Managing how business affects people

Complementary approaches of 'business and human rights' and 'social and human capital'

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Introduction

The field of 'business and human rights' is founded on the proposition that all companies have a responsibility to respect the human rights of people affected by their operations, products and services. This is articulated in the international standard of the UN Guiding Principles on Business and Human Rights and replicated across a range of other international, national, industry and multi-stakeholder standards, frameworks and principles.

The field of social and human capital is part of the 'capitals approach' to decision-making which is grounded in the principle that natural capital, social capital, human capital and produced capital form the foundation of human wellbeing and economic success. By understanding how they impact and depend on the capitals, companies can make holistic decisions that create value for nature, people and society alongside businesses and the economy.

The two distinct starting points for, and perspectives offered by these approaches to the impacts of business on people can create confusion. Yet there is a great deal that they have in common, and where they diverge, they do so in ways that are generally complementary and mutually supportive, while serving different objectives and needs. This paper aims to set out the basic commonalities and distinctions between the two approaches and show how they can work together to bring insight to business decision-making.

Common starting points: A focus on people

The 'S' in ESG is essentially about **people**. And the people who are in focus are the people who can be affected by business. They can be **identified in terms of four categories**:

- The workforce (direct employees and contingent workers)
- Workers in the value chain (upstream and downstream)
- Communities impacted by business activities and decisions (across the value chain)
- People impacted by products and services (consumers, end-users and others)

For both the field of 'business and human rights' and the field of 'social and human capital', the focus is on these 'affected stakeholders', as they are often termed.

The particular lens of business and human rights

Human rights are an expression of the minimum requirements – a certain level of outcome – that are needed for people to enjoy a life of basic dignity and equality. They are considered to be inherent to all human beings. They have been articulated in a series of international law instruments over a century, which have largely addressed governments and the expectation that they respect, protect and fulfil human rights.

Human rights:

- are divided into civil, political, economic, social and cultural rights, spanning the full array of issues that affect human wellbeing;
- set a conceptual (though not always readily measurable) threshold above which a life of dignity and equality becomes possible, and below which it is lacking in some degree;
- are focused on the individual (with the exception of Indigenous Peoples, which have collective human rights);
- are normative and therefore tend to be prescriptive in nature.

As of 2011, the UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multinational Enterprises set out expectations of business with regard to respect for human rights in their operations and value chains. They are based on the normative proposition that all companies of all sizes and sectors should avoid infringing on the human rights of others and address any negative human rights impacts with which they are involved – whether directly through their activities, or through business relationships across their operations and value chains.

These international instruments provide a **standard of conduct** for business: that is, rather than restating all the human rights that should be respected by business, they focus on the means through which companies should address any negative impacts on human rights with which they are involved. This is not a passive standard of 'do no harm' but requires active engagement to understand and address actual and potential impacts that can arise. This standard of conduct is increasingly integrated into national legislation and regulations, investor expectations and industry standards.

The particular lens of social and human capital

Capital has traditionally been thought of only as financial. However, *capital* describes any resource or asset that stores or provides value to people. Natural, human and social capital work in the same way as traditional capital – if we invest in them, they create value, and if we degrade them, we limit value. Natural, human, and social capital are the foundations of financial capital – including financial assets – and our economy. Companies must therefore understand and account for the value of all of these different capitals to better inform their decisions and manage their impacts on people and planet.

Human capital refers to an individual's knowledge, skills, competencies and attributes.

- For business, it is most directly associated with a company's own workforce on whose knowledge, skills and competencies companies depend on to create and deliver their products or services. It also relates to the health, safety and broader wellbeing of the workforce that shapes their willingness and ability to work productively for the company. The same is true with regard to workers in a company's value chain, albeit with indirect effect.
- Human capital is also relevant with regard to communities. For example, the use of harmful chemicals in crop areas may damage the health of local communities, while the provision of electricity and water services to rural communities may contribute to tackling gender inequalities, for example, reducing the time women spend collecting water so they can work.
- It is also relevant with regard to consumers and end-users. For example, the provision of social media platforms may affect the mental health of users through cyber bullying and online harassment; while the provision of banking services to low income consumers may gain them access to credit and the ability to build businesses.

Social capital refers to networks and their shared norms, values and understanding. It is often divided into bonding capital and bridging capital, where bonding capital reinforces relationships and networks within a group with similar characteristics (ethnic, religious, economic, ideological or other), while bridging capital builds relationships and trust between groups with differing characteristics.

- From a business perspective, social capital is often thought of in terms of relationships and networks with investors, regulators and others in the professional world, where this bonding capital can affect the company's success.
- It is also relevant in the case of consumers, on whose trust in its products or services a company depends; and in relation to communities that may protest or even halt company operations if they believe it is causing harm in their area.
- It can relate also to workers in the workforce or value chain on whose trust the company also depends, for instance with regard to protecting their private data, or distributing value in a reasonable and fair manner between shareholders, executives and low wage earners.

Social and human capital may be interrelated. In the example of communities whose health (human capital) is harmed by the use of unsafe chemicals on crops, this will often break down trust and relationships (bridging social capital) with the company, leading to protests or lawsuits against them and wider reputational harm.

In 2019, the Social and Human Capital Protocol was launched as harmonized guidance for organizations to identify, measure and value their impact and dependency on social and human capital.

Distinct but overlapping motivations for action

In the field of business and human rights, the starting point for action is the identification of an actual or potential negative impact on people's human rights connected with a company's operations, products or services. The international standards determine that companies have a responsibility to take action to prevent, mitigate and/or remediate such impacts. The objective is to address the negative impact – whether its origins are rooted in the company's own actions or in those of other entities in its value chain – so as to bring about a positive outcome for the people affected.

The starting point under a capitals approach is a business decision that needs to be made that requires an understanding of (typically) externalized impacts, such as impacts on people and the environment. The drivers for the decision can be multiple – ranging from delivering on a sustainability commitment to wanting to innovate, to needing to address a human rights risk, to wanting to improve financial performance. The capitals approach informs that decision by making visible where value is created or eroded to ensure effective action.

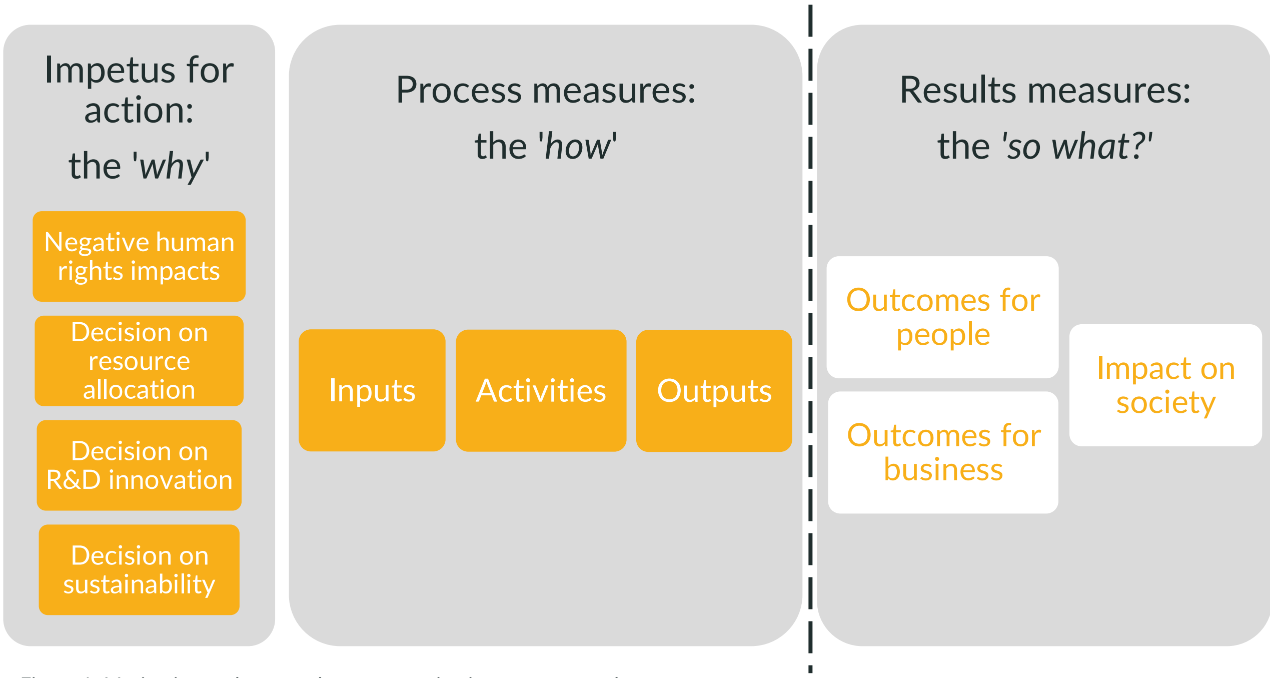

Figure 1: Motivation and approaches to managing impacts on people.

For example, the human rights approach might start from a business identifying child labor in its supply chain, which it has a responsibility to address. It might then undertake activities such as engagement with suppliers to address root causes and/or collaboration with peers to address systemic drivers, leading to various outputs. The ultimate aim is to achieve a measurable reduction in the number of children subject to child labour (not just removing them from the company's own supply chain while pushing them into the same situation, or worse, elsewhere). This will also lead to a more resilient supply chain for the business, with less reputational and legal risk.

The human and social capital approach might start from the business's dependency on workers in its supply chain and, once child labor is identified among those workers, it might then approach this in terms of either a decision on how to tackle child labor, or how to contribute to Sustainable Development Goals (e.g. Target 8.7 to end child labor), or how to develop brand recognition based on responsible sourcing. It might take the same pathway through to the outcomes, and then use those measures to estimate the value erosion for society of the presence of child labor – for example, in terms of the children's future health and earning potential – and the value of the resulting risk to the business of association with child labor in terms of reputation or social license to operate.

The language of outcomes and impacts

While experts both in capitals and in business and human rights recognize the need for some metrics related to *processes*, there is a shared concern that 'social' metrics have been dominated by information on inputs, activities and near-term outputs, with little clarity as to whether these measures lead to improved *outcomes* and *impacts*. Moreover, credible metrics to capture those outcomes and impacts have been rare.

Distinctions between 'outcomes' and 'impacts' can vary based on interpretation. The business and human rights field has tended to prioritize the concept of 'outcomes', meaning the results achieved for *individuals*, and related results for the company. The capitals field has tended to prioritize the concept of 'impacts' to designate the *value* of the results, whether for business or society more generally.

For example, business activities to reduce water pollution that lead to safe water in local aquifers can ensure that people in local communities enjoy their right to clean water, with further potential effects on their rights related to health and earning a living income (e.g., from farming). These are the results in which the human rights approach is most interested in. A capitals approach might look at the company's dependency on workers from those local communities and on the water sources concerned and seek to estimate a value in terms of the health of the communities or the quality of the water. Ultimately it will seek to integrate the values of these impacts and dependencies into how the company measures its corporate performance on an ongoing basis.

Ultimately, the distinctions in the use of 'outcomes' and 'impacts' are largely immaterial compared to the shared aim - which is to move beyond measuring activities and outputs and towards evaluating their results, enabling companies to take informed and appropriate action.

A shared focus on outcomes and impacts

The fields of both business and human rights and social and human capital are interested in the outcomes for and impacts on people that flow from business conduct.

Outcomes for and impacts on people refer to the state of people's lived experience, for example:

- the level of education they have been able to achieve,
- the level of health they are able to enjoy,
- the extent to which they are and feel safe in their workplaces,
- any discrimination to which they are subject,
- their ability to move and speak freely,
- the levels of income and wealth they can attain.

Both fields are also interested in the outcomes for and impacts on business that result from creating positive outcomes for people.

The capitals approach looks at impacts on business that flow from its reliance, or dependency, on the value provided by people. The belief is that business should deliver positive outcomes for people because business depends on people to be successful.

The business and human rights perspective is grounded in the self-standing responsibility of all companies to respect human rights, regardless of the effects on the business. However, where these effects – or 'outcomes' – can be shown to be positive for business over the short, medium or long term, this creates additional intrinsic incentives for companies to embed respect for human rights into business practice. As such, outcomes for business are of interest as an important driver of progress in outcomes for people.

Measuring outcomes and impacts

A capitals approach to measurement considers how a company both impacts and depends on human and social capital, creating an increase or a decrease in those stocks of capital. It looks at the relationship between a company's actions, consequent changes in the capital, and how this change affects people and the company; this chain of relationships can be described as the "impact pathway". For dependencies, the capitals approach looks at how changes in the capital affects the business activities and financial performance – a chain described as a "dependency pathway". These changes in the capital can be as a result of the business' own activities or as a result of others' actions.

The capitals approach then seeks to understand the significance of the consequences of these changes by introducing context. For this, it uses valuation. The purpose of valuation is to support better decision-making by business. Value can be expressed in different forms – qualitative, quantitative or monetary – to demonstrate where value has been created or eroded, and for whom. For example, for health impacts, monetary valuation could represent how much those affected would be willing to accept to suffer the impact or would be willing to pay to avoid it. Another method might be to evaluate quality adjusted life years which represent a loss in quality of life caused by different ailments. The choice of valuation approach depends on how it is to be used.

In some cases, where companies are dealing with a vast number of outputs and measuring outcomes is not feasible, value transfer approaches are used to infer the change in social and human capital (outcomes) through valuing the impact. This is most common in natural capital assessments, where the change in natural capital is inherently bound up in the valuation of the stock e.g. scientific study of a watershed in a particular location identifies that 1 m3 of water provides 4.6 USD of value to the community. We can use this value factor to identify that extracting 1000 m3 therefore has a societal cost of 46,000 USD to the community of that location. In a different country, location or region the context, and therefore the consequences of business' actions, will be different. Valuation allows these differences to be reflected in business decisions.

A business and human rights approach to measurement is first and foremost about evaluating the change in outcomes for affected people that result from business actions aimed at addressing negative impacts on human rights. Since progress may be further incentivized and supported where there are associated benefits for business, measuring these benefits can also be important.

One of the primary problems with approaches to measurement that stop at 'outputs' has been the frequent lack of evidence that outputs lead in any causal way to intended outcomes for people. This is in part because outputs often define how people in a business are intended to act – as articulated in the policy or process that is developed, or the knowledge gained through, for example, training on human rights risks. However, these outputs may vary substantially from how people act in reality – their *actual* behaviors and practices – which are what determine the outcomes for people that can be achieved. Measuring those actual behaviors and practices can provide a strong leading indicator of outcomes themselves and can often be done at greater scale and frequency than the measurement of outcomes. However, it requires confidence in, and periodic testing of, the continuing causal connections between the identified behaviors and practices and the intended outcomes.

The example of living wages

The compatibility and complementarity of the capitals and human rights approaches can be illustrated in the case of living wages.

Being paid a living wage is itself a human right and represents an important outcome for people. It enables them to have sufficient income to secure a life of basic dignity for themselves and their family. It may enable a worker to preserve and gain better health, to ensure their children can stay in school and get a better education, to gain more adequate housing for their family or to improve their nutrition. As such, the outcome of receiving a living wage enables progress towards, or the achievement of, other human rights outcomes. Moreover, under the international standard of the UN Guiding Principles, companies have a responsibility to respect this human right, which requires that they take action to address situations where wages fall below this threshold.

In order to further incentivize progress towards paying living wages and develop an evidence base for how to do so most effectively, the capitals perspective introduces the means to value the impact of living wages on human capital. This enables companies to measure the erosion of human capital – in health or other terms - that results from workers receiving less than a living wage; and it can show the generation of human capital that results from moving workers towards and above the living wage threshold. This in turn helps companies understand this aspect of their impact on people in the language of investment and can help them identify how and where they can make the most substantial difference for workers and society in closing the living wage gap.

In this example, a capitals approach can also help companies assess value for the business from paying a living wage. However, it requires that value for both society and the business derived from those wages that are above the living wage threshold is not used to off-set or mask value erosion associated with wages that fall below that threshold.

Summary

The fields of 'business and human rights' and 'social and human capital' share important commonalities; namely a focus on people and an aim to understand the consequences of companies' actions for people, moving beyond activities and outputs towards an understanding of outcomes and resulting impacts – the 'so what'.

Both fields have distinct, yet overlapping, motivations for action. While business and human rights starts from a need for action to address a negative impact; social and human capital stems from a need for a decision. While business and human rights is concerned first and foremost with measuring outcomes for people, with a lesser focus on outcomes for business; social and human capital looks at how to value those outcomes or impacts – for both people and business. Both approaches aim to enable better business decisions: decisions informed by the normative expectations set out in international standards in terms of human rights outcomes; or decisions informed by an understanding of the relative merits of different courses of action in terms of their ultimate impacts. The two approaches are not at odds, and indeed are readily aligned and mutually supporting, provided there is due attention to ensuring that capitals-based assessments are not used to off-set human rights harms.

Business and human rights	**Social and human capital**
Both fields prioritize a focus on people	
Both fields aim to illustrate outcomes for and impacts on people, rather than activities and outputs, in order to inform companies' actions	
The starting point for action is the identification of an actual or potential negative impact on people's human rights connected with a company's operations, products or services.	The starting point for action is a business decision that needs to be made that requires an understanding of (typically) externalized impacts on people.
In terms of measurement, business and human rights evaluates the change in outcomes for affected people that result from business actions aimed at addressing negative impacts on human rights. Outcomes for business are captured to a lesser extent.	In terms of measurement, social and human capital seeks to measure the outcomes and then value the impacts for society and business in support of better business decision-making.

Table 1: Summary of commonalities and distinctions between' business and human rights' and 'social and human capital'