

## Applying Leadership and Governance Indicators of Rights-Respecting Culture Take-Aways from 2020 Single-Stakeholder Consultations

This note sets out Shift's key take-aways from a series of single-stakeholder consultations we organized between July and August 2020, as part of the [Valuing Respect project](#). The consultations focused on opportunities and challenges for **boards, company practitioners, business associations, banks, investors, governments and Civil Society Organizations** to use the Valuing Respect **Leadership and Governance Indicators of Rights-Respecting Culture** and supporting resources in their work.

Following a brief overview of the resource, the note is organized into two sections. **Part I summarizes general reflections and recommendations** from stakeholders about future adaptations to support these uses and how to achieve broad-based engagement and uptake of the resource. **Part II summarizes general reflections and recommendations** from stakeholders about future adaptations to support these uses and how to achieve broad-based engagement and uptake of the resource.

The **Annex provides a list of individuals who participated** in the conversations. Shift is grateful for the frank and constructive inputs of all participants, which will inform our final stages of work and early-adopter application in late 2020 and early 2021.

### I. Resource Overview

**What?** The Leadership and Governance Indicators ([link to Beta version](#)) focus on whether the actions of boards and senior leaders are fostering the following four norms and values that underpin a rights-respecting culture.

- **Authenticity of Commitment** such that the organization acts in a manner consistent with its publicly asserted commitment, including when faced with inevitable tensions between respect for human rights and other business goals.
- **Responsibility and Accountability** such that respect for human rights is embraced as the responsibility of people in every part of the business, and key staff are empowered and motivated to embed respect for human rights across the company.
- **Respect and Empathy** such that everyone in the organization is motivated to know and care about whether and how it might be involved with harm to the human rights of people, including those of remote individuals and communities.
- **Organizational Learning such that** the organization seeks out and embraces new insights about human rights risks and makes an effort to learn from its mistakes as well as successes.



**Why?** Corporate cultures – how people *actually* act versus how they are *supposed to* act – are a powerful determinant of whether business gets done with respect for human rights. And what boards and senior leaders say or do are a leading indicator of culture. ‘Senior leaders’ include those at the top of a corporate structure but also those who are leaders of business units, regional or country offices, operating sites or other key subdivisions within the company.

**How?** The resource provides users within and outside of companies:

- **A menu of 10 governance indicators and 12 leadership indicators** that offer signals of whether a culture of respect is likely to be in place across a company or in a specific business unit or subsidiary being reviewed.
- **Supporting materials:**
  - Explaining each indicator;
  - Suggesting questions and sources of evidence to support evaluation of the indicators;
  - Providing ideas for how to combine indicators to reduce the risk of weak analysis or gaming.

## I. Headline Reflections and Recommendations

**A. The rationale for focusing on the role of leadership in anticipating and addressing risks to people could be more clearly articulated, including how this connects to the role of policies, systems and controls.** Participants within each consultation supported the idea that any evaluation of business respect for human rights should include attention to the words and actions of board members and senior leaders. At the same time, a few participants were keen to see how the governance and leadership indicators relate to formal mechanisms and internal controls that also play an important role in embedding respect for human rights.

The Shift team welcomed this insight and also flagged that many of the indicators point towards the presence of formal systems even though the indicators themselves are drafted to focus first and foremost on behaviors – that is, what leaders say and do. For example, a number of the governance indicators refer to the board (or “most senior governing body”) “having systems in place to” do something or “ensuring” that certain processes, risk analyses and learning take place. In these instances, the idea of formal systems at the level of governance are largely baked into the indicator. In essence, the intent is not to discard the value of formal policies, risks systems and controls to embed respect for human rights, but to focus on whether and to what extent leaders themselves act in ways that are consistent with them.

**B. The indicators may offer helpful substance to those focused on agendas such as stakeholder capitalism, the purpose of the corporation and corporate governance, which are related to, but separate from, respect for human rights.** A number of participants, especially those who sit on or work with boards, noted the growing discussions among executives and investors about the relationship between business and society. They reflected that despite increasing statements by business executives, such as the Business Roundtable, on the need to recast the purpose of corporations



in terms of the interests of stakeholders other than just shareholders, there was little clarity on what this means for governing and leading companies such that impacts on the most vulnerable are understood and managed.

Many made the point that the leadership and governance indicators can fill this gap by allowing a more robust focus on how corporations are structured and led, rather than only paying attention to specific decisions or investments aimed at helping employees or communities. Since the indicators are grounded in business respect for human rights, it was felt that they could shed light on whether a company is attuned to workers, consumers and groups that are distant from company headquarters and often most at risk of harm, rather than just employees and local communities.

Some participants reflected that although the disciplines of corporate governance and responsible business conduct are inter-dependent, this is rarely reflected in metrics and assessments. They highlighted opportunities to make a stronger connection to institutions and initiatives seeking to advance better corporate governance and which may see the value of these indicators.

The Shift team noted that they were keen to explore this connection to wider narratives in the next version of the resource and will do so across Valuing Respect focus areas.

**C. It would be helpful to have guidance on how to select which indicators to use in which situations.** During the consultations, Shift reinforced that the indicators are intended as a menu from which users could select based on their particular needs or interests. This proposition was welcomed by all stakeholders, not least because there is often limited time – whether one is inside a company or outside – to evaluate these aspects of a company’s performance. But discussions showed that more clarity about how to select indicators would be helpful. The Shift team noted that this would in part depend on the professional judgment of users, but that it should be feasible to offer some examples of how certain clusters of indicators might suit certain inquiries. For example:

- *Inquiring into a specific norm/value of interest.* A previous draft of the indicators was in fact organized around the four norms and values of authenticity, accountability, empathy and learning. This could easily be revived to allow for these features of culture to be the entry point.
- *Using the indicators after an allegation or incident:* There are a handful of indicators which are suitable to evaluate how a company responds to incidents/allegations including whether they engage constructively with affected stakeholders, conduct a root cause analysis of the incident and demonstrate how they have embedded lessons from incidents in company practices.
- *Bolstering the “G” in ESG analysis:* Some participants, in particular from financial institutions, noted that some of the indicators could be used to bolster governance (“G”) indicators with factors that are critical to a company’s ability to address many social (“S”) issues, which are largely the people-oriented dimensions of ESG.

**E. There is interest in defining a small number of indicators around which to focus disclosure.** Participants across all consultations expressed interest in Shift working with stakeholder groups to identify 3-to-5 indicators that: i) As a group would most strongly signal that a company is likely to be anticipating and addressing risks to people in its operations and



value chains; and ii) Could feasibly and meaningfully be the basis of company disclosures, even if they are not commonly disclosed today. It was noted that this could inform deliberations about mandatory human rights due diligence and reporting requirements. Based on this clear interest, Shift will explore this moving forward.

***F. Some participants requested more clarity about how the indicators compare or relate to the UNGP Reporting Framework and existing reporting requirements.*** The Shift team clarified that the indicators were not developed specifically for the purposes of reporting but that a number of them could lend themselves to that use. In particular, they could help stakeholders understand the extent to which a company thinks seriously and systematically about its impacts on people and the likelihood that respect for human rights will show up in how business gets done. This would be more insightful than many of the current indicators used in reporting, such as evidence of a policy, the numbers of people trained, of assessments conducted, of grievances received, or similar metrics that tend to be rather superficial.

With regard to the UNGP Reporting Framework, the team noted that it is structured around some common-sense questions for companies to address in their reporting, with suggestions as to relevant information they could include. The governance indicators in particular could be valuable in supporting robust answers to those questions related to “embedding respect for human rights” (Section A2, and notably questions A2, A2.1, A2.2 and A2.5). The team further noted that the revised Universal Standards recently issued for consultation by the Global Reporting Initiative will make reporting on human rights risk management mandatory for all GRI reporting companies. The Leadership and Governance indicators could provide a valuable means of meeting some of those new and updated disclosure expectations.



## II. Overview of Use-Case Opportunities Discussed

The table below provides a short summary of the ways to use the resource that different stakeholder groups identified as the most compelling and feasible in the context of their own work. Items in grey were seen as promising but requiring more dialogue.

In discussions, banks and investors recognized that the use cases ascribed below to company boards and company practitioners are also applicable to them as companies seeking to meet their own human rights commitments and responsibilities. Furthermore, the consultation with leaders and secretariats of business associations centered around how their organizations can enable company practitioners to apply the leadership and governance indicators in the ways outlined below.

Headline	Specific use-cases and entry-points
<p><b>Boards:</b> The indicators can help members of governing bodies to better fulfil their <b>duties and stewardship role with regard to risks to people</b> in the company’s operations and value chain.</p>	<p>Board directors, including non-executive directors, could use the resource to:</p> <ul style="list-style-type: none"> <li>• <b>Assess whether leaders are enhancing risk management</b> – by enabling an understanding of the strengths and weaknesses in how leaders embed a culture that supports the effective management of risks to people.</li> <li>• <b>Analyze incidents</b> - by ascertaining whether negative incidents are an outlier and one-off occurrence or a product of culture in a specific part of the company, and therefore likely to repeat.</li> <li>• <b>Support sustainability and resilience</b> – by understanding if corporate culture is equipping the business to be future-fit through anticipating and addressing adverse impacts on people.</li> <li>• <b>Self-assessing governance</b> – by understanding if members of the governing body are doing enough to embed a culture of respect for people.</li> </ul>



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**Company Practitioners:** The indicators can help practitioners to support the company in identifying **how corporate cultures are helping or hindering** respect for human rights.

Individuals leading the implementation of a company's human rights or sustainability programs could use the resource to:

- **Analyze company culture vis-à-vis respect for people:**
  - Regarding a **specific norm or value** (authenticity, accountability, empathy, learning)
  - In **different parts of the company** (functions, business units, geographies)
- **Assess business units and partners** – by analyzing if boards and senior leaders are embedding a culture that that will reduce human rights risks and increase the effectiveness of mitigation measures.
- **Analyze incidents** - by ascertaining whether negative incidents are an outlier and one-off occurrence or a product of culture in a specific part of the company, and therefore likely to repeat.
- **Assess the culture of acquisitions vis-à-vis respect for human rights:**
  - Pre-acquisition – by integrating analysis of governance and leadership into assessments of targets
  - Post-acquisition culture alignment – by identifying weaknesses in firms' corporate culture that need to be addressed.

**Banks:** The indicators can be used by banks to **strengthen their human rights risk analysis** of clients and investees and make **engagement with them more effective.**

Banks – in particular sustainability teams and relationship managers - could use the resource to:

- **Inform their engagement with clients/investees about incidents** – by ascertaining whether negative incidents are an outlier or a function of the client's or investee's culture, and then adapting post-incident engagement and financing accordingly.
- **Enhance risk assessment regarding clients/investees** - by identifying where governance and leadership actions are increasing risks to people, the business and the bank.
- **Improve targeted leverage** – by increasing client/investee attention to whether their boards and senior leaders are enabling the company to anticipate and address salient human rights risks.



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- **Maximize value of C-suite engagement** – by crafting questions that focus the, often limited time they have to engage with client/investee executives about their role in embedding respect for human rights.
- **Enhance analysis of the G in ESG** – by paying attention to whether client/investee governance is helping or hindering respect for human rights.
- **Enhance portfolio screening** – by engaging data providers to conduct research and analysis against a select number of indicators.

**Investors:** The indicators can be used by investors to **strengthen their human rights risk analysis** of investee companies and make **engagement with them more effective.**

Institutional investors could use the resource to:

- **Inform their engagement with investees about incidents** – by ascertaining whether negative incidents are an outlier or a function of the investee’s culture, and then adapting post-incident engagement and financing accordingly.
- **Enhance risk assessment regarding investees** - by identifying where governance and leadership actions are increasing risks to people, the business and the bank.
- **Improve targeted leverage** – by increasing investee attention to whether boards and senior leaders are enabling the company to anticipate and address salient human rights risks.
- **Maximize value of C-suite engagement** – by crafting questions that focus the, often limited time they have to engage with investee executives about their role in embedding respect for human rights.
- **Enhance analysis of the G in ESG** – by paying attention to whether investee governance is helping or hindering respect for human rights.
- **Enhance portfolio screening** – by engaging data providers to conduct research and analysis against a select number of indicators.



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- **Inform proxy resolutions** – by including calls for investees to assess and address ways in which corporate governance and leadership are helping or hindering respect for human rights.

**Governments:** The indicators can be used by government representatives to **inform reporting requirements, regulation and other measures** aimed at advancing business respect for human rights.

Governments could use the resource to:

- **Inform mandatory due diligence requirements** – by requiring that companies take steps to ensure that governance bodies and senior leaders act in ways that will likely increase the *quality* of human rights due diligence.
- **Prioritizing Quality not Quantity in disclosure** – by requiring companies to report on a few high value governance and leadership indicators that diverse stakeholders recognize as important for anticipating and addressing risks to people.
- **Elaborating on Directors' Duties** – by ensuring that the need to anticipate and address adverse impacts on people is reflected in directors' oversight of risk, strategy, culture, incident handling, sustainability.





### III. Next Steps

Over the course of 2020 and into the final months of the Valuing Respect project in 2021, Shift will:

- Develop a final version of the Leadership and Governance resource, informed by the feedback from these consultations, which will include:
  - The menu of Leadership and Governance Indicators;
  - Additional information and guidance on selecting and using the indicators;
  - Short, stakeholder-specific supplements to guide use of the resource.
- Work with organizations interested to become early adopters of the indicators, and publishing “vignette” case studies about early field-testing. For example, Shift is already in conversation with a few companies about piloting a “culture audit” methodology using the indicators.
- Disseminate and support uptake of the resource, including in collaboration with the project’s regional partners.
- Develop, consult on and refine a roadmap for possible future work to update the leadership and governance resources.

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## Annex: Consultation Participants

Ruben Zandvliet	ABN Amro	David Schilling	Interfaith Center on Corporate Responsibility
Richard Kooloos	ABN Amro	George Dallas	International Corporate Governance Network
David Lawrence	AIM-Progress	Josh Zinner	Investor Alliance for Human Rights
Peter Frankenthal	Amnesty International	Shameela Soobramoney	Johannesburg Stock Exchange
Lina Sandstrom	AP Fund 2	Julie Vallat	L'Oreal
Anna Pot	APG	Steve Crown	Microsoft
Luke Waldren	Barclays	Yann Wyss	Nestle
Aziz Filabi	BlackRock	Yann Wyss	Nestle
Ariel Smilowitz	BlackRock	Wilhelm Mohn	Norges Bank Investment Management
Vania borgerth	Brazilian Integrated Reporting Network	Caroline Eriksen	Norges Bank Investment Management
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Phil Bloomer	Business and Human Rights Resource Centre	Daniel Blume	OECD
Ariel Meyerstein	Citigroup	Rahcel Wilshaw	Oxfam
Camille Le Pors	Corporate Human Rights Benchmark	Jaren Dunning	PepsiCo
Nina Schuler	DFID	Beata Faracik	Polish Institute for Human Rights and Business
Shoko Sekiguchi	Domini	Rob Lederer	Responsible Business Alliance
Simone de Boer	Dutch Ministry of Foreign Affairs	Carlos Busquets	Responsible Business Alliance
Marte Johnson Stensrud	Equinor	Tanja Rasmussen	Rio Tinto
Theo Jaekel	Ericsson	David Parham	SASB
Tom Dodd	European Commission	Martin Buttle	Shareaction
Holger Dreiseitl	German Federal Foreign Office	Ed Potter	Shift Board Member (Formerly Coca-Cola)
Catie Shavin	Global Business Initiative on Human Rights	Margaret Wachenfeld	Themis; Institute for Human Rights and Business
Julie Kafoed	Global Compact Office	Harpreet	UNDP Asia-Pacific
Allison Burger	Gold-Fields	Doug Nystrom	Walmart
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Mark Latonero	Harvard Carr Center, Technology and Human Rights Fellow	Chris Fletcher	Wells Fargo
Jane Nelson	Harvard CSR Initiative	Dan Neale	World Benchmarking Alliance
Benjamin Gatland	Heineken	Paul Druckman	World Benchmarking Alliance / Shift Board Member
Whitney Mayer	Hershey	Erinch Sahan	World Fair Trade Organization
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