in many contexts, including holistic management accounting, it reinforces existing risks and blind spots when tied to such narrow definitions. COVID-19 has demonstrated in no uncertain terms that 'human capital' is dramatically eroded where people are in insecure, low-paid jobs without access to healthcare and other basic benefits. That pertains to how they are treated, not how their capabilities can be exploited. The failure of our current form of capitalism to ensure that people are treated decently in workforces and supply chains has also eroded social capital (including trust, empathy and support between groups) and spurred the social and political backlash seen over recent years in many societies. Black Lives Matter has further thrown a spotlight on the effects of eroding both human and social capital through structural racism and discrimination across societies.

- *Recommendation: revise this language to put the explicit focus on the people most vulnerable to harm in workplaces, supply chains, customer bases and communities. These are of course also those who can benefit the most from business efforts to tackle the risks and impacts they face.*

- *Recommendation: draw a more enlightened and inclusive definition of human capital and social capital that reflects the realities of how people's dignity and equality can both be destroyed, preserved or advanced by business practices.*

b. <u>Dignity and Equality</u>

(i) Other than the indicators on child labor and forced labor (see below) indicators in the 'Dignity and Equality' section focus on employees. In an era where there has been a dramatic increase in the percentage of workforces on temporary contracts, limited hours, 'self-employed' status, or employed through a third party, it is essential that the scope of these indicators be broadened to capture the workforce more holistically. While there can be legitimate reasons for forms of work relationship other than employment, the expansion in the use of these forms has undoubtedly been driven in part by cost-cutting and cost-externalizing motives and has substantially increased the vulnerability of many workers, as evidenced in particularly dramatic ways during the COVID-19 pandemic.

- *Recommendation: broaden the scope of these indicators to encompass the workforce more fully. Both GRI and the Workforce Disclosure Initiative have good indicators in this regard.*

(ii) The Black Lives Matter movement has brought to renewed attention the many inequalities suffered by people of color. Pay equity metrics should therefore not be limited to gender.

- *Recommendation: expand the pay equality indicator to reflect also racial pay gaps.*

(iii) A growing number of frameworks and standards have recognized the importance of the ratio of CEO to median worker pay, given its dramatic increase in recent years in parallel with wider growth in inequality.

- *Recommendation: add a core metric of the ratio of CEO to median worker pay.*

(iv) The 'core' indicators under Dignity and Equality include indicators related to child and forced labor. These ask for the 'number and percentage of operations and suppliers considered to have significant risk of: a) incidents of child labour, and b) incidents of forced labor, by type of operation and supplier, in terms of countries or geographic areas with operations and suppliers considered at risk'.

These indicators are unhelpful and can have perverse consequences. Both child labor and forced labor (even more so) can be difficult to detect. Many social audit processes fail to find them, for a variety of reasons, leading companies to believe they are not an issue, while other evidence frequently emerges to prove the contrary. The ILO and other expert organizations have struggled over recent years to estimate the number of people in forced labor globally, with figures ranging from 20 million to 40 million. Any figure from a company about the number and percentage of operations and suppliers at risk of incidents of child labor or forced labor is unlikely to be reliable to any meaningful degree. Moreover, this number tells us nothing about whether the company's activities, including its purchasing practices, are incentivizing the use of child labor or forced labor, or the extent to which they are playing an active role in reducing these phenomena.

There is no useful comparison to be made between the numbers produced by one company and another in response to these indicators, since the presence of child labor and forced labor vary by type of commodity, the point in the value chain and by geography. Both phenomena are systemic problems in certain commodities and regions. A high forced labor figure from one company might, for example, suggest that they are part of a problematic set of practices, or that they just acquired a new business in a geography with a prevalence of forced labor. A low figure from another company may suggest that they have made significant progress in tackling forced labor or that they have not even done the important work of trying to discover whether and where the problem exists in their value chain.

Given the particularly disturbing nature of both child labor and forced labor, and the growth in regulations addressing these phenomena, it can be tempting to include indicators such as these just to show that the issues are 'covered'. However, they are not only likely to be highly misleading but can also have perverse consequences. There is anecdotal evidence of some businesses concluding it is better not to do proper due diligence to find these problems, rather than to surface them and be downgraded by data analysts and investors for being associated with the problems.

There are interesting possibilities for how better indicators could be developed in relation to these two human rights issues. At the same time, there are many other severe human rights impacts in global supply chains – from sexual violence and harassment to poverty wages to the wholesale displacement of communities from land without free, prior and informed consent – that may be equally or more salient issues for many companies. Requiring disclosure specific to these two issues may not be the right path forward.

- *Recommendation: remove these two indicators from the core indicator list. See below for suggestions of much stronger indicators that it would be important to move from the 'expanded' category into the 'core'.*

- *Recommendation: consider using a broader indicator in relation to 'dignity and equality' in operations and supply chains that would be substantially more insightful. For example, a disclosure such as 'the most salient risks to people's human rights in the company's operations and value chain and how they are being addressed.' The first component would establish* *whether the company is considering risks through the lens of the most severe risks to people (not just the business) and would highlight what those are. The second component of 'how they are being addressed' is critical information that would allow the company to illustrate how it is taking the opportunity to reduce these risks and contribute to the human dimensions of sustainable development.*

(v) The expanded indicators under 'Dignity and Equality' include important metrics on discrimination and harassment, freedom of association and living wage. The explanation to the Freedom of association indicator states that, 'Freedom of association and collective bargaining are the basis of all human rights in the workplace (eg living wage, decent work conditions, equal opportunities) so this indicator provides insights into how companies are performing in this critical area'. Recognizing this reality, it is the most critical indicator to elevate from the 'expanded' indicator set into the 'core' indicator set.

It is likely premature at present to elevate 'living wages' to the core indicators given the work still to be done on how to account for this. Shift and the Capitals Coalition will be leading a collaboration in 2020-21 to develop further insights on how to do so. However, it would be well worthwhile to elevate the indicator on discrimination and harassment – at least the first part that focuses on the number of incidents across operations and actions taken.

- *Recommendation: elevate the 'expanded' indicator on freedom of association and collective bargaining to a 'core' indicator.*

- *Recommendation: elevate the first part of the 'expanded' indicator on discrimination and harassment incidents to a 'core' indicator.*

(vi) The final expanded indicator under 'Dignity and Equality' relates to grievances and impacts. It seeks the 'number and type of grievances reported, and number of severe impacts occurring that were related to a salient human rights issue, and the type and impact of these issues'.

This indicator refers to the UN Guiding Principles Reporting Framework (and its related index), which Shift developed jointly with Mazars over the period 2012-2015, and which is now used increasingly widely by companies to improve their human rights reporting and risk management. The Reporting Framework takes the form of narrative questions aimed at eliciting insightful information rather than requiring certain indicators or metrics. That said, it also sets out the types of information that it could be particularly relevant to disclose in relation to each question, if available. However, these do not include either numbers of grievances or numbers of impacts.

It is difficult to gain meaningful insight from such metrics without significant contextual information. For example, an *increase* in grievances may indicate an increase in problems, or that a company has set up an effective new grievance mechanism that stakeholders trust and use. An absence of grievances may signal a lack of problems, or the absence of trusted avenues through which to raise them. Similarly, numbers of severe impacts require context to understand what conclusion to draw – that would include information about how they arose, how the company was involved, what other factors were in play, whether they are recurrences of the same issue or different over time and place, and how the company has responded.

The UNGP Reporting Framework suggests that relevant information in relation to both impacts and grievances could take the form of *trends and patterns* in the number, type and location of grievances, as well as with regard to impacts. This type of information could better indicate what underlying dynamics are at play. The Reporting Framework also suggests other types of relevant information, which can be found in sections C3 and C6 at ungpreporting.org/framework-guidance.

- *Recommendation: change this indicator given that isolated information on the numbers of grievances and of severe impacts is potentially misleading. Consider using more nuanced types of information suggested in the 'relevant information' sections of the UNGP Reporting Framework, notably under questions C3.1 and C6.4.*