

BRIEFING NOTE. MEASURING “DECENT WORK”: AN ANALYSIS OF WORKFORCE INDICATORS AND THEIR RELEVANCE FOR INVESTORS

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EXECUTIVE SUMMARY

There is increasing recognition of the importance of the workforce in delivering the long-term strategic objectives for a company, with some investors arguing that workforce issues can “be proxies for quality of management and potential predictors of future performance”.¹ Furthermore, a number of key investors are looking to the SDGs and “decent work” to guide their investment decisions.

This briefing note outlines the financial, reputational, procurement and legal risks which may derive from a failure by companies and investors to properly engage on workforce issues. This engagement is hindered by a lack of reporting on workforce and broader “S” issues. While some companies may report on workforce issues, as the Pensions and Lifetime Savings Association (PLSA) note, their reporting “is generally not of sufficient quality to enable investors to identify risks or opportunities relating to a company’s workforce and target their engagements accordingly”.²

In response to this reporting deficit, ACCR conducted a review of major labour rights benchmarking initiatives to identify key workforce issues that are of relevance to investors. Human rights initiatives which included a workforce or labour rights focus were also included in the review. This analysis identified six key workforce reporting areas that are common across all initiatives and have direct relevance to operational performance.

Following this, ACCR recommends that investors should require companies to provide more detailed reporting on workforce issues, in line with the six workforce themes detailed below. This would allow for greater transparency on workforce issues at a company level, and enable investors to engage with companies in a more targeted and effective way.

THE INVESTMENT CASE FOR ENGAGING ON WORKFORCE ISSUES

There is increasing recognition of the importance of the workforce in delivering the long-term strategic objectives for a company, and that workforce issues may even “be proxies for quality of management and potential predictors of future performance”.³ The Workforce Disclosure Initiative (WDI), which is supported by 79 investor signatories with combined assets under management of \$7.9 trillion, are just one of the initiatives aimed at addressing this reporting deficit.

Judicious management of the workforce can directly improve value creation, while poor management of the workforce may not only reduce value creation, but also may increase a number of risks to a company that may impact upon company growth. These risks can be categorised as systemic risks, direct risks, reputational damage, political risks, and regulatory risks.

However, investors are increasingly taking a broader interest in the treatment of workers, beyond narrow considerations of value creation. As the PLSA notes, there is a currently a:

¹ S Rohan, *Valuing Decent Work in your Investments*, Toronto, SHARE, 2017, <https://share.ca/documents/investor_briefs/Social/2017/Valuing_Decent_Work_Investor_Guide.pdf> [accessed 5 February 2019].

² Pensions and Lifetime Savings Association, *Understanding the worth of the workforce – a stewardship toolkit for pension funds*, PLSA, 2016,

<<https://www.plsa.co.uk/Policy-and-Research/Document-library/Understanding-the-worth-of-the-workforce-a-stewardship-toolkit-for-pension-funds>> [accessed 6 February 2019]. Pensions and Lifetime Savings Association; NAPF, *Where is the workforce in corporate reporting?*, NAPF, 2015, <https://www.cipd.co.uk/Images/where-is-the-workforce-in-corporate-reporting_tcm18-19910.pdf>.

³ Rohan.

Heightened societal/political expectation that companies will ensure fair and decent working conditions for their workers, and that investors will act as stewards of investee companies in this respect.⁴

This is particularly the case for global pension funds, who must maximise returns for their members as shareholders and also, in many cases, as employees in the same companies that they are engaging.

Decent work is a core element of the 2030 Sustainable Development Goals (SDGs).⁵ Following the ILO and the SDGs, the UN Global Compact have listed “Decent Work in Global Supply Chains” as one of their key Action Platforms.⁶ The International Labour Organisation (ILO) defines “decent work” as:

... opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men.⁷

As the ILO definition makes clear, decent work goes beyond the eradication of the most extreme forms of labour exploitation – forced labour, modern slavery and child labour – and addresses a broader suite of labour rights, as enshrined in internationally-accepted norms, standards and frameworks such as the ILO Fundamental Conventions, the Organisation for Economic Development (OECD) Guidelines for Multinational Enterprises (MNEs) and the UN Guiding Principles for Business and Human Rights (UNGPs).

WORKFORCE INDICATORS, COMPANY PERFORMANCE AND MATERIAL RISKS

ACCR examined the following labour and human rights benchmarking initiatives:

- Committee on Workers’ Capital (CWC) Guidelines for the Evaluation of Workers’ Human Rights and Labour Standards
- Corporate Human Rights Benchmark (CHRB)
- Ethical Trading Initiative (ETI) Base Code
- Global Reporting Initiative (GRI)
- OECD Guidelines for Multinational Enterprises
- UN Guiding Principles on Business and Human Rights (UNGPs)
- UN Principles of Responsible Investment (UNPRI)
- Workforce Disclosure Initiative (WDI)

The indicators from each initiative have been grouped into six key themes: workforce composition, turnover, working conditions (wages, working conditions), hours, safety, and worker voice. The relevance of each theme to operational performance is outlined below.

Workforce Composition

CWC 1.1	Proportion of full-time and part-time positions (number) held by permanent, contract, or temporary workers.
CWC 1.1.1	Number of workers hired through labour-hire agencies.
CWC 1.2	A statement of policy that includes a commitment to uphold the working conditions of workers employed through business relationships, including labour agencies, franchises and independent contractors

A breakdown of the number of full-time, part-time and agency/labour-hire workers is useful in highlighting “potential... problematic issues that have arisen around poor treatment of ‘zero hours’ or agency staff at certain businesses”.⁸ Excessive use of temporary/contract workers increases the risk of creating a two-tier workforce, with the contingent workforce not receiving the same wages and conditions as the directly employed or permanent workforce. These conditions may include holiday leave, access to training, security

⁴ NAPF, p. 11.

⁵ ILO, “Decent Work and the 2030 Agenda for Sustainable Development,” accessed January 29, 2019, <https://www.unglobalcompact.org/docs/publications/DecentWorkandthe2030Agenda.pdf>.

⁶ UN Global Compact, ‘Decent Work in Global Supply Chains’, 2019,

<<https://www.unglobalcompact.org/take-action/action-platforms/decent-work-supply-chains>> [accessed 5 February 2019].

⁷ ILO, ‘Decent work’, , 2019, <<https://www.ilo.org/global/topics/decent-work/lang--en/index.htm>> [accessed 26 February 2019].

⁸ Pensions and Lifetime Savings Association.

of employment, and even wage rates.⁹ For this reason, the CWC calls on companies to report on both the workforce composition and to provide information on the wages and conditions provided to permanent staff that are not provided to contingent staff.

The use of labour-hire or agency workers can also heighten a range of risks for a company, as the company “may have less influence over or understanding of the terms and conditions of their agency workers”.¹⁰

Given the growing political, societal and media attention to precarious working conditions, there is an increasing risk of reputational damage for companies who make excessive use of contract labour.

Finally, in industries that require skilled and experienced staff, a reliance on high numbers of labour-hire workers may undermine the short-term performance and long-term value creation of a company.

Turnover

CWC 1.5	The number and rate of full-time/part-time/contractor workforce turnover by type of employment and by region?
CWC 1.6	The turnover level relative to industry mean
CWC 1.7	Average length of service of full-time/part-time/contractor workers by type of employment and by region
GRI 401.1	New employee hires and employee turnover
WDI 4.1.a.	Provide employee turnover rates by seniority level

Turnover rates are often indicative of corporate stability, and satisfaction (or dissatisfaction) amongst the workforce.¹¹ They may also indicate structural changes in the organisation. Where disaggregated turnover data is provided by workforce demographics or region, turnover data can be used to highlight incompatibility or inequities in either the workplace or different areas of a company’s operations.¹² The WDI goes beyond the GRI indicators to ask for specific reporting of turnover amongst the contingent workforce, in order to ascertain precarity amongst the contingent workforce. A company’s turnover rates measured relative to sector-wide averages can be useful in identifying whether issues are company specific, or relate to sector-wide issues.

The PLSA argue that “a stable, motivated workforce who feel financially secure, professionally fulfilled and appropriately skilled to carry out the responsibilities of their job will greatly increase the chances of long-term success for any company”.¹³ High turnover is of particular risk to the creation of long-term value where a company relies on an experienced and skilled workforce.¹⁴

Working Conditions – Wages

CHRB D.1.1.a	The company pays its workers a living wage, which is regularly reviewed and negotiated through collective bargaining with relevant trade unions (or equivalent worker bodies).
CWC 1.4	The wages and working conditions provided to full-time employees that are not provided to temporary, part-time, labour agency, franchise and independent contractor workers.
CWC 6.1	Commitment to paying the minimum of a living wage to its workforce.
ETI 5.1 5.1	Wages and benefits paid for a standard working week meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. In any event wages should always be enough to meet basic needs and to provide some discretionary income.
OECD 4.a	Observe standards of employment and industrial relations not less favourable than those observed by comparable employers in the host country.

⁹ CWC, *Guidelines for the Evaluation of Workers’ Human Rights and Labour Standards*, CWC, 2017, <https://www.workerscapital.org/IMG/pdf/cwc_guidelines-workers_human_rights_and_labour_standards_final_may17.pdf> [accessed 27 February 2019]; WDI, *Workforce Disclosure Initiative. Improving the Quality of Jobs: Pilot Year Summary*, London, WDI, 2018, <<https://shareaction.org/wp-content/uploads/2018/04/WDI-Pilot-Year-Report-Executive-Summary.pdf>> [accessed 17 December 2018].

¹⁰ S Young & S Rawsthorne, *Hidden Talent: What do Companies’ Annual Reports tell us about their Workers?: An Analysis of the FTSE 100*; PLSA, 2017, p. 15, <<https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2017/7160%20Hidden%20Talents%20research%20report%20v4.pdf>>.

¹¹ Pensions and Lifetime Savings Association; WDI, *Workforce Disclosure Initiative 2018: Guidance Document*, WDI, 2018, <https://shareaction.org/wp-content/uploads/2018/07/WDI_Survey_Guidance_2018.pdf> [accessed 27 February 2019].

¹² GRI, *GRI 401: Employment*, 2016, <<https://www.globalreporting.org/standards/gri-standards-download-center/gri-401-employment-2016/?g=44744251-f999-4e97-980e-291e1466afd5>>; WDI, *Workforce Disclosure Initiative 2018: Guidance Document*.

¹³ Young and Rawsthorne.

¹⁴ Young and Rawsthorne, p. 16.

WDI 3.3.a	Percentage of employees whose basic salary is based on the minimum wage. Does the company pay the Living Wage or make commitments towards it?
WDI 3.4.a	Provide the pay ratio between highest and median pay.
WDI 6.4	Comparison of average company wages with minimum wages in significant locations of operation.
WDI 6.4.1	Has the company negotiated collective bargaining outcomes that maintain or improve real wages, i.e. annual wage growth which exceeds the nation's price movement index?

There is growing investor and societal attention on wage suppression and increasing inequality. Instances of wage theft and wage payments below a living wage are gathering attention, with controversies leading to reputational damage for companies, as well as potential regulatory and compliance risks. However, wage indicators should not be limited to paying legal minimums. Even where wages are set at or above legal minimums, lower wages – and particularly wages below the living wage – are correlated to higher absentee rates, turnover and lower engagement, while companies with higher wages are likely to have more engaged and productive employees.¹⁵

Since January 1, 2017, US companies have been required to report on their CEO to median-worker pay.¹⁶ Research by MSCI found companies with a lower ratio – what they define as a lower intra-corporate pay gap – outperformed companies with higher intra-corporate pay gaps between 2009 and 2014.¹⁷

More broadly, downward pressure on wages and growing intra-corporate pay gaps can lead to broader systemic risks. The OECD, S&P and IMF all argue that income inequality can act as a drag on long-term growth. Summarising their arguments, SHARE argue that:

... the weakening of the middle class and growing inequality weakens the economies and can have a harmful effect on economic growth by reducing consumer demand, increasing economic and social instability and facilitating rent-seeking at the expense of productive growth activity. [...] Growing inequality may also negatively affect the financial system in which investors participate, and the world in which beneficiaries live.¹⁸

Working Conditions - Overtime

CWC	Statement of policy on working hours and compensation for supplier employees.
ETI 6.3	All overtime shall be voluntary. Overtime shall be used responsibly, taking into account all the following: the extent, frequency and hours worked by individual workers and the workforce as a whole. It shall not be used to replace regular employment. Overtime shall always be compensated at a premium rate, which is recommended to be not less than 125% of the regular rate of pay.
ETI 6.5	Working hours may exceed 60 hours in any seven-day period only in exceptional circumstances.
WDI 3.7.a	How does the company ensure that all overtime is voluntary and paid at the correct rate for workers in its critical supply chain?

The GRI defines “adequately remunerated work” as:

...work where wages and compensation for a standard working week, excluding overtime, meet legal and industry minimum standards, and are sufficient to meet the basic needs of workers and their families, and to provide them with some discretionary income.¹⁹

While some overtime is legal, it must not be undertaken to meet minimum wage standards. According to the ILO, excessive overtime is defined by those hours that exceed national statutory regulations on working time or relevant international standards, as well as hours of work that have negative consequences on workers. That is, those hours that greatly diminish a workers’ quality of life and ability to participate in family, community and religious life.

¹⁵ WDI, *Workforce Disclosure Initiative 2018: Guidance Document*.

¹⁶ SEC, ‘SEC Adopts Rule for Pay Ratio Disclosure’, in *U.S. Securities and Exchange Commission*, , 2016, <<https://www.sec.gov/news/pressrelease/2015-160.html>> [accessed 27 February 2019].

¹⁷ S Block, *Income Inequality and the Intracorporate Pay Gap*, MSCI, 2016, p. 14, <<https://www.msci.com/documents/10199/b94ae705-4d36-49e5-8873-b6fe42fdd291>>.

¹⁸ Rohan.

¹⁹ GRI.

Excessive overtime is strongly correlated to workers not being paid a living wage. It is also negatively associated with workplace safety, with increases in accidents linked to an increase in working hours.²⁰ Excessive overtime is an indication that an organisation is not paying a living wage to its employees and contractors and/or has insufficient management practices in place to manage day-to-day operations without requiring overtime in breach of national conventions.

Safety

CWC 5.4	Types of injuries and rates of injury, occupational diseases, lost days, absenteeism, and total number of work-related fatalities by region and gender. Information should be disaggregated for direct hires and labour-hire/sub-contracted/contracted staff.
CWC 5.5	What H&S training (at induction and ongoing) is provided to full-time employees that is not provided to temporary, part-time, labour agency, franchise and independent contractor workers delivering services on behalf of the company?
ETI 3.1	A safe and hygienic working environment shall be provided, bearing in mind the prevailing knowledge of the industry and of any specific hazards. Adequate steps shall be taken to prevent accidents and injury to health arising out of, associated with, or occurring in the course of work, by minimising, so far as is reasonably practicable, the causes of hazards inherent in the working environment.
GRI 403	Has extensive indicators on implementation of OHS management systems, processes to identify risks and critical incidents, systems to promote worker health (including mental health), number of injuries and fatalities recorded in a reporting period.
WDI 6.1.a	Provide data for injury rates, absentee rates and work-related fatalities and any additional metrics the company reports, incidences of worker related ill-health.

The ILO defines occupational health as:

... the promotion and maintenance of the highest degree of physical, mental and social well-being of workers in all occupations by preventing departures from health, controlling risks and the adaptation of work to people, and people to their jobs.

While large scale industrial accidents – like BP’s Gulf oil spill or the Rana Plaza collapse – can massively destroy shareholder value, less visible occupational health issues can also erode shareholder value in the long-term through increased workers’ compensation premiums, decreased productivity, absenteeism, higher health care costs, potential lawsuits, negative publicity, and a loss of investor and consumer trust.²¹

Good OHS requires strong management systems that provide oversight of both physical and mental health, and adequately identify and manage risks in the workplace.²² The initiatives studied here include both metrics for assessing the OHS management systems that a company has put in place, as well as the effectiveness of those systems. The effectiveness of these systems can be monitored through injury and accident rates. Some initiatives also require reporting on WHS/OHS training, stating that training indicates a company’s long-term commitment to safety.²³

Both the GRI and CWC highlight that companies should not just be concerned with the safety of their direct employees. GRI states that companies should report on all workers working in a workplace that it controls, including contractors, labour-hire and agency workers as well as direct employees. Even in cases where the supplier has no direct control over a workplace but has some leverage or responsibility for working conditions (for example with Tier 1 and Tier 2 suppliers), it is expected that they exercise this leverage to mitigate against WHS/OHS risks.

The CWC calls on companies to disaggregate this data and provide reporting on injury rates and training by the type of employment (e.g. permanent, casual and labour-hire/agency staff). There is a growing social and political focus on non-standard forms of work (e.g. the gig economy) which has highlighted how in many

²⁰ J-W Seo, *Excessive Overtime, Workers and Productivity: Evidence and Implications for Better Work*, ILO, 2011, <<https://betterwork.org/global/wp-content/uploads/Discussion-Paper-Series-No-2-Excessive-Overtime-Workers-and-Productivity-Evidence-and-Implications-for-Better-Work.pdf>>; A Spurgeon, *Working time: Its impact on safety and health*, ILO, 2003, <https://www.ilo.org/travail/whatwedo/publications/WCMS_TRAVAIL_PUB_25/lang--en/index.htm>; M White, *Working Hours: Assessing the Potential for Reduction*, Geneva, ILO, 1987.

²¹ N Khushrushahi, *Investor Guidance on Occupational Health and Safety in Canada: An overview of corporate best practices*, SHARE Canada, <http://www.share.ca/files/12-4-27_Investor_Guidance_on_OHS_-_Final.pdf> [accessed 6 February 2019].

²² CWC, p. 16.

²³ CWC, p. 16.

cases companies do not provide the same standards of employment to their contingent workforces. By calling on companies to report training and accident rates by type of employment, investors are able to gauge to what extent the contingent workforce faces the same safety risks as the permanent workforce.

Worker Voice

CWC 2.1 - 2.8	Covers social dialogue in detail. It goes beyond the basic right to freedom of association, and specifies broader indicators that could be used to measure antipathy or support for social dialogue (2.7 and 2.8)
CWC 2.7	Does the company encourage, remain neutral or discourage social dialogue and/or employees from joining trade unions?
CWC 2.8	Is the company involved in initiatives or bodies that discourage social dialogue and/or freedom of association at the local, national and/or international level?
ETI 2.1 - 2.4	Cover the right to freedom of association and to collectively bargain in very general terms, aligned with ILO convention.
GRI 407.1	Identify: a. Operations and suppliers in which workers' rights to exercise freedom of association or collective bargaining may be violated or at significant risk either in terms of: i. type of operation (such as manufacturing plant) and supplier; ii. countries or geographic areas with operations and suppliers considered at risk. b. Measures taken by the organization in the reporting period intended to support rights to exercise freedom of association and collective bargaining.
OECD 1.a/1.b	Cover the right to freedom of association and to collectively bargain in very general terms, aligned with ILO convention.
UNPRI 5	To address systemic issues, companies should collaborate with external stakeholders such as trade unions, civil society organisations, human rights experts, governments, and sector peers.
WDI 6.5.a	Provide the number of employees covered by collective bargaining agreements across the company and by location.

The right to freedom of association and collective bargaining is enshrined in ILO standards and international human rights conventions. All labour rights benchmarking initiatives contain at least some reference to these rights, even if they differ on how compliance with these rights are measured or indicated.

The involvement of trade unions can have value beyond ensuring workers' rights are respected. As the UK's National Association of Pension Funds (NAPF) notes:

Unions provide a voice for workers to speak freely without fear or recriminations and can therefore be valuable to companies as a source of information critical of their working practices that may not otherwise be forthcoming.²⁴

In other words, the involvement of trade unions in grievance procedures can be more effective than third party audits in monitoring and ensuring compliance. The International Labour Organisation (ILO) has conducted a comprehensive review of policies and programmes that have been developed to ensure workplace compliance in global supply chains. Their 2016 report *Workplace Compliance in Global Supply Chains* highlights current best practice across multiple industry sectors.²⁵ The report is particularly critical of the ability of voluntary self-regulation and "private compliance initiatives" (codes of conduct, auditing, certification schemes or other self-reporting mechanisms such as the UN Global Compact or the Global Reporting Initiative) to sufficiently manage business and operational risks from labour violations in supply chains.²⁶

Furthermore, company reliance on auditing has been criticised as insufficient for understanding workplace issues such as harassment, wage theft, excessive overtime, and freedom of association violations.²⁷ In addressing the failures of social audits to fully capture issues at particular worksites, the Clean Clothes Campaign argues that "the best auditors are the workers themselves since they are continually present at the production site".²⁸ Before workers can adequately participate in monitoring their own workplaces, studies show that they must be provided with in-depth education on their workplace rights by trade unions.²⁹

²⁴ NAPF, p. 20.

²⁵ ILO, *Workplace Compliance in Global Supply Chains*, Geneva, ILO, 2017, <https://www.ilo.org/sector/Resources/publications/WCMS_540914/lang--en/index.htm> [accessed 1 March 2019].

²⁶ ILO, *Workplace Compliance in Global Supply Chains*, pp. 10–15.

²⁷ ILO, *Workplace Compliance in Global Supply Chains*, pp. 10–15.

²⁸ Clean Clothes Campaign, *Looking for a quick fix: How weak social auditing is keeping workers in sweatshops*, London, Clean Clothes Campaign, 2005, p. 79, <<https://cleanclothes.org/resources/publications/05-quick-fix.pdf/view>> [accessed 1 March 2019].

²⁹ Ethical Trading Initiative, *ETI Annual Report 2003/04: Putting Ethics to Work*, London, Ethical Trading Initiative, 2004, <<http://www.ethicaltrade.org/Z/lib/annrep/2004/en/index.shtml>>.

Studies clearly demonstrate that workers and their unions are crucial to an effective due diligence process to mitigate labour rights violations in supply chains. A World Bank study concludes that one of the main barriers to effective code implementation is the “absence of a comprehensive and accountable means of engaging workers as well as their unions”.³⁰

The involvement of trade unions in worker education and grievance mechanisms gives workers more faith in these mechanisms, and increases the likelihood that they raise emerging or endemic workplace issues early on, allowing businesses to resolve these issues “before they escalate into more lengthy and complex disputes that may come at a high cost, predominantly for the worker but also the supplier, and, ultimately, the buyer”.³¹

ABOUT THIS BRIEFING NOTE

This briefing note has been prepared by Dr Katie Hepworth, Director of Workers’ Rights at the Australasian Centre for Corporate Responsibility (ACCR). ACCR is a not-for-profit association that promotes responsible investment through undertaking and publishing research to evaluate and improve the performance of Australian listed companies on environmental, social and governance (ESG) issues. We have a small portfolio of shares that we hold for the purpose of engaging with companies, including through the filing of shareholder resolutions. We encourage other investors to use our research to engage with companies in their portfolio.

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³⁰ World Bank, *Strengthening Implementation of Corporate Social Responsibility in Global Supply Chains*, World Bank, 2003, <http://siteresources.worldbank.org/INT/PSD/Resources/CSR/Strengthening_Implementatio.pdf> [accessed 1 March 2019]. See also OECD, *OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector*, Paris, OECD Publishing, 2018.

³¹ L Curtze & S Gibbons, *Access to remedy - operational grievance mechanisms. An issues paper for ETI*, London, ETI, 2017, p. 7, <https://www.ethicaltrade.org/sites/default/files/shared_resources/ergon_-_issues_paper_on_access_to_remedy_and_operational_grievance_mechanims_-_revised_draft.pdf> [accessed 3 March 2019].