

An aerial photograph of a village in a tropical setting. A dirt road runs through the center, leading to a red dirt soccer field. The village consists of several small houses with colorful walls and dark roofs. The surrounding area is lush with green trees and vegetation.

OCTOBER 2025

Strengthening the **S** in ESG

DEEP DIVE SERIES

03 Community Focused Indicators

Shift



INTRODUCTION

This deep dive into community focused indicators and metrics is part of Shift's **Strengthening the S in ESG Series** focused on designing better social indicators and metrics. It is based on our analysis of 135 indicators within ESG data providers' products, responsible business benchmarks, and reporting requirements.

This supplements our first phase of S in ESG research in which we looked at 1300 social indicators and metrics and provided issue-agnostic recommendations in the form of three guardrails (what to avoid) and three guidelines (what to aim for) in indicator design.

The aims of this second instalment of our research series – also focused on Occupational Health & Safety indicators and Living Wage indicators – are:

1. To provide recommendations for improving S in ESG data available to investors about companies' management of specific issues (OHS, Living Wages) or impacts on specific stakeholder groups (Communities).
2. To identify good practice from these indicators that could inform indicator design in other areas of social performance.

To access more resources within our Strengthening S in ESG series, [please visit our webpage.](#)

THE INDICATORS: SOURCES AND SCOPE

This research is based on Shift's analysis of 135 community-focused indicators used in ESG data products, reporting frameworks and benchmarks. Approximately **30% of these (a total of 41 indicators) were identified from the library of several hundred indicators used within major ESG data provider methodologies¹** that Shift catalogues for our initial "S in ESG" analysis.

The **remaining 70% (94 indicators) were drawn from international reporting standards, benchmark methodologies and investor-focused resources, including:** Global Reporting Initiative and SASB sectoral and topical standards; Global Impact Investing Network IRIS catalogue of metrics; the IFC's ESG Performance Metrics for Capital Markets; the ILO's Just Transition Finance Tool, the Business for Inclusive Growth Just Transition Indicators, the World Benchmarking Alliance (WBA) Social Transformation Framework, as well as WBA's Corporate Human Rights Benchmark methodologies for the extractives industry, and for the food and agricultural products sector.

All indicators from these sources that evaluate business commitment or action related to communities were included in the research. By way of overview, the reviewed indicators focus on different features of business conduct including policy commitments, impact assessments, stakeholder engagement and grievance management. The thematic issues covered by the indicators analysed are also diverse, ranging from corporate philanthropic investments (e.g. for housing, health and education), to impacts on access to water, to respect for indigenous people's rights to Just Transition.

Finally, of the 135 indicators catalogued for this research, only 3 concerned the management of impacts on communities in companies' upstream or downstream value chains. Therefore, the analysis and findings below are limited to how to improve ESG data about company's own operational impact on local communities.

DEEP DIVE: COMMUNITY FOCUSED INDICATORS

RESEARCH FINDINGS:



Finding #1

A large portion (almost 20%) of community ESG indicator viewed remain focused on corporate philanthropy creating perverse behavioural consequences among assessed companies.



Finding #2

Many community ESG indicators – such as those focused on allegations or that overlap with companies' compliance with laws - are impossible for investors to interpret without context.



Finding #3

More consistent use of indicators that are strong predictors of whether companies routinely identify impacts on local communities would provide investors greater insight.



Finding #4

Indicators to evaluate companies' management of specific impacts on communities are in use. But a more uniform approach that focuses not only on actions taken but also a company's assessments of effectiveness and engagement with stakeholders to inform action would offer investors more consistent and comparable ESG data to inform stewardship activities.



Finding #5

There are some early, efforts to provide investors with quantitative metrics about a company's management of issues, which also carry the potential to incentivize companies to identify, be transparent about and address impacts on communities.

01

A large portion of community ESG indicators reviewed remain focused on corporate philanthropy creating the perverse behavioural consequence that companies may pay less attention to the most significant impacts on people and fail to address related business risks.

27 (or 20%) of the 135 indicators analysed for this research, center on corporate philanthropic investments or community programs. Formulations include “whether the company has a statement of principles or process by which community investments are made”; “whether the company has assigned a senior level position responsible for community programs”; “whether a company has any programs or initiatives to facilitate access to education, healthcare, housing”; and “the total investment (USD millions) in community development projects in a given fiscal year”.

These indicators reflect an outdated understanding of corporate responsibility that most investors have moved beyond. Moreover, rewarding of corporate philanthropy in ESG scoring risks orienting business decision-makers away from identifying and addressing the most significant risks to people within their operations and value chains.

As such, community philanthropy indicators should, for the most part, be removed from ESG data providers’ methodologies. This is not to suggest that philanthropic investment by a company is never part of its due diligence: for example, investments in facilities or infrastructure that provide access to water where water sources are going to be temporarily or permanently affected by a business operation; or projects as part of Impact and Benefit Agreements with local communities or Indigenous Peoples. But that does not mean that philanthropic investments in general should be rewarded and incentivised for all companies in all contexts.

RESEARCH FINDINGS

02

Many community ESG indicators – such as those focused on allegations or that overlap with companies' compliance with laws - are impossible for investors to interpret without context.

Of the indicators reviewed for this research, **10% focus on media reports or allegations implicating a company in negative impacts on local communities.** Example formulations are whether “a company has been involved in any incidents, complaints, or grievances relating to the rights of indigenous peoples”; or whether there are “public controversies, involving past or on-going impacts to water used by others”.

While a low number of allegations could indicate good management of human rights impacts, it could equally reflect limited media or public attention to the company in question: for example, because it is a mid-size, B2B company, or a company headquartered in a market with limitations on civil society research and advocacy. Therefore, such indicators are impossible to interpret without detailed context about a company and its operating environment, making them bad candidates for use in ESG rankings and ratings.

Interpreting allegation data is further complicated by the fact that past events are not always the best predictors of current and future practice. It is not uncommon for negative events to spur companies into action or even adopting market-leading practices; but that action will rarely garner media attention, and it may be months until it is reported in public disclosures. In sum, when considered in isolation, without research into the specific company in question, allegations indicators offer, at best, ambiguous insight into a company's current or future practices.

As noted earlier in this research series, ESG data providers could repurpose allegations data such that investors can use it for conducting company specific due diligence instead of portfolio screening. This might open up greater opportunities for bespoke collaborations with investors interested in more granular and up-to-date information on a sub-set of companies that they have already prioritized for engagement.

The same issues arise with indicators that seek to measure legally required performance on certain issues. Our research identified community indicators

that focus on employment of community members which can be mandated by so-called “local content” demands (government requirements to employ local nationals or procure from local business as a condition for licensing and investment): for example, whether a company “has hired senior level positions from the local community” or “has a policy to support local suppliers or prioritize purchases that support local communities”.

THE COSTS OF FAILING TO ADDRESS IMPACTS ON COMMUNITIES:

WHY BETTER ESG DATA MATTERS

When ESG data fails to offer meaningful insight about companies’ management of their operational impacts on communities, it is harder for investors to reward business practices needed to build sustainable economies that work fairly for people and planet. As the following example show, it also inhibits investors from spotting and managing business risks across their portfolio.

- In early 2024, a federal judge ordered the dismantling of Enel’s 84-turbine operating wind farm, which was deemed to be trespassing on indigenous land in Oklahoma, US. This tear down is estimated to have cost the company US\$260 million, in addition to any damages awarded to the Osage Nation who challenged the wind farm.
- First Quantum Minerals was granted a 20-year extension to their copper mining concession in Panama on an expedited basis by the Panamanian government in 2023, allowing little or no time for consultation with affected stakeholders. In response, protests erupted across Panama, including blocking the port that serves the mine, effectively shuttering the mine site. Panama’s Supreme Court then declared the company’s contract unconstitutional and ordered the closure of the mine, which is estimated to cost USD800 million.
- A 2019 report from the Overseas Development Institute and TMP Systems found that insecure land tenure can cause severe business losses, from project delays and cancellations to bankruptcy. In one East African case, a sugar project was abandoned at a cost of USD 52 million, while broader tenure disputes were found to erode up to three times a project’s net present value.
- A 2018 study examined the cost and material losses experienced by ETP and other companies with an ownership stake in the Dakota Access Pipeline (DAPL), which was subject to sustained opposition from Indigenous groups and characterized by widespread national and international protests. The owners lost revenue, operating costs and legal fees estimated at US\$7.5 billion, in addition to material downward pressure on the company’s share price.

03

More consistent use of indicators that are strong predictors of whether companies routinely identify impacts on local communities would provide investors greater insight.

ESG data providers are using some good indicators that seek to evaluate aspects of companies' due diligence related to impacts on local communities. Examples include indicators that evaluate the degree to which a company "discusses current or expected impacts on communities and local economies, including positive and negative impacts where relevant"; has "mechanisms for managing community incidents, complaints, or grievances"; or has "Operations with local community engagement, impact assessments, and development programmes."

In contrast to the types of indicators addressed in Findings 1 and 2 above, indicators like these move in the direction of providing the data that investors need to manage human rights risks in their portfolios³. However, they only offer investors a small window into a company's risk identification practices.

Much better would be for ESG data to provide insight about the likelihood that companies will implement due diligence consistently across high-risk contexts in ways that will reduce negative impacts and risks. As explained earlier in this research series, indicators focused on governance and leadership attention and competence, corporate-level risk identification and prioritization practices, and the quality of stakeholder engagement (beyond the existence of engagement mechanisms) can aid in this regard.

Expert-informed civil society benchmarks and international organisations' measurement tools have already published indicators that data providers can take inspiration from. For example:

- WBA's Corporate Human Rights Benchmark for the extractives sector includes assessment of whether:
 - "The company indicates that a board member or board committee is tasked with specific governance oversight of respect for human rights."
 - "The company describes the human rights expertise of the board member or board committee tasked with that governance oversight."
 - "The company describes the global systems it has in place to identify its human rights risks and impacts on a regular basis across its activities"

involving consultation with affected stakeholders and internal or independent external human rights experts.”

- The IFC’s ESG Performance Metrics for Capital Markets and related Corporate Governance Progression Matrix for Listed Companies, include attention to:
 - “Board reviews [of] independent audits on effectiveness of Environment and Social Management System (ESMS), including stakeholder engagement processes and grievance mechanism”.
 - “E&S in-house/external capacity (E&S unit/department, in-house qualified E&S staff to identify and monitor E&S risk associated with development of new assets and operations, formal process for outsourcing E&S due diligence to qualified external consultants)”.
 - “Periodic analysis of grievances to identify trends and root causes is conducted by senior management”, and “Senior management participate actively in international industry discussions on related topics”.
 - Whether “Stakeholder engagement reporting [is] consistent with international standards (such as AA 1000 Standards on Stakeholder Engagement and Accountability Principles and ISO 26000)”.

THE RISING BAR FOR DISCLOSURE:

MAKING BETTER S INDICATORS MORE FEASIBLE

In recent years, reporting standard-setters have been substantially raising the bar for company reporting on the nature of board-level engagement in sustainability matters and companies’ understanding of the most significant impacts on people and planet particular to their business. This means that data providers and investors seeking to gain more insight into companies’ practices in these areas should increasingly be able to do so: better information in disclosure makes the use of better indicators at scale more feasible. By way of illustration:

- The Global Reporting Initiative’s General Disclosures include a focus on the “Role of the highest governance body in overseeing the management of impacts” (GRI 2-12) including that companies should “describe the role of the highest governance body in overseeing the organization’s due diligence and other processes to identify and manage the organization’s impacts on the economy, environment, and people including whether and how the highest governance body engages with stakeholders to support these processes”.

GRI 2-13 goes on to state that, among other items, companies shall “describe the process and frequency for senior executives or other employees to report back to the highest governance body on the management of the organization’s impacts on the economy, environment, and people.”

- The IFRS Sustainability Disclosure Standard (IFRS-S1) includes disclosure requirements about the role of governance bodies, including “how and how often the body(s) or individual(s) is informed about sustainability-related risks and opportunities,” and “how the body(s) or individual(s) takes into account sustainability-related risks and opportunities when overseeing the entity’s strategy, its decisions on major transactions and its risk management processes and related policies...” (paragraph 27); and
- The European Sustainability Reporting Standards³ mandate an explanation of: “the sustainability-related expertise that the [governing] bodies, as a whole, either directly possess or can leverage, for example through access to experts or training” (ESRS 2 GOV-1); “whether, by whom and how frequently the administrative, management and supervisory bodies, including their relevant committees, are informed about material impacts, risks and opportunities, the implementation of sustainability due diligence and the results and effectiveness of policies, actions, metrics and targets adopted to address them, as well as any other sustainability- related concern that may arise and would require their attention” plus “a list of the material impacts, risks and opportunities addressed by the administrative, management and supervisory bodies, or their relevant committees during the reporting period” (ESRS 2 GOV-2).

04

Indicators to evaluate companies' management of specific impacts on communities are in use. But a more uniform approach that focuses not only on actions taken, but also a company's assessments of effectiveness and engagement with stakeholders to inform action, would offer investors more consistent and comparable ESG data to inform stewardship activities.

25 (or 19%) of the 135 indicators analysed for this research consider the degree to which companies are focused on addressing specific impacts. Most of these concern land use, indigenous people's rights, security, conflict and Just Transition, for which we identified a handful of indicators for each topic.

Within these topics, the nature of indicators and methodologies to score a company's performance varies widely. **Some indicators in use evaluate a company's commitments or activities with no insight into follow-through.** Examples include indicators that assess the existence of "a company's commitment to recognize and respect the rights of indigenous peoples (IPs) who may be impacted by its business activities, including respecting the right to free, prior and informed consent and seeking effective representation and participation from IPs" or "Statement, policy or code on security forces and interaction with local community including but not limited to gender-based violence" or the "Number of social dialogues being held and engagement with local communities within a year in the context of the just transition". These kinds of indicators cannot (nor should they) offer confidence to investors that impacts, and related business risks, are being managed.

More promising is that **some indicators in use are designed to evaluate the extent of active management of specific impacts.** For example, by assessing, "whether a company conducts community impact assessments in line with the principles of Free, Prior and Informed Consent (FPIC) or whether there is any evidence of community engagement prior to developing in new areas."; or if a company describes "how it implements preventive and corrective action plans for identified specific risks to the right to water and sanitation in its own operations".

Even with more promising indicators in circulation, **there are two challenges facing investors** seeking to use ESG data. First, individual ESG rankings, ratings and tools apparently use different approaches to evaluate business action depending on the issue: for example, one provider might focus on policy commitments for land-related impact, but evidence of practice related to health impacts on communities. Second, there are clearly divergences in evaluation methodologies between providers, even on the same issues.

Much better, for investors and likely the companies being assessed by data providers, would be more consistent attention to signals of robust management of community impacts, irrespective of the issue. This exact question has been explored in the context of reporting standards. Both the Global Reporting Initiative⁴ and European Sustainability Reporting Standards⁵ **not only on actions to manage material topics/impacts but also on a company's tracking of the effectiveness of those actions and credible evidence of the degree to which engagement with stakeholders has informed the actions.** This provides a simple formula that should at least be at the foundation of what data providers evaluate

Our research identified a couple of indicators that are already aligned to this approach. For example: “This indicator assesses a company’s programmes to reduce noise levels associated with transportation activities and to manage the impact of noise on local communities, including specific targets as well as monitoring and reporting on outcomes” [emphasis added]” and “The company provides evidence that its security and human rights assessments include inputs from the local community, including about their security concerns...and company provides at least one example of working with community members to improve security or prevent or address tensions related to its operations” [emphasis added].

This shows that it is feasible, even if not common practice, for data providers to focus evaluations of company action on specific impacts on what is deemed decision-useful information.

05

There are some early efforts to provide investors with quantitative metrics about a company's management of issues, which also carry the potential to incentivize companies to identify, be transparent about and address impacts on communities.

While the overwhelming majority of community-focused ESG indicators are qualitative, this research identified the following exceptions:

- The Global Impact Investing Network measures, “The number of individuals displaced as a result of projects supported/financed by the organization during the reporting period; and the Number of individuals displaced as a result of projects supported/financed by the organization who were compensated for their displacement during the reporting period. Organizations should include type and amount of compensation in footnotes”.
- The Global Reporting Initiative's Climate Change standard requires companies to, in the context of its transition or adaptation efforts, “list the locations of operation where the organization has impacts on local communities and Indigenous Peoples...and report the percentage of [these] locations of operation...in which an agreement has been reached with affected or potentially affected local communities or Indigenous Peoples to safeguard their interests”.

These approaches are very promising for a few reasons. First, the formulation of these metrics carries the potential to incentivize companies to identify, be transparent about and address impacts on communities. Second, it moves beyond risk exposure metrics – e.g. “the percentage of proved and probable reserves in or near indigenous land” – that risk incentivising companies to either under-report, or even not actively assess, their potential involvement in human rights harms. In the extreme, if investors penalise companies based on risk exposure, it can even push companies to avoid doing business in the precise places where responsible practices are most needed.

More work, experimentation and dialogue are needed to stress-test these types of quantitative methods of evaluating business action to address specific impacts on people, and related business risks. But they are a good start in the path to providing investors with data to complement qualitative information.

ENDNOTES

- 1 Shift was unable to verify whether the non-public indicators and metrics that we used for our analysis are the most up to date versions used by data providers at the time of writing (Summer 2025). We also recognize that the underlying methodologies used to reach a judgement on a company's performance against an indicator may offer more nuance that we could not access for our research.
- 2 For more information about investor perspectives on this, see the Principles for Responsible Investment's [Managing Human Rights Risks: What Data do Investors Need?](#) (2022). [Accessed 6 September 2025].
- 3 This reference is to the originally agreed content the European Sustainability Reporting Standards. At the time of writing, these standards are being revised.
- 4 The Global Reporting Initiative's GRI 3, Disclosure 3-3 on Management of Material Topic states that for each material topic reported, the organization – alongside describing the issue, its connection to it and any relevant policy commitments – shall: **“describe actions taken to manage the topic and related impacts**, including i. actions to prevent or mitigate potential negative impacts; ii. actions to address actual negative impacts, including actions to provide for or cooperate in their remediation; iii. actions to manage actual and potential positive impacts; **report the following information about tracking the effectiveness of the actions taken**: i. processes used to track the effectiveness of the actions; ii. goals, targets, and indicators used to evaluate progress; iii. the effectiveness of the actions, including progress toward the goals and targets; iv. lessons learned and how these have been incorporated into the organization's operational policies and procedures. **describe how engagement with stakeholders has informed the actions taken** and how it has informed whether the actions have been effective.”
- 5 The European Sustainability Reporting Standards require companies to describe how they “identify and assess material impacts, risks and opportunities” (ESRS 2, IRO-1), with specific information on how these processes focus on issues of heightened risk, are applied across the company's value chain, and refer to severity and likelihood when determining which impacts to prioritize. Furthermore, the ESRS-S4 also include disclosure requirements that companies report “on time-bound and outcome-oriented targets it may have set related to: (a)reducing negative impacts on affected communities; and/or (b)advancing positive impacts on affected communities; and/or (c)managing material risks and opportunities related to affected communities”.

Strengthening the S in ESG

Deep Dive 3: Community Focused Indicators

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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.

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