CSRD REPORTING SERIES

V. TARGETS AND METRICS: KEY PRINCIPLES FOR TRACKING PERFORMANCE ON MATERIAL IMPACTS

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Shift

TARGETS AND METRICS: KEY PRINCIPLES FOR TRACKING PERFORMANCE ON MATERIAL IMPACTS

What you will learn:
The European Sustainability Reporting Standards' (ESRS) minimum disclosure requirements on metrics and targets reflect the expectation that companies track their efforts to address human rights impacts. In this primer, we explore key elements of tracking, such as target setting, resource allocation and engagement with affected stakeholders.

1. TARGET SETTING

'Tracking' requires that companies measure the effectiveness of their efforts to manage salient (or 'material') human rights issues and is one of the core elements of human rights due diligence. The UN Guiding Principles on Business and Human Rights recognize that tracking is key to understanding whether policies are being optimally implemented and whether the company has responded effectively to identified impacts. In turn, this can help drive continuous improvement in the management of human rights impacts.[1]

The European Sustainability Reporting Standards' (ESRS) minimum disclosure requirements on metrics and targets reflect the expectation that companies assess progress on how they address human rights risks and impacts.[2] Indeed, companies should have "measurable, outcome-oriented and time-bound targets" in relation to their material impacts, risks or opportunities – and that if they don't, they should be able to explain how they are otherwise tracking the effectiveness of their policies and actions.[3]

Both sustainability due diligence and sustainability reporting focus on outcomes – the 'effectiveness' of policies and actions. This requires companies to look beyond interim milestones (such as program rollouts, policy adoptions, the numbers of people trained or social audits conducted) towards targets and measures of effectiveness.

1 Commentary to Guiding Principle 20.

2 See ESRS 1, para. 61, for the reference to due diligence and its reflection in ESRS 2 MDR-M, MDR-T and the topical ESRS regarding targets and metrics.

3 MDR-T para. 79-80.

The ESRS require a description of the relationship between a company's targets and the relevant policy objectives; and information on the expected and actual results of those policies and actions.[4] This seeks to surface the 'so what?' once a company has explained the steps it takes to manage its material impacts – that is, what has changed, in practice, as a result of those steps being taken. **And for human rights, that means considering the 'so what' for *affected stakeholders:*[5] the people for whom the effectiveness of policies and actions matters.**

This focus on affected stakeholders is clear in the ESRS, particularly in S1 to S4. For instance, Disclosure Requirement S2-4 requires a company to disclose "actions taken, planned or underway to prevent or mitigate material negative impacts" and "how it tracks and assesses the effectiveness of such actions and initiatives in delivering intended outcomes for value chain workers." Equivalent language can be found in the other social standards with regard to a company's own workforce, affected communites and consumers or end-users.

The Application Requirements for disclosure S2-5 specify that information regarding the intended outcomes in the lives of value chain workers be "as specific as possible."[6] This means, for example, that it may not be sufficient to say that safety training programs in garment factories in Cambodia are aimed at reducing accidents; instead, a more specific explanation is needed. In this example, that might mean detailing whether severe incidents have indeed been reported at those supplier locations,[7] and identifying which practices and behaviors (by workers, management and other actors) need to change in order for Cambodian garment workers to benefit from a safer working environment, particularly when considering "the wider context of sustainable development and/or local situation in which impacts take place."[8]

The ESRS also ask about the extent of stakeholder involvement in target-setting.[9] This includes asking whether affected stakeholders were engaged

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4 Idem

5 The ESRS define 'affected stakeholders' as "individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking's activities and its direct and indirect business relationships across its value chain."

6 ESRS S2-5, AR 45

7 See S2-6, para. 36.

8 MDR-T para. 80 (f).

9 See MDR-T para. 79 (h) and the topical disclosure requirements about the process for setting the targets, including whether and how the undertaking engaged directly with affected stakeholders.

to track the company's performance against the targets and to identify any lessons or improvements resulting from the undertaking's performance. For companies conducting or developing stakeholder engagement activities as part of their human rights due diligence, this is an opportunity to leverage relationships and interactions with affected stakeholders to develop or stress-test potential targets. In many cases, those groups may be a valuable support when it comes to gathering data on progress.

The disclosure requirements also support resource efficiency – meaning companies should not be spending resources on actions that don't result in changes or improvements to a material impact or risk. From a management perspective, good quality targets and indicators help to ensure resources are appropriately allocated. For more information check out **Shift's Indicator Design Tool**, which includes guidance on making evidence-based decisions regarding resource allocation in order to deliver improved outcomes for workers, consumers and communities.

2. CONSIDERATIONS FOR INTERNAL AND EXTERNAL AUDIT

The ESRS do not dictate targets, as these should be situation-specific. Instead, they outline criteria for high-quality targets, such as clearly distinguishing evidence of activities from evidence of actual outcomes for workers.[10] This is useful guidance, particularly for internal audit functions as well as assurance providers.

Shift and Mazars' **Assurance Guidance**, which accompanies the UN Guiding Principles Reporting Framework, can help internal and external auditors understand what to look for when it comes to tracking – including whether the company has qualitative and/or quantitative indicators that:

1) are capable of providing valid insights into how effectively the company is addressing human rights impacts;
2) are capable of being reliably measured or assessed;
3) are placed in context, where this is necessary to reliably interpret how effectively the company is addressing its impacts; and
4) include indicators that reflect stakeholder perceptions.

For more information, see the **Assurance Indicators**.

10 ESRS S2-4, AR 38.

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ABOUT SHIFT

Shift is the leading center of expertise on the UN Guiding Principles on Business and Human Rights. Shift's 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. Shift is a non-profit, mission-driven organization, headquartered in New York City. Visit **shiftproject.org** and follow us at **@shiftproject.**

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