

ESG

Advancing the "S" in ESG

A primer for CFOs



Introduction

Social issues are becoming a higher priority on the business agenda. This is, in part, due to increasing evidence of companies facing operational, reputational and financial losses as a result of failing to address the externalization of costs and risks to workers, communities and consumers. Moreover, there is growing recognition of inequality as a systemic risk to the resilience of business operations, value chains and business models. Key stakeholders including regulators, investors, customers and civil society are demanding transparency around how corporate strategy and practices are impacting people and profit.

This primer is designed to help CFOs in starting to understand and communicate social performance as essential to their roles and responsibilities, particularly as reporting and disclosure standards develop regionally and globally.

Moving forward, CFOs and their teams will be called upon to:

- Understand interrelated links between a company’s impacts on people across its operations and value chain, and its financial performance.
- Ensure that ESG considerations are meaningfully integrated into enterprise risk management, statutory compliance, reporting requirements and the CFO’s own strategic guidance to the CEO and board.
- Engage with investors, regulators and standard setters to guide how “S” performance and progress is evaluated internally and by external stakeholders.
- Catalyze the integration of the company’s financial and non-financial data, analysis, decision-making and reporting in ways that meet international and regional standards, including those related to social disclosures such as the European Sustainability Reporting Standards.

This primer is structured in two parts:

PART ONE

Defining the “S”

An overview of the *what*, *who* and *how* of corporate social performance as established by international standards and now reflected in emerging global reporting frameworks and regulation.

PART TWO

Measuring what matters

CFO views on current challenges and opportunity areas to advance measurement of social conduct and social outcomes.

CFOs are in a unique position to redefine leadership in business and finance. WBCSD’s CFO Network helps CFOs:

1. Shape the dialogue and the landscape around changing expectations and drivers of performance, including ‘S’ measures and regulations.
2. Work with investors to change the system.
3. Gain access to the tools and resources needed to make stakeholder capitalism a reality.

Shift

WBCSD would like to acknowledge Shift for their support in developing this resource. Shift is a non-profit, mission-driven organisation whose global team of experts works with business, financial institutions and standard setters to build a world where business gets done with respect for people’s dignity. WBCSD would like to thank CFO Network ‘S’ in ESG working group members for their contributions to this project.



CFOs are good at evaluating risks, including human capital risks close to home. For some time, my company has been seeking to cultivate the competence to spot, assess and address social externalities deep in our supply chains. Continuing this work is central to building a resilient business model that can perform well through social, political and economic disruptions.

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The success of our business strategy depends on good-quality relationships with our employees, contract workers and local communities. These relationships are compromised if we fail to avoid negatively impacting people's lives. Good social performance is therefore a business imperative, not just a nice to have.

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Inequality undermines human dignity and social progress. It also impacts business performance, limiting productivity and innovation, dampening consumer confidence and spending, destabilizing supply chains, increasing uncertainty in the political and regulatory environment, and deepening disruptions from COVID-19 to climate change.

The Business Commission to Tackle Inequality

BCTI

PART 1

Defining the "S"

Emerging reporting and regulatory efforts around "S" disclosure frameworks are converging around globally accepted international standards. The [UN Guiding Principles on Business and Human Rights](#) are the authoritative global framework for addressing business impacts on people. This same standard is integrated into the [OECD Guidelines for Multinational Enterprises](#) and has become the touchstone for people-focused regulation and reporting frameworks around the world. For more information see [WBCSD's own mapping of these developments since 2011](#), and the [WBCSD's Business and Human Rights Gateway](#).

WHAT?

A company's social performance is about the positive and negative impacts it has on people. Companies should pay closest attention to:

- Impacts connected to the **company's execution of its business model and strategy**, meaning how it generates revenue and profits.
- Impacts that could **potentially undermine a person's basic dignity and equality**, a threshold set out by [international human rights standards](#) which encompass many issues that companies already seek to address.



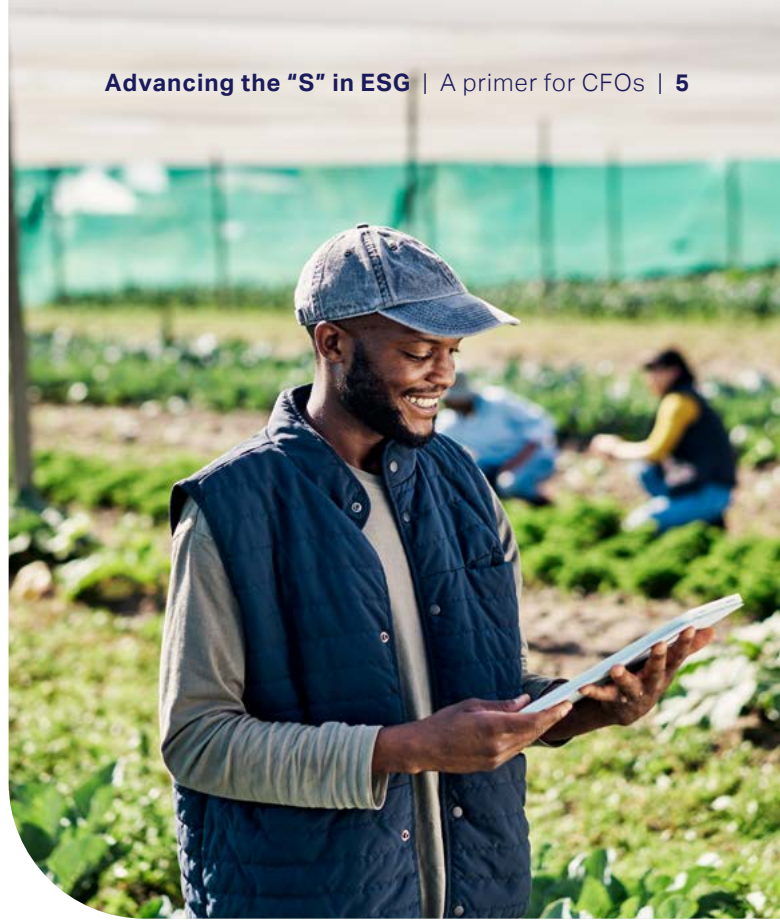
PART 1


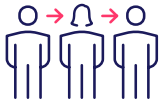

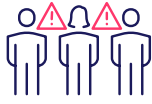
Defining the "S" continued

WHO?

People fall into four categories of affected stakeholders:

1. A company's own workforce, including but not limited to its employees.
2. Workers across the value chain, both upstream and downstream.
3. Affected communities, whether local to a company's operations or within the value chain.
4. People affected by the use of a company's products and services.



 <p>1. Workforce</p>	 <p>2. Workers in the value chain</p>	 <p>3. Affected communities</p>	 <p>4. People impacted by end-use</p>
<p>For example, impacts related to:</p> <ul style="list-style-type: none"> • Equal treatment • Workplace safety • Mental health • Fair wages • Forced labor • Child labor • Freedom of association <p><i>In today's economy, an individual may be part of the workforce in a variety of ways, for example via direct or indirect employment (including permanent, temporary and fixed-term employment), or as a contractor, agency worker or on-site franchise worker.</i></p>	<p>For example, impacts related to:</p> <ul style="list-style-type: none"> • Harm to livelihoods • Land-related impacts • Health impacts • Access to clean water • Discrimination (e.g., in access to jobs) • Indigenous peoples' rights • Peaceful assembly • Safety and security 	<p>For example, impacts related to:</p> <ul style="list-style-type: none"> • Nondiscrimination (design and access) • Safety and security • Physical and mental health • Privacy • Access to information • Professional development/employability 	

Unique impact and risk maps. Because every company has its own unique business model, activities, value chain relationships and operating environments, companies need to identify, understand and address the most severe impacts on people particular to their own circumstances.

Tackling inequalities: By addressing these impacts, companies can make practical contributions to tackling inequalities, which business leaders and investors increasingly understand to be key sources of business risk and opportunity over the short, medium and long term.

PART 1

Defining the "S" continued

HOW ?

Act with due diligence to anticipate and address risks to affected stakeholders.

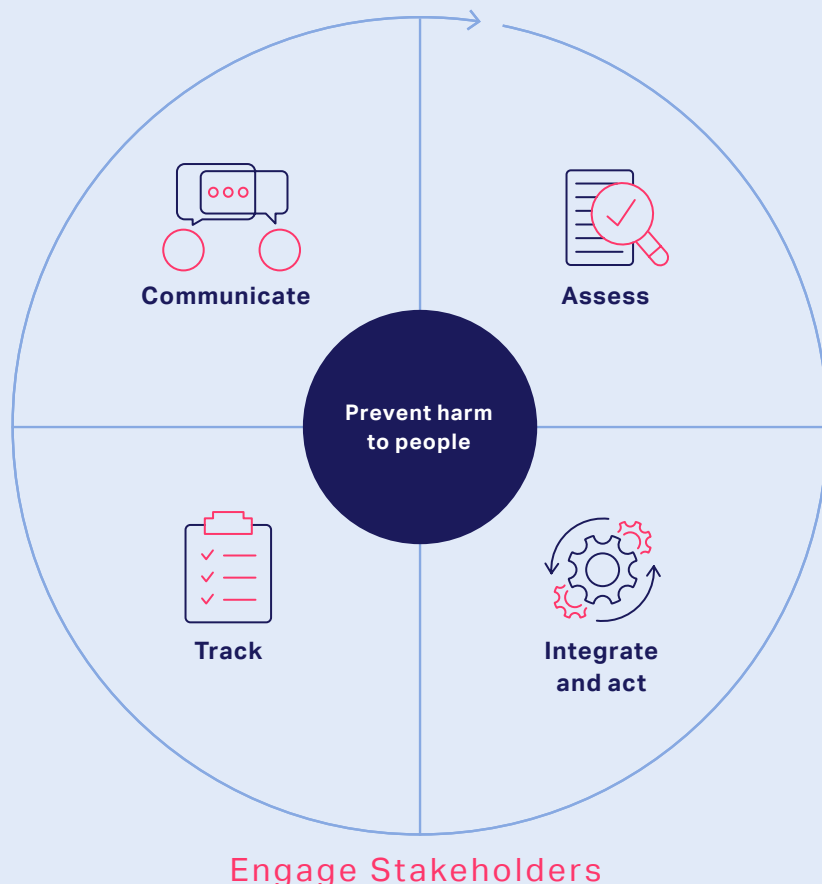
The international standards call for companies to identify and mitigate risks to people connected to their operations and value chains. They clearly set the expectation that companies should attend to **all actual and potential impacts**, provide remedy when they cause or contribute to actual harm, and communicate on progress and setbacks as they do so.

The international standards are **pragmatic**, meaning they allow companies to prioritize their efforts – focusing first on the most severe risks to people regardless of where in a company's operations or value chains those risks manifest.

The standards are **oriented to problem solving**, recognizing that companies don't control all the factors in play, but that they meet their responsibility by:

- 1) Ensuring their own practices aren't contributing to the problem.** For example, by taking part in initiatives to advance industry best practices, multi-stakeholder efforts to tackle gaps in local legal protections, or programs that build community or worker resilience to deal with economic and business activities that may negatively impact their lives.
- 2) Using their leverage with others, including through creative collaborations, to improve outcomes for affected people.** For example, by updating operating procedures, embedding consultation with at-risk stakeholders into business decision-making, equipping employees to spot and speak up about business practices that put people at risk, responsibly stewarding products and services, or ensuring purchasing practices don't undermine labor rights in the supply chain.

DUE DILIGENCE TO IDENTIFY AND ADDRESS SOCIAL RISKS AND IMPACTS



PART 1 *continued*

Connecting dots

THE "S" AND THE SDGs

By proactively tackling the most severe risks and impacts on people across their operations and value chains, companies have the potential to break down significant barriers to development and positively impact the lives of millions of the most vulnerable individuals in society, contributing to the vision of peaceful and inclusive societies at the heart of the SDGs. See WBCSD's [The Human Rights Opportunity](#) for more.

THE "S" AND THE "E"

There is growing recognition that companies should apply best practices in social performance when implementing activities to address climate change and biodiversity loss. For example, conservation projects will often need to address impacts on local communities, and renewable supply chains may bring a new set of complex labor rights issues to be addressed. Failing to apply best practices of social performance will result in a lack of social license for such activities leading to business risks, and limits to the scale and pace in achieving net zero and net positive targets.

SOME POSITIVE SOCIAL ACTIONS TYPICALLY OUTSIDE OF THE "S"

Businesses impact society in a number of other important ways that reporting standards and the majority of investors treat as outside of the "S" in ESG. For example:

- Responsible tax practices that fund education, healthcare and social protections are part of the "G" in ESG.
- Charitable giving and employee volunteering can be excellent tools through which companies help local communities and increase employees' sense of purpose and connection to the company, but these activities are not core to "S" analysis.



PART 2

Measuring what matters

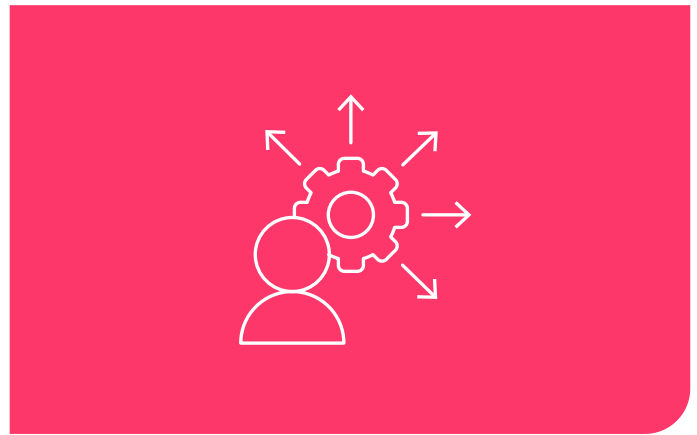
Six Focus Areas

When evaluating their company’s social performance, CFOs will need to identify indicators and metrics that enable better internal decision-making while also providing robust insight into company performance to investors and other key stakeholders. Below are six areas to help CFOs pursue this goal.



Evaluating “S” conduct

1. Focus on board and senior leaders’ actions to embed commitments into practice and corporate culture.
2. Consider the *quality* of risk identification and assessment.
3. Assess whether actions are driving sustained behavior change.



Evaluating “S” outcomes

4. Set targets and KPIs that meet robust and credible design criteria.
5. Focus on inequality-related metrics when evaluating outcomes in the workplace.
6. Use sentiment or “voice” data to gain insight into stakeholders’ experiences.

While the volume of non-financial and sustainability reporting developments can be overwhelming, CFOs should take comfort in the fact that the trajectory is one of convergence including around the focus areas spotlighted here.

For example, the [Global Reporting Initiative’s Universal Standards](#) and the [European Sustainability Reporting Standards](#) include requirements that companies disclose information across similar domains of governance and due diligence practices across the four categories of affected stakeholder depicted on page 4. Moreover, the focus areas above correspond to the four-part [TCFD framework used by](#) the International Sustainability Standards Board, addressing key aspects of governance, strategy, risk management, and targets and metrics.



Measuring so-called paper compliance does not work for business ethics, safety or diversity. So, CFOs, investors and indeed regulators definitely need to do better when it comes to how well companies address even more complex social issues.

CFO Network Participant, WBSCD CFO Network



It is problematic if companies are rated and ranked based on whether they are involved in problems and challenges. All businesses need to be accountable for negative events. But we also need to recognize, even reward, companies that seek out and address the most problematic business practices.

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The 2008 financial crisis led to intense focus on the supervision of culture and behavior in financial institutions and their internal and external supervisors in Europe, including the European and Dutch central banks. Advancing the “S” in ESG should take lessons from this history by moving away from compliance checks against norms and standards, and towards assessing investment and improvements in the area of culture.

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PART 2 *continued*

Evaluating “S” conduct

Current challenge: Investors and other stakeholders rely too heavily on indicators that offer little insight into how a company is actually performing. Because of this, less mature – and even laggard – companies can score highly on indicators used.

FOR EXAMPLE:

70% of indicators used in “S” analysis focus on whether a company has certain policies and processes in place ...

... but it’s hard to understand whether high scores are a result of deep strategic commitment to addressing impacts on people, or communications efforts with limited meaningful action to back them up. Or it may just be that the company is headquartered in a country where policies are legally required.

A widely used “S” indicator is the proportion of suppliers or operations for which the risk of forced labor or child labor incidents are high ...

... but a reduction in numbers from previous years could mean a range of things: maybe the company has had some success in addressing risks, or maybe it has divested an operation in a high-risk context or is investing fewer resources in risk identification. It is impossible to tell based on the numbers and percentages alone.

Common indicators include questions around the number of contracts companies have with their suppliers or business partners that contain human rights clauses, or how many noncompliances have been uncovered ...

... but it’s not clear if companies are unhelpfully using this to pass responsibility and risk on to their business partners, or if they see this as a foundation for working collaboratively with suppliers to address challenges.





CFOs, in partnership with investors, standard setters and data providers, can address this challenge by focusing on the following three areas:



FOCUS AREA #1

Focus on demonstrating whether boards and senior leaders are taking steps to embed policy commitments in corporate cultures and day-to-day practices.

- **How the board discusses progress and challenges in addressing the company's most severe impacts on people** can offer insight into whether these issues are seen as relevant to the board's duties.
- **How top leadership responds to situations when the company's business model and strategy increase risks to people** can offer insight into whether human rights commitments are authentic or merely "blue-washing."
- **The extent to which senior leaders across the organization empower all employees to speak up about potential risks to people across operations and value chains**, helps illustrate how a company is creating a culture of engagement with, not avoidance of, social risks.
- **The degree to which executive and senior leadership incentives are aligned to and do not undermine responsible conduct** can offer insight into how genuinely embedded rights-respecting practices will be throughout the company.

FOCUS AREA #2

Focus on signaling the quality of processes to identify and evaluate people-related risks.

- **If the company assesses risks to people across all aspects of its operations and upstream/downstream value chain**, this offers insight into the extent to which the company is seeking to identify the most severe risks to people, which are particularly likely to be, or become, business risks.
- **If the company takes steps to identify situations where commercial targets disincentivize suppliers to respect people's rights**, this offers a view of the degree to which the company recognizes that its own business practices may be a source of risk.
- **The extent to which the views of affected stakeholders and credible experts have been excluded in risk identification and prioritization** can signal the extent to which the company is likely to have blind spots in its understanding.

FOCUS AREA #3

Focus on uncovering whether company actions to address people-related risks are driving the behavior changes needed to achieve better outcomes for people.

- **The degree to which internal audit teams are trained and required to evaluate controls for addressing risks to people** offers insight about the likelihood of risk mitigations being appropriate and effective.
- **Whether the company collaborates with peers and other stakeholders to address the root causes of systemic human rights risks** can signal whether the company is invested in altering the underlying drivers of business practices and behavior beyond its first-tier business relationships.
- **Whether the company has a track record of adapting its practices following incidents of actual harms that it has contributed to** can be indicative of whether the company tends to learn from shortfalls or failures.

PART 2 *continued*

Evaluating “S” outcomes

Current challenge: Companies, investors and other stakeholders currently rely on weak proxy indicators to measure outcomes or impact. This is because more work is needed to advance standardized methods to meaningfully measure and compare companies’ contributions to improved outcomes for people across diverse contexts.

FOR EXAMPLE:

The percentage and number of community grievances resolved offers quantitative information ...

... but does not provide insight about whether grievance processes and outcomes are adequate from the perspective of affected community members.

Controversy scores focused on public allegations dominate some “S” analyses ...

... but without more context, it can be hard to know if improvements in these areas are the result of a company avoiding scrutiny or whether they are a true signal of efforts to remedy harms. Moreover, a negative incident in one operation or part of the value chain is not always indicative of poor social performance writ large.

Established business risk metrics such as lost time from injuries, worker turnover, or monetary loss from legal proceedings concerning harassment/discrimination ...

... are silent on worker experience and wellbeing and if gamed, can obscure real worker experience.

When “bad” numbers can be good news

Where a company sets a new priority and target around effective grievance resolution, it may see a sudden spike in unresolved grievances. Business leaders need to take steps to understand what is at the root of this. Are flawed company practices responsible, or is the uptick a positive result of more concerted action to surface and record grievances? Similar dynamics might play out across a range of social impacts, such as sexual harassment at mining sites or forced labor in supply chains. The key is for CFOs to apply the same critical thinking in their interpretation of “S” data as they do with financial information.



CFOs, in partnership with investors, standard setters and data providers, can address this challenge by focusing on the following three areas:



FOCUS AREA #4:

Focus on “S” targets and KPIs that credibly evaluate outcomes for people using key quality criteria.

Focusing on criteria that support robust targets can help ensure that the company measures and reports progress on issues that matter and make sense for its unique context. Quality criteria for good “S” targets and KPIs can include that:

- The company sets **targets** and **KPIs** for addressing the most severe risks to people across its operations and value chains.
- **Targets** and supporting **KPIs** are capable of offering insight into a company’s contribution to tackling inequalities by allowing for disaggregation of outcomes for the most vulnerable or historically marginalized, and comparison to credible benchmarks.
- Targets set are either a **direct measure of outcomes** for people or a **measure of progress in addressing root causes of risk** to people (e.g., targets that reflect the achievement of rights-respecting purchasing practices, the exclusion of exploitative labor recruitment agencies, or improved laws protecting indigenous peoples’ rights).
- Targets are supported by KPIs that allow assessment of progress and setbacks.
- The design of targets and KPIs is informed by relevant experts and affected stakeholders.

FOCUS AREA #5:

Focus on a small number of quantitative workforce metrics to provide insight into how the company is impacting inequalities in its own operations.

The COVID-19 pandemic has rightly focused political, business and investor attention on inequalities, including the experience of employees and workers in situations of vulnerability. Every company can exacerbate or tackle inequality within its own workforce, so this is one area for which standardized and comparable metrics could, in principle, be agreed.

Existing and extensive work on workplace metrics, in particular by the investor-led [Workforce Disclosure Initiative](#), are a helpful base to build on. Examples include:

- **Workforce composition metrics**, e.g., on gender balance or percentages of the workforce on contingent contracts.
- **Pay and pay gap metrics**, e.g., CEO to median worker pay ratio, gender pay gap, or pay levels as compared to living wage levels.
- **Worker voice and representation metrics**, e.g., the percentage of workers covered by a collective bargaining agreement.

FOCUS AREA #6:

Focus on using qualitative data translated into clear metrics about the experience of affected stakeholders.

Data about employee and consumer sentiment is already widely used as a source of business insight to inform strategy, decision-making and intangible aspects of enterprise value. There is an untapped opportunity to use similar methods to **understand the experience of workers in the value chain, affected communities and at-risk consumers.**

Companies are already innovating in this space. For example:

- **Nike** has worked with its suppliers to implement a Worker Wellbeing Survey in 64 factories in 13 countries, reaching 385,000 workers. The survey is now freely available for other companies to use.
- The South African mining company **Gold Fields** uses indicators related to trust, support and compatibility of interests to assess the quality of its relationships with local communities.

“S” measurement methods

Companies and various expert organizations across diverse sectors are experimenting with how to design indicators and even value – in quantitative, including monetary, terms – a company’s impacts on people and wider society. Notable examples include guidance and tools from the [Capitals Coalition](#), the [OECD Well-being, Inclusion, Sustainability and Equal Opportunity \(WISE\) initiative](#), [Social Value International](#), the [Value Balancing Alliance](#), [PWC’s Total Impact Measurement & Management approach](#) and [Shift’s Indicator Design Tool](#).

Much work lies ahead for all stakeholders to agree upon the distinct benefits of methodologies available to companies, but points of commonality include a recognition that companies can impact all four stakeholder groups outlined earlier in this primer, and a need to **use indicators and metrics across “impact pathways” or “theories of change” so that measurement focuses much less on business activities and their near-term results, and much more on behaviour change, outcomes and impacts.**

Understanding your company's social performance

Initial questions for CFOs to ask themselves



1

Does my company look across our operations and value chain to make sure we are aware of any impacts on people's human rights, in particular those that significantly exacerbate inequalities? Do we understand how these issues may relate to business risks or opportunities?

2

Are we testing with others, in particular affected stakeholders or their legitimate representatives, whether we have any blind spots or false assumptions that would lead us to miss something?

3

Do we have the necessary controls, culture and relationships to manage risks to people such that we are contributing to better outcomes for affected stakeholders, tackling systems-level inequalities and driving positive results and resilience for the company?

4

Do our internal audit function and external assurance providers have the expertise they need to provide this evaluation?

5

Are we gathering the quantitative and qualitative information needed to evaluate the effectiveness of our actions? How are insights we gain factored into decision-making?

6

How is our social performance impacting the implementation of our business strategy? How does our business strategy impact our ability to improve our social performance?

This publication is the result of a collaborative effort between WBCSD, Shift and member companies. This primer does not necessarily reflect the views of all members. This publication complies with the ADA accessibility guidelines.

WBCSD is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world. We help make our member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD \$8.5 trillion and 19 million employees. Our global network of almost 70 national business councils gives our members unparalleled reach across the globe.



Since 1995, WBCSD has been uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability: united by our vision of a world where more than 9 billion people are all living well and within planetary boundaries, by 2050.

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