



LEADERSHIP & GOVERNANCE INDICATORS OF A RIGHTS- RESPECTING CULTURE

A TOOL FOR FINANCIAL INSTITUTIONS
TO EVALUATE PORTFOLIO COMPANIES'
GOVERNANCE OF HUMAN RIGHTS

Shift

THE CHALLENGE

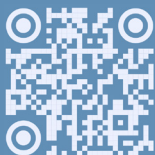


Predicting if a portfolio company will act and behave as it should to respect human rights can be difficult to do using prevailing methodologies. Available data – and even much engagement – tends to focus on relatively weak information, such as **policies and processes** that only tell us what *should* happen within the company; or reported incidents that lack insight into the likelihood of their recurrence.

This risks missing the profound influence that the **actions of governing bodies and senior leaders** can have on what *actually* happens, through the day-to-day decisions and behaviors of people across the organization. These reflect the culture and practices that determine the business’s impact on employees, workers, communities and consumers, the likelihood of significant incidents and whether lessons will be learned that improve performance.

As such, there is a need to more clearly identify the appropriate **leadership and governance characteristics that drive a rights-respecting culture** to allow investors and lenders to better understand – and influence – **the extent to which portfolio companies think and act seriously and systematically** about impacts on people.

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THE TOOL

Following engagement with stakeholders including companies, investors and banks, Shift has developed the Leadership and Governance Indicators resource (LGI), which is a publicly available menu of **22 indicators of leadership and governance** that investors and lenders can draw on, appropriate to their own needs and contexts, when evaluating a company's progress towards building a rights-respecting culture.

There are a total of 22 indicators, divided into two categories:

- 1. **10 GOVERNANCE INDICATORS** that focus on the actions of the most senior governing body and/or its relevant subcommittee(s).
- 2. **12 LEADERSHIP INDICATORS** that focus on the actions of senior leaders at corporate, regional, country and business unit levels.

THE MOST SENIOR GOVERNING BODY AND/OR ITS RELEVANT SUB-COMMITTEES...

reviews and challenges the company's business model and strategy to ensure any inherent human rights risks are identified and addressed.

GOVERNANCE NO. 1

Overview: Various features of company business models can carry inherent risk to human rights (see Shift's Business Model Red Flags resource). When such risks are embedded in the business model or strategy they cannot be effectively mitigated through operational measures alone, but require top level engagement. Where the governing body reviews the business model and strategy for inherent risks to human rights, and engages with top management on these questions, it is more likely that such risks will be identified and mitigated. Evidence of these practices provides a signal that respect for people is intended to be central, and not peripheral or incidental, to how business is conducted, and sets the basis for consistency and coherence of action across business decision making, including where tensions with profit-making and other core business motives may arise.

KEY QUESTIONS FOR LEADERS TO ASK OR BE ASKED

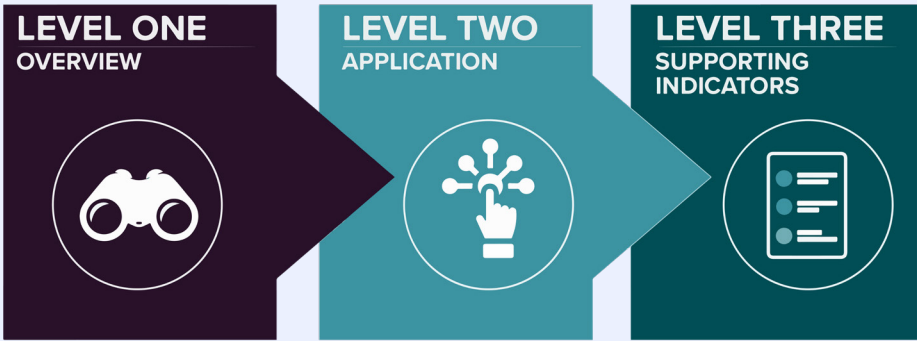
- Does the Governing Body review whether top management's performance incentives and related KPIs motivate progress in addressing the company's salient human rights issues?
- Is the review updated when there are any substantive developments in the business model or strategy?
- Is the review conducted before decisions are made, so they may be changed, or only after the fact with a view to mitigating any risks found?

CONNECTION TO CULTURE

AUTHENTICITY ACCOUNTABILITY

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Each indicator comes with implementation guidance, which is divided into three parts.



This includes:

- An **overview** of the Indicator's relevance and connection to corporate culture.
- **Initial questions** that can be asked of company leaders to aid initial analysis of whether the governance or leadership practice is present.
- The **types of application** to which a particular indicator lends itself.
- Potential **sources of evidence** of the indicator, for example, through disclosure or from solicitation of stakeholder perspectives.
- **Supporting indicators** that can help validate an indicator's insights by spotlighting assumptions that may underlie the indicator.

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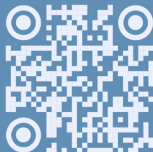
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USE CASE SUMMARY

As part of the process to define and develop the indicators in this resource, we engaged extensively with investors and lenders to understand how they are using, or plan to use, the resource. These are outlined below:

USE CASE	THE LGI CAN SUPPORT INVESTORS/LENDERS IN:
MORE PRODUCTIVE AND INSIGHTFUL ENGAGEMENT WITH PORTFOLIO COMPANIES	<ul style="list-style-type: none">• Analyzing a disconnect between well-intentioned policies and actual harms associated with portfolio companies, and honing in on more specific ways they could use their influence to bring about change.• Encouraging more sophisticated self-assessment by portfolio companies that moves beyond documented policies and processes.• Making the most of C-suite engagement opportunities by including dialogue on leadership and governance practices that help anticipate and address human rights risks.
MORE SOPHISTICATED PROXY RESOLUTIONS AND VOTING	Realizing opportunities for more impactful influence over company behavior and practices by making connections between social risks and leadership and governance characteristics in drafting of proxy resolutions or decisions on board nominees.
ENHANCED ANALYSIS OF INCIDENTS	Building a fuller understanding of the root causes of incidents of harms to people in the portfolio, to better assess the risks of recurrence and/or understand the potential for similar risks elsewhere in the portfolio.
ENHANCED RISK ASSESSMENT OF PORTFOLIO COMPANIES	<ul style="list-style-type: none">• Developing as rich an assessment of management quality as possible, by adding the dimension of an organization’s capacity for effective social risk management.• Encouraging more meaningful disclosure by companies over the longer term (recognizing that certain of the LGI will be more readily available than others in current disclosures).

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I. A Financial Institution (FI) uses LGI to help analyze whether a human rights incident is likely to recur.

A FI that is linked to a serious incident of harm through its relationship with a portfolio company is analyzing the conditions and circumstances that might predict a recurrence of similar harms in the future. Although seemingly adequate policies were in place prior to the incident, the company’s actions fell short of fulfilling the promise of those policies. The FI engages with the company and focuses on two leadership indicators and two governance indicators that would suggest the company is serious about diagnosing and correcting the behaviors and practices that led to the current incident.

GOVERNANCE INDICATORS: 7, 9

MENU

LEADERSHIP INDICATORS

SENIOR LEADERS AT CORPORATE, REGIONAL, COUNTRY AND BUSINESS UNIT LEVELS...

L1

talk regularly – both internally and publicly – about human rights, address risks to people across the company’s operations, and identify challenges and opportunities for achieving this purpose.

L2

regularly affirm that all stakeholders must be treated fairly and model this in their interactions with the company.

L3

pro-actively and regularly seek the insights and perspectives of external stakeholders to inform the company’s understanding of and responses to human rights risks.

L4

routinely seek out the experiences and views of internal stakeholders about how they are affected by the business and how their inputs have influenced company decision-making.

L5

routinely engage with external stakeholders to understand their views about how they are affected by the business and how their inputs have influenced company decision-making.

L6

engage constructively with affected stakeholders or their representatives with regard to any allegations that the company is involved in major human rights-related incidents in its operations or value chain.

L7

signal the importance of the internal function(s) or role(s) that lead(s) on human rights by ensuring their insights are integrated into decision-making processes.

L8

pro-actively seek to understand and avoid pressures on employees or contractors to act contrary to the company’s responsibility to respect human rights.

L9

encourage the workforce to raise questions or concerns about the company’s impacts on co-workers or external stakeholders.

L10

praise actions and decisions that advance the company’s commitment to respect human rights, and call out any that run counter to it.

L11

collaborate with business partners and other stakeholders to address systemic issues underpinning the company’s salient human rights risks, based on clear action plans, agreed timelines, and accountability measures.

L12

encourage the sharing of problems and setbacks, as well as progress and successes, to support improved management of human rights risks and impacts.

THE MOST SENIOR GOVERNING BODY AND/OR ITS RELEVANT SUB-COMMITTEES...

G7

requests and reviews a **root cause analysis** of any **incident** resulting in severe human rights impacts, in order to ensure that systems, processes and practices are adapted to avoid their recurrence.

G9

challenges any **top management performance incentives** that may promote behaviors that undermine respect for human rights.

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LEADERSHIP & GOVERNANCE INDICATORS

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SENIOR LEADERS AT CORPORATE, REGIONAL, COUNTRY AND BUSINESS UNIT LEVELS...

L10

praise actions and decisions that advance the company’s commitment to respect human rights, and call out any that run counter to it.

L12

encourage the sharing of problems and setbacks, as well as progress and successes, to support improved management of human rights risks and impacts.

LEADERSHIP INDICATORS: 10, 12

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II. A bank assessing and/or influencing a company’s focus on modern slavery risk.

A bank is analyzing a potential client’s connection to modern slavery impacts as part of the bank’s due diligence process. Using a selection of four governance indicators and three leadership indicators, the staff are guided in where to look for evidence of leadership and governance practices that are relevant specifically to modern slavery issues, and which they can then raise in the client relationship.

LEADERSHIP INDICATORS: 3, 6, 11

SENIOR LEADERS AT CORPORATE, REGIONAL, COUNTRY AND BUSINESS UNIT LEVELS...

- L3** pro-actively and regularly seek the insights and **critique of credible experts** to inform the company’s understanding of and responses to human rights issues.
- L6** **engage constructively with affected stakeholders** or their representatives with regard to any allegations that the company is involved in major human rights-related incidents in its operations or value chain.
- L11** **collaborate** with business peers and other stakeholders to **address systemic issues** underpinning the company’s salient human rights risks, based on clear action plans, agreed targets and accountability measures.

LEADERSHIP & GOVERNANCE INDICATORS

MENU

LEADERSHIP INDICATORS

- L1** regularly – both internally and publicly – about the company’s commitment to address risks to people across the company’s operations and value chain, strategy challenges and opportunities for achieving this goal.
- L2** regularly affirm that all stakeholders must be treated with respect and dignity, and model this in their interactions with the company’s workforce.
- L3** pro-actively and regularly seek the insights and **critique of credible experts** to inform the company’s understanding of and responses to human rights issues.
- L4** routinely seek out the experiences and views of people across the company’s workforce about how they are affected by the business, and inform them of how their inputs have influenced company decision-making.
- L5** routinely engage with external stakeholders to understand their experiences and views about how they are affected by the business, and inform them of how their inputs have influenced company decision-making.
- L6** **engage constructively with affected stakeholders** or their representatives with regard to any allegations that the company is involved in major human rights-related incidents in its operations or value chain.
- L7** signal the importance of the internal function(s) or role(s) that lead(s) on human rights by ensuring their insights are integrated into decision-making processes.
- L8** proactively seek to understand and avoid pressures on employees or contractors to act contrary to the company’s responsibility to respect human rights.
- L9** encourage the workforce to raise questions or concerns about human rights impacts on co-workers or external stakeholders.
- L10** praise actions and decisions that advance the company’s commitment to human rights, and call out any that run counter to it.
- L11** **collaborate** with business peers and other stakeholders to **address systemic issues** underpinning the company’s salient human rights risks, based on clear action plans, agreed targets and accountability measures.
- L12** encourage the sharing of problems and setbacks, as well as successes, to support improved management of human rights risks.

GOVERNANCE INDICATORS

- G1** reviews and challenges the company’s business model and strategy to ensure any inherent human rights risks are identified and addressed.
- G2** regularly discusses progress and challenges in addressing the company’s salient human rights risks, informed by related complaints or grievances from the workforce or external stakeholders, root cause analyses of major human rights-related incidents and knowledge of current leading practice.
- G3** **reviews and challenges the company’s efforts to influence public policy and regulation** to ensure they do not undermine human rights.
- G4** has systems in place to regularly **hear the experiences and views of people across the workforce** about how they are affected by the business, and informs the workforce about how these inputs have influenced company decision-making.
- G5** has systems in place to regularly **hear the experiences and views of external stakeholders** about how they are affected by the business, and informs them about how their inputs have influenced company decision-making.
- G6** ensures that cross-functional processes are in place to share information about human rights risks, agree actions to address human rights risks, and monitor progress against those actions.
- G7** requests and reviews a **root cause analysis** of any incident resulting in severe human rights impacts, in order to ensure that systems, processes and practices are adapted to avoid their recurrence.

THE MOST SENIOR GOVERNING BODY AND/OR ITS RELEVANT SUB-COMMITTEES...

- G3** **reviews and challenges the company’s efforts to influence public policy and regulation** to ensure they do not undermine human rights.
- G7** requests and reviews a **root cause analysis** of any incident resulting in severe human rights impacts, in order to ensure that systems, processes and practices are adapted to avoid their recurrence.
- G10** **approves high-level targets for assessing progress** in addressing salient human rights risks.

GOVERNANCE INDICATORS: 2, 7, 10

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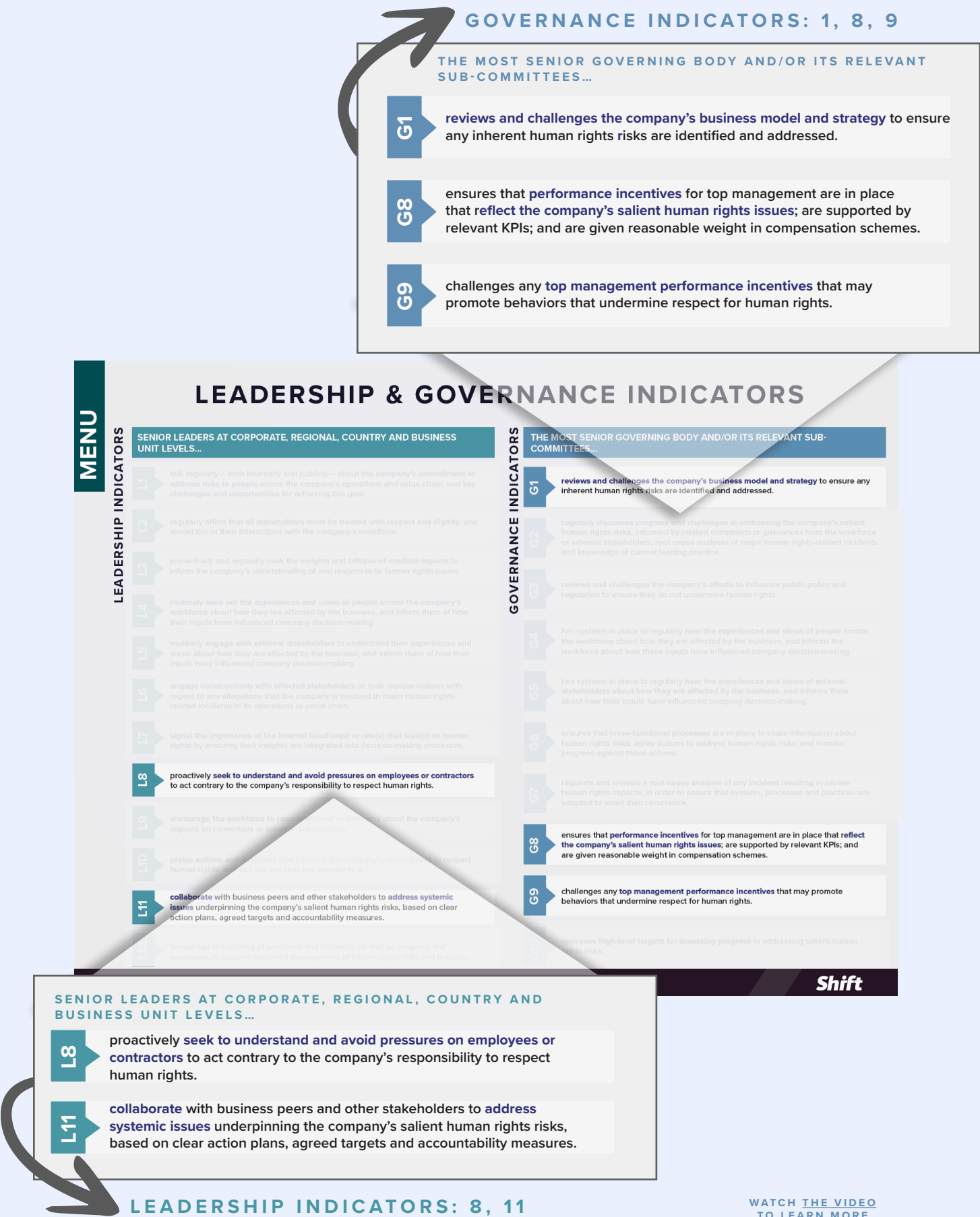
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III. Investor analysis of how respect for rights is maintained when there are competing objectives.

An investor is trying to understand how a portfolio company reconciles commercial interests with human rights impacts, and is concerned that the company tends to discount potential harms to people that may also carry long-term business risk, in favor of initiatives that help meet near-term revenue goals. Using a selection of three governance indicators and two leadership indicators, they are better prepared for engagement with company leaders to seek evidence from company leaders of how they manage human rights risks amidst competing objectives.



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ABOUT SHIFT

Shift is the leading center of expertise on the UN Guiding Principles on Business and Human Rights. For over a decade, we've worked with global companies, standard setters and financial institutions to put respect for people's dignity at the center of how business gets done.

Shift is a mission-driven organization, headquartered in New York City.

 shiftproject.org

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ABOUT VALUING RESPECT PROJECT

Valuing Respect Project was a three-year project, led by Shift, to research and co-create better ways of evaluating business respect for human rights. We developed tools and insights that can help both companies and their stakeholders focus their resources on actions that effectively improve outcomes for people. Valuing Respect was generously funded by the Ministry of Foreign Affairs of Finland, the Ministry of Foreign Affairs of Norway and Norges Bank Investment Management.

 valuingrespect.org