II.

THE PEOPLE CENTERED ARCHITECTURE OF THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS

AUGUST 2023

Shift

THE PEOPLE CENTERED ARCHITECTURE OF THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS

What you will learn:

In the second article in our CSRD mini-series, we highlight the European Sustainability Reporting Standards' (ESRS') clear and coherent architecture for social disclosures, which centers on four groups of stakeholders. This novel construct moves us past the mish-mash of terms and categories that have dominated social reporting frameworks so far, and humanizes the reporting process by focusing attention on those most likely to be harmed by business activity.

1. SOCIAL REPORTING

For years, companies have been reporting on their "social" sustainability issues, whether in line with reporting frameworks, in response to investor or data provider requests, or of their own volition. From a human rights or "social" perspective, this has often provided a somewhat incoherent mix of disclosures on topics that range from business functions such as "supply chain management" or "labor relations"; to groups of people such as indigenous communities; to specific issues such as diversity, forced labour, health and safety and privacy; to general categories such as "human rights" or "human capital." These issues are grouped in very different ways, and the resulting categories often overlap.

So, it's significant that **the new European Sustainability Reporting Standards (ESRS) provide a clear and coherent architecture for social disclosures.** Beyond the two cross-cutting standards that sit atop the architecture, the ESRS unsurprisingly follow the widely known environmental/social/governance – "ESG" – structure. But it is in the structure of the social standards that the novelty of the architecture stands out.

2. AN ARCHITECTURE CENTERED ON PEOPLE

The construct makes clear that the "social" category centers on people. It breaks this down into four groups of stakeholders who can be impacted by business activities, and on whom business may depend.

Shift

The four groups of affected stakeholders are:

- **A company's own workforce** – understood to include both direct employees and workers hired through third-party agencies and as self-employed contractors;
- **Workers in a company's value chain** – both upstream and downstream;
- **Communities affected by the business** – whether through its operations or its value chain;
- **Consumers or end-users** of the company's products or services.

This four-part architecture (see *figure 1,* p. 5) was first proposed by the Project Task Force that developed recommendations for these standards back in 2021, before the current sustainability reporting bodies of **EFRAG** were established. The Task Force expressed the view that "this stakeholder-centred approach would ease the navigation and understandability of the social category and keep an appropriate focus on the people affected." It also anticipated the need for the identification of those specific social topics most relevant to each category of affected stakeholder, "in order to establish a practical, clear and detailed classification of matters to be addressed."

The final ESRS provide this additional layer of clarity. ESRS 1 includes a non-exhaustive table with an array of sub-topics for each of the topical standards.[1] For the social standards, these reflect potentially material matters with regard to each of the four stakeholder groups (see summary table below). While the ESRS only include specific disclosures on these more detailed topics in the 'own workforce' standard (S1), ESRS 1 directs companies to consider the lists of all the social (and other) standards when conducting their materiality assessment.

3. THE BENEFITS OF THE SOCIAL ARCHITECTURE

This four-part social construct, with the indicative topics under each standard, provides the kind of clear and simple architecture that has largely been missing with regard to social issues.

- **It moves us past the mish-mash of terms and categories** that has dominated social reporting frameworks and data analyst methodologies to date;
- **It gets away from dehumanized topics such as human "capital" or "supply chain management"** to focus first on the fact that this is

---

1   ESRS 1, Application Requirement 16, p. 25-27

about very particular people who are vulnerable to harm in particular contexts, and on whom companies frequently depend.

- **It sets an expectation that companies' materiality assessments will consider all four categories of people in their process, not defaulting into easy assumptions that certain groups are simply not relevant.** For instance, while supply chain workers will always be a necessary focus for an apparel company, workers in its retail outlets or building its stores may also be critically relevant. While communities around a mining operation will always be a necessary focus for that sector, there may well be significant material issues related to workers in their supply chains.
- **It provides a pointer for assurance providers to make sure that the full scope of potential impacts has been thought through when they are reviewing company materiality assessments.** Instead of reinforcing company blind spots, assurance providers can leverage the architecture of the social ESRS to interrogate assumptions and, where needed, press for some deeper enquiries.

As the late Professor John Ruggie, author of the UN Guiding Principles on Business and Human Rights (UNGPs), put it: **"we need to think of the S in ESG as addressing the people dimension of sustainability."** The architecture of the ESRS social standards drives this point home. It should help companies systematically think through their various impacts and dependencies on people, avoid blind spots and accurately identify the material 'social' issues to include in their reporting.

Figure 1: The architecture of the European Sustainability Reporting Standards. Note that except for 'Water and Sanitation,' the rights and issues relevant to a company's own employees are the same as those for workers in their value chain.

OWN WORKFORCE	VALUE CHAIN WORKERS	AFFECTED COMMUNITIES	CONSUMERS AND END-USERS
Working Conditions	**Working Conditions**	**Communities' economic, social and cultural rights**	**Information-related impacts**
• Secure employment • Working time • Adequate wages • Social dialogue • Freedom of association • Collective bargaining • Work-life balance • Health & safety	• Secure employment • Working time • Adequate wages • Social dialogue • Freedom of association • Collective bargaining • Work-life balance • Health & safety	• Adequate housing • Adequate food • Water and sanitation • Land-related impacts • Security-related impacts	• Privacy • Freedom of expression • Access to (quality) information
Equal treatment and opportunities	**Equal treatment and opportunities**	**Communities' civil and political rights**	**Personal safety**
• Gender equality and equal pay for equal work • Training and skills development • Employment and inclusion for persons with disabilities • Measures against violence and harassment in the workplace • Diversity	• Gender equality and equal pay for equal work • Training and skills development • Employment and inclusion for persons with disabilities • Measures against violence and harassment in the workplace • Diversity	• Freedom of expression • Freedom of assembly • Impacts on human rights defenders	• Health and safety • Security of a person • Protection of children
Other work-related rights	**Other work-related rights**	**Rights of indigenous peoples**	**Social inclusion**
• Child labor • Forced labor • Adequate housing • Privacy	• Child labor • Forced labor • Adequate housing • Privacy • Water and sanitation	• Free, prior and informed consent • Self-determination • Cultural rights	• Non-discrimination • Access to products and services • Responsible marketing practices

Excerpt from ESRS 1 AR 16 "Sustainability matters covered in topical ESRS" (S1 to S4). Graphic by Shift.

ACKNOWLEDGMENTS

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.**

shiftproject.org

@shiftproject

shift-project

CSRD MINI SERIES

For other items in this series please visit **visit the webpage**.