Principles for Responsible Investment

UN environment programme | finance initiative

United Nations Global Compact

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

MANAGING HUMAN RIGHTS RISKS: WHAT DATA DO INVESTORS NEED?

DECEMBER 2022

In collaboration with

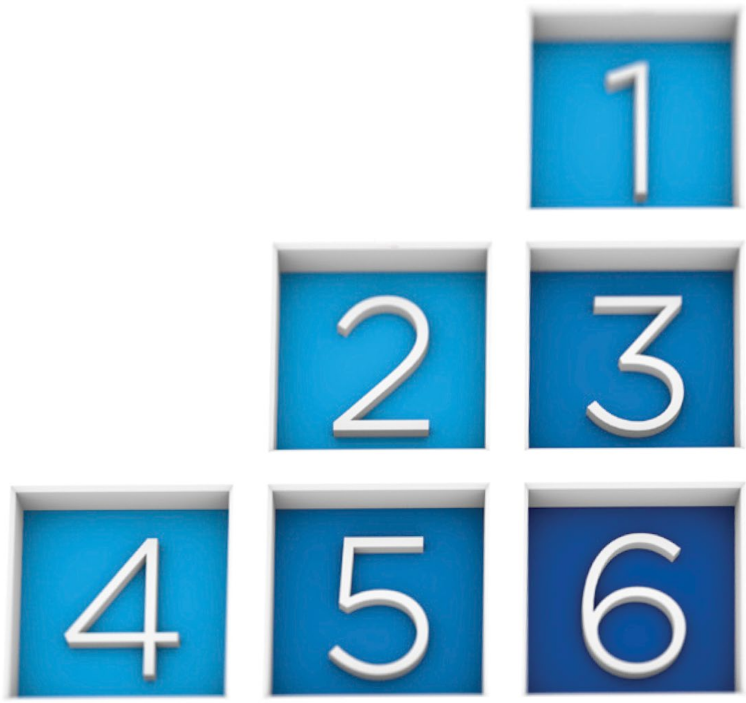
Shift

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.



PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

ACKNOWLEDGEMENTS

We would like to thank the following for their contribution to this report:

- Asief Mohamed, Chief Investment Officer, Aeon Investment Management
- Tinyiko Mabunda, Research Analyst, Aeon Investment Management
- Saskia Kort-Chick, Senior Vice President – Director ESG Research & Engagement, Responsible Investing, Alliance Bernstein
- Simple Prasad, Global Sustainability, Allianz SE
- Dominik Albert, ESG Implementation, Allianz SE
- Lina Sandstrom, Sustainability Analyst, AP2
- Peter Mannerbjörk, Quantitative Portfolio Manager Fixed Income, AP2
- Claes Ekman, Quantitative Portfolio Manager Global Equities AP2
- Vaidehee Sachdev, Senior Impact Analyst, Social Pillar Lead, Aviva Investors
- Karin Bouwmeester, Sustainability Manager, Private Banking, ABN AMRO Bank N.V
- Benjamin Chekroun, Stewardship Analyst, Candriam
- Jaakko Kooroshy, Global Head of Sustainable Investment Research, FTSE Russel
- Edmund Bourne, Senior Sustainable Investment Analyst, FTSE Russel
- Olga Emelianov, Global Head of Impact and Screening Research, MSCI ESG Research
- Michela Gregory, Director ESG Services, NEI Investments
- Lucia Lopez Rivero, Senior ESG Analyst, NEI Investments
- Caroline Eriksen, Head of Social Initiatives, Corporate Governance, Norges Bank Investment Management
- Danielle Essink, Senior Engagement Specialist, Active Ownership, Robeco
- Ghislaine Nadaud, Senior Sustainable Investing Specialist, Robeco
- Monika Schlesinger, ESG Director and Communications Director, TVM Capital Healthcare Partners
- Man Juttijudata, Senior Director, Strategic and Tactical Asset Allocation, Government Pension Fund of Thailand
- Will Pomroy, Head of Impact Engagement – Equities, Federated Hermes Ltd
- Hannah Shoesmith, former Director of Engagement, EOS Federated Hermes Ltd (now at Schroders)
- Kees Goojes, Business and Human Rights Advisor, ABN Amro Bank N.V
- Emmelie Claessens, Business and Human Rights Advisor, ABN Amro Bank N.V

CONTENTS

EXECUTIVE SUMMARY 5

ABOUT THIS PAPER 6

INTRODUCTION 7

THE INVESTMENT PROCESS 10

THE DATA LANDSCAPE 11

FINDINGS 12

KEY TAKEAWAYS 18

GENERAL DATA CHALLENGES 19

RECOMMENDATIONS 24

EXECUTIVE SUMMARY

Increasing convergence between international standards and regulations around human rights is incentivising investors to focus on social issues. Investors are considering not only the impacts on people that arise or could arise from their business activities and investee companies, but they are also trying to understand how risks to people can create financial and reputational risk.

To conduct this analysis, investors need different types of data throughout the investment process. But there are gaps in terms of available information and reliable sources – and where this information is available, it can be difficult to access and process at scale.

We interviewed a diverse sample of PRI signatories including asset owners, asset managers and commercial data providers to identify challenges that investors face in understanding how, and how well, investees manage their impacts on people. The findings suggest a particular focus is needed on four categories of information:

- companies' inherent human rights risks;
- how the board and leadership help embed commitments into company culture and practice;
- the quality of companies' human rights due diligence; and
- quantitative information about positive human rights outcomes to which companies have contributed.

Investors can inform evolving human rights-related corporate disclosure standards by engaging with policy makers and standard setters. Investors should look for information about the quality of governance and managerial processes that shape how companies address, mitigate and remedy adverse impacts on people, rather than focus on the number of policies, meetings with stakeholders and other statistics that fail to provide real insight or measure progress.

We recommend several ways to bring valuable information, into the public domain and scale it: via more effective disclosures; data tagging; and evolving algorithmic analytic techniques. Improvements will also be needed in terms of data and assurance providers' capacity to source and verify human rights-related information in line with relevant international standards. Data also needs to be better integrated into the investment and stewardship process, for example through setting clear expectations to fund managers, focusing on high-quality human rights due diligence (HRDD) and better mapping of a company's value chain.

When investors can harvest and process the data they need, they will be able to incentivise companies to implement effective risk management processes that can have real impacts on the dignity and equality of people.

ABOUT THIS PAPER

This paper outlines the challenges investors face in understanding and addressing how portfolio companies manage human rights risks within their operations and value chains.

In a 2020 consultation, PRI signatories highlighted data as the primary challenge in doing this analysis effectively, particularly in global, diversified portfolios where the number of companies exceed hundreds or even thousands.

To better understand the investor data challenge on human rights, we worked with the not-for-profit organisation Shift to identify:

- Demand: the different types of human rights data and information (both quantitative and qualitative) that investors need to: a) gain insight into portfolio companies' practices regarding respect for human rights in line with the UN Guiding Principles on Business and Human Rights (UNGPs), and the OECD Guidelines for Multinational Enterprises; and b) enable investors to better meet their own responsibilities in line with these standards.
- Supply: i.e., the challenges faced by investors in accessing data and information, along with investor and data provider perspectives and good practices for overcoming those challenges.

Shift interviewed two commercial data providers and 15 asset owner and asset manager PRI signatories, and reviewed existing research about: a) the strengths and weaknesses of information currently disclosed by companies about their human rights / social performance; and b) the types of indicators and metrics that investors and data providers use to assess ESG and social issues. Shift also mapped and analysed recent developments in regulation, and new or draft disclosure standards, to understand how these may impact the demand and supply of data around companies' human rights performance.

The terms 'social' information or 'social' performance have varied definitions; however, in our paper, they refer to companies' management of human rights issues. In the context of regulatory change, aligning practices with recognised international human rights frameworks leads corporates and investors to more effectively and proactively manage a range of complex environmental, social and governance (ESG) issues. Among social issues, we find for example employee relations, diversity issues, health and safety, community relations and forced labour – each of which are reflected in well-established international human rights instruments.

Our Investor Data Needs project will further analyse how geographic location, asset type, strategy, and / or size shape investor data needs. The results of the project in 2023 will complement the findings and recommendations in this report.

INTRODUCTION

THREE DRIVERS OF DATA NEEDS

The three main factors affecting investors' data needs are international standards, regulatory developments and market incentives. We outline these contextual factors below.

1. INTERNATIONAL STANDARDS

The UNGPs and the OECD Guidelines establish that institutional investors and the companies they invest in have a responsibility to respect human rights.

These standards state that investors and investee companies should: a) express their commitment through a public policy statement that is embedded in the organisation through operational policies and procedures; b) conduct human rights due diligence (HRDD) to identify, address and account for impacts on people they are connected to; and c) provide remedy to people for negative impacts to which they contribute.

'People' in this context includes a company's own workforce, workers and affected communities in the value chain, and those impacted using a company's products or services. 'Human rights' are the threshold at which impacts on people reach the point of undermining a person's dignity and equality.

In our paper, Why and how investors should act on human rights, we explain how investors should address human rights risks and impacts: in pre- and post-investment decisions, via stewardship activities and in dialogue with policy makers and key stakeholders.

Figure 1: A three-part responsibility to manage impacts on people. Source: Shift

2. REGULATORY CONVERGENCE

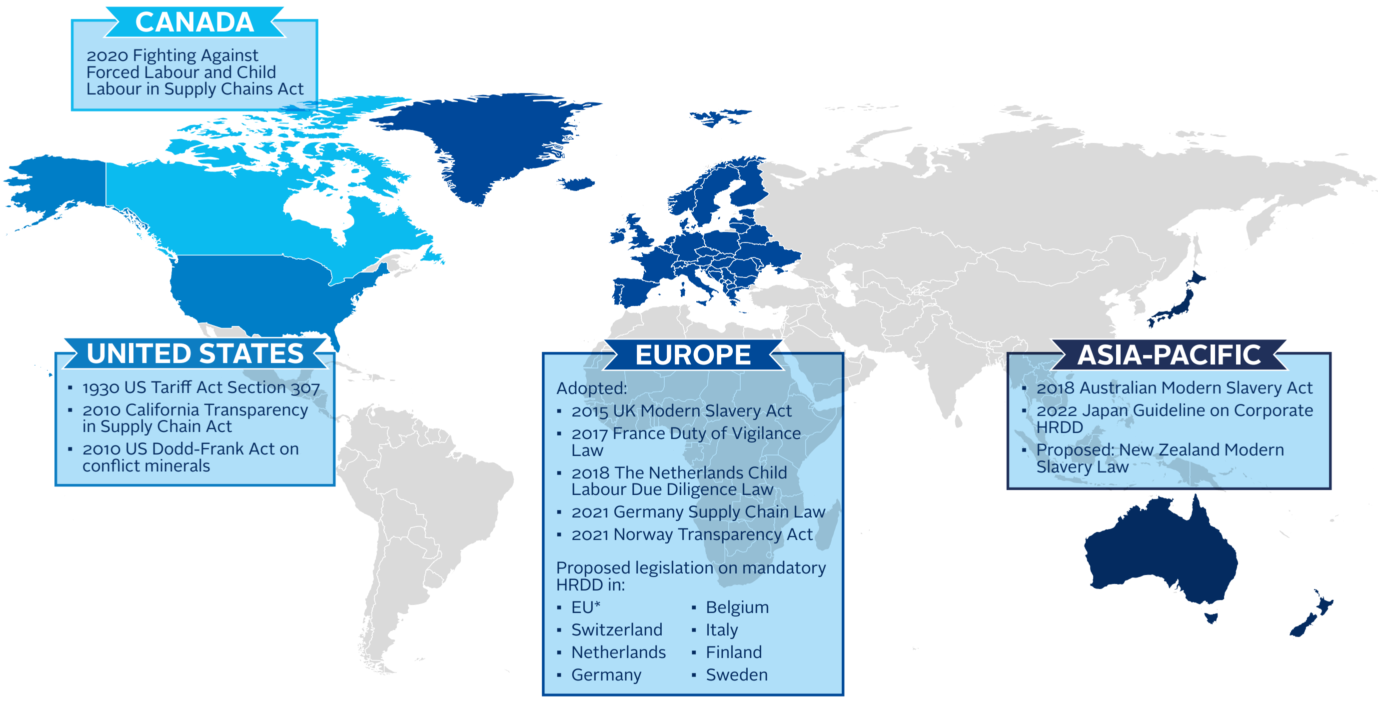
A growing number of due diligence and reporting regulations are aligning with international standards that expect businesses to operate with respect for human rights. This convergence is significantly shaping the data that investors are focused on and has the potential to significantly improve the quality and availability of raw data in the form of corporate disclosures. These developments add to existing regulations, for example on non-discrimination / diversity, health and safety, and vulnerable consumers.

In the EU,[1] human rights disclosure obligations have already been introduced via the Sustainable Finance Disclosures Regulation (SFDR) and the minimum safeguards of Article 18 of the EU Taxonomy. Under these regulations, investors will need to collect and report on data at an entity and product level about the extent of portfolio companies' compliance with the UNGPs and OECD Guidelines.[2]

Furthermore, the provisionally agreed Corporate Sustainability Reporting Directive (CSRD) will require thousands of financial and non-financial companies operating in the EU to report on their HRDD. Such companies may also be required to implement HRDD under the upcoming Corporate Sustainability Due Diligence Directive (CSDD).

Significant developments at the national level to regulate companies' social performance are also informed by international standards.[3] Several EU countries have adopted or proposed HRDD legislation, including France, Germany, Denmark, and the Netherlands. Outside of the EU, various countries – Australia, Canada, Japan, Norway, Switzerland, the UK, and the US – have passed or proposed due diligence, supply chain transparency or modern slavery laws.

Figure 2: Legislation on human rights around the world



**This includes proposed legislations on Corporate Sustainability Due Diligence, regulation on deforestation-free products, and forced labour import ban.*

1 Danish Institute for Human Rights (2022), How do the pieces fit in the puzzle. Making sense of EU regulatory initiatives related to business and human rights

2 The SFDR Regulatory Technical Standards will come into force in January 2023 and provide a template for investors' reporting on Principle Adverse Sustainability Impacts. This template includes indicators from the UNGPs / OECD guidelines that investors will be required to report against. See our investor briefing on EU regulation on sustainability-related disclosures in the financial services sector

3 See PRI's Regulation Database for more information

3. MARKET INCENTIVES

A range of incentives beyond international standards and regulation are motivating investors to focus on portfolio companies' impacts on people. These drivers include:

- **Corporate identity –** an investor commits to invest sustainably and responsibly in ways that align with international standards due, at least in part, to its corporate values, identity and market presence. Such investors tend to seek data about serious risks to people in their portfolio to protect the integrity of their corporate identity, as well as to act on their fundamental belief that applying their leverage to improve investee behaviours and practices is the right thing to do.
- **Client demand –** whereby clients seek to invest in sustainable investment products. For example, if an investor is seeking to address client demand for a diversity, equity, and inclusion (DEI) fund, that investor will need to access data – often at scale – about gender pay gaps and diversity across all levels of the investee companies, among other issues.
- **Value creation –** investors recognise the growing evidence that harm to human rights increasingly converges with financial, legal, and reputational risks to business, resulting in value erosion for investee companies. This recognition is more likely to attune investors to a wider set of portfolio companies' impacts on people, even when the consequences for business may not materialise in the near term.

However, dynamics in the external marketplace and within investor organisations can act as barriers to investors undertaking expected practices. For example, a focus on short-term value creation can narrow an investor's lens to seek data only regarding impacts on people for which there are widely reported precedents of significant financial loss, so potentially ignoring severe impacts on people's human rights. An investor's mandate, objectives and investment strategy can also constrain efforts to address impacts on human rights in their portfolio that may become business risks over time. Similarly, client demand can disincentivise investors from addressing risks to and impacts on people, such as when there is a sole focus on investing to achieve Net Zero but limited attention to the importance of a just transition.[4]

4 For more information see PRI's Climate change and the just transition: a guide for investor action

THE INVESTMENT PROCESS

While there is no standardised investment process, the following table provides an overview of the types of decisions that investors are making and the corresponding data needs.

Table 1: Different data needs for different investment activities

	Investment activity	Data needs
Research	**Screening:** investors 'screen out' investees with significant negative human rights performance; and / or apply screening to identify investees for stewardship.	Range of potential data needs, including evidence of investee involvement in significant controversies, especially those with unsatisfactory resolutions, or a higher-level assessment informed by an ESG score that includes the investee's human rights track record.
	Assessment of investable universe: activities include gathering information on risk exposure to human rights, human rights performance and / or undertaking materiality analysis.	Range of potential data needs, depending on specific activities, including: sectors and regions in which the investee and its wider value chain operate; evidence of controversies along its value chain; and salient human rights issues relevant to the local context of the investee and its value chain.
Valuation	**Buy / hold / sell analysis:** investors assess an investee's financial performance through valuation models and credit assessment, as well as conduct scenario analysis, whereby investors consider a range of future scenarios and assess financial and risk implications.	Evidence of the consequences of investees' relationships, business activities, and their approach to managing human rights-related risks.
	Sustainability analysis: investors assess an investee's sustainability performance and alignment with sustainability goals.	Evidence of investees' performance on human rights issues, including aligning with human rights standards and relevant benchmarks.
Portfolio construction	**Portfolio-level analysis:** investors apply asset allocation decisions in line with the results of the research and valuation stages at portfolio level, including running different ESG scenarios.	An aggregation of analysis of investees' human rights risks and impacts to inform sector / industry analysis and risk management strategies.
Stewardship	**Engagement:** creating dialogue with investees to develop further understanding of their human rights risks, related management processes, and progress towards addressing risks to people.	Insights into investees' human rights risk management processes including their alignment with international standards. This step builds off the results from research and valuation.
	Voting: investors vote on shareholder resolutions to communicate their views to company management about their human rights conduct.	An understanding of corporate governance practices related to human rights risk management, including board and senior management incentives and how they are held accountable.
Reporting	Fulfilling regulatory and client reporting requirements.	A need for comparability and scalability of relevant data.

THE DATA LANDSCAPE

Investors and data providers rely on a diverse set of data sources to inform their analysis and decision-making about companies' social performance. The following is a simplified, and not exhaustive, overview of the current data landscape. More exploration, including via investor peer learning and case studies of promising practices, is needed to show how specific data sources can enhance investor decision-making.

- **Corporate disclosures:** typically cover a range of issues, depending on regulatory disclosure obligations.
- **Media reports:** usually oriented towards controversies and allegations.
- **NGO reports:** mostly relate to specific human rights and responsible business issues, controversies, and the practices of specific companies or industries in high-risk contexts.
- **Country reports by multilaterals and governments:** provide an overview of gaps and recent negative events regarding a country's human rights protections.
- **Human rights benchmarks:** typically rank a subset of large-cap public companies based on specific human rights issues and / or their alignment to the UNGPs and OECD Guidelines.
- **Affected stakeholders and their representatives (e.g., trade unions):** information comes about via direct engagement and typically focuses on industry practices in specific locations, or an individual company's conduct.
- **Commercial data / ratings providers:** look at both overall assessment and specific issues, mostly financial materiality and / or 'violations' of international standards; the underlying data is often aggregated / processed.
- **Sell-side research:** often focuses on financial materiality.
- **Social media analysis:** revolves around controversies or stakeholder perspectives.

FINDINGS

This section outlines four categories of information that we find are most needed by investors across the investment process. We describe the challenges investors face in meeting those needs, and examples of solutions from investors and data providers.

The below categories represent the most significant gaps in information highlighted by interviewees and insights from desk research.

- Category 1: Companies' inherent human rights risks
- Category 2: How the board and leadership help embed commitments in company culture and practice
- Category 3: The quality of companies' HRDD
- Category 4: Quantitative information about positive human rights outcomes to which companies have contributed

CATEGORY 1: COMPANIES' INHERENT HUMAN RIGHTS RISKS

All investors interviewed wanted to access more data that would allow them to gain a more complete view of relevant and potential human rights issues that could affect investees. Interviewees specified that information about an entity's business model, the location of its business activities and its value chain relationships would be most useful.

DATA CHALLENGES

Interviewees shared that only a small number of facts about a company tend to be publicly available: its industry; where it is headquartered; and the location of its offices, sites, or facilities. Investors noted that focusing on where a company is headquartered or owns sites runs the risk of skewing investors' attention too far towards companies based in developing or lesser developed markets, hence missing human rights risks connected to companies headquartered in developed economies.

PROMISING PRACTICES

- **Value chain mapping:** Multiple investors have been attempting to map portfolio companies' value chains to ascertain a more granular understanding of where, and with whom, that company does business. Mapping appears difficult given that, except for some companies in the apparel, electronics and agricultural sectors, this information is not yet widely in the public domain.
- **Business model risks:** One investor is experimenting with analysing business model-driven risks to people as part of its screening process. This has involved combining a proprietary data set that classifies over 14,000 companies based on declared sources of revenue with a publicly available list of business model features that increase risks to human rights. A well-understood example is the so-called fast-fashion business model, which typically perpetuates purchasing practices that increase labour rights risks within a company's supply chain. A more recent phenomenon that investors, as well as regulators, are focusing on is data-driven business models, which increase privacy risks and associated financial, reputational, and legal risks.
- **Joining up ESG and investment manager expertise:** Multiple investors noted that there is growing collaboration between sustainability analysts, who specialise in ESG issues, and more traditional investment analysts with in-depth company and industry subject-matter expertise because they often have complementary insight into business strategies, business models and shifting value chain dynamics.

CATEGORY 2: HOW THE BOARD AND LEADERSHIP HELP EMBED COMMITMENTS IN COMPANY CULTURE AND PRACTICE

All investors interviewed emphasised the need for information about whether boards and management are engaged in how the company identifies and addresses the most severe risks to, and impacts on, human rights across the company's operations and value chains. Such information can provide insight about whether a company's human rights commitments are likely to be embedded across the organisation, including whether the 'hardware' of processes and systems is being supported by the 'software' or culture needed to ensure these are implemented as intended.

DATA CHALLENGES

Investors welcomed the increasing number of disclosures relating to companies' human rights policies and processes that are in line with international standards – and they appreciated that these disclosures are increasingly incorporated by ESG ratings agencies. However, investors were also concerned that indicators of policy and process – such as whether a company has a publicly available policy that mentions the UNGPs, has allocated a board member to have formal oversight of policies and trains employees on such policies – are too prevalent in social assessment methodologies,[5] given that they are at best weak signals of whether the company is identifying and addressing human rights risks and impacts effectively.

Moreover, as these 'observable basics' of companies' engagement with human rights issues become increasingly demanded by regulations, benchmarks and ratings, this reduces their value for evaluating and comparing companies' seriousness in delivering change.

5 See Shift's report, The Problem with How we Measure Business Respect for Human Rights, which found that approximately 70% of indicators used by ESG data providers as part of social analysis are focused on this type of information

PROMISING PRACTICES

Interviewees gravitate in their engagement with investees towards the same small set of characteristics that signal a company has the necessary commitment and culture to address impacts on people. This suggests that it may be possible to arrive at, and advocate for widespread use of, a small set of indicators of embeddedness that will be far less amenable to tick-box approaches or virtue signalling than current policy-focused information. The areas of common interest that emerged via interviews were:

- How frequently the board is updated on, and meaningfully engages with, the company's salient human rights risks.
- Whether the board includes, or has access to, the necessary expertise and information to scrutinise company responses to these risks. For example, one investor mentioned the importance of appointing independent directors with social sustainability expertise who are tasked with holding the board to account.
- Whether the board – or relevant sub-committee – has met with affected stakeholders, their representatives and / or other experts to hear their perspectives on human rights issues connected to the company's operations and value chain.[6]
- Whether compensation for senior leaders is linked to the company's performance against strategic social indicators, alongside financial and environmental metrics.
- The presence of executive sponsored, cross-functional committees or groups tasked with maximising coherence and coordination in how the company assesses and acts on human rights risks.

Interviewees said that even though the above information tends to only be accessed via engagement, it is common practice to analyse and score these governance features as part of that engagement process. Some interviewees noted this practice was easier if they had experience in analysing and scoring other types of governance-related, qualitative information.

CATEGORY 3: THE QUALITY OF COMPANIES' HUMAN RIGHTS DUE DILIGENCE

Investors raised the importance of gaining insight into the maturity or quality of companies' HRDD efforts. Without such insight, it is very difficult for investors to know if a company is identifying and addressing the most significant risks to people, and associated risks to the business. Investors were remarkably aligned as to wanting to know whether the company:

- **Has a clear understanding of risks and impacts** i.e., has the company sufficiently identified risks to people across its operations and value chain, and assessed and prioritised those that are most severe? To what extent does the company regularly review risks and impacts to ensure that its understanding is up to date?
- **Is taking appropriate action on risks and impacts identified** i.e., is the company acting on identified issues in ways that have a reasonable prospect of mitigating or remediating adverse impacts to people?
- **Is engaging with affected stakeholders and credible experts as part of its HRDD** i.e., does the company consistently engage with experts, NGOs and at-risk stakeholders and identify, assess and address human rights risks based on these insights?

DATA CHALLENGES

Several investors noted that indicators and analysis of companies' HRDD practices are limited in a variety of ways, including:

- A focus on evidence of a company identifying risks to the business, rather than risks to people, as international standards expect. An example is positive scoring for companies if they disclose that they have undertaken a business materiality assessment that includes social issues, regardless of whether there is evidence of a company having considered the most significant risks to people.
- Not paying attention to whether companies are engaging with affected stakeholders. For example, a company may score highly on an indicator about the number of human rights-focused engagements with external stakeholders even if the company only provides evidence of engagement with investors, regulators or the management of their suppliers, but is silent on whether it has engaged with credible experts and affected workers, communities or end-users / consumers.

6 For more information, see the World Economic Forum's Engaging Affected Stakeholders: Guidance for Board Members on Human Rights

- A narrow focus on mitigation that places compliance requirements on suppliers, business partners and customers. Examples include setting out human rights expectations in contracts or addressing social compliance issues with policies and processes. These methods do not offer insight as to whether a company is addressing its own contribution to harms (such as via purchasing practices) or increasing its leverage to achieve change (such as through industry-wide collaboration), as is expected by the UNGPs.
- Using indicators that stop short of offering insight about whether company practices work for affected stakeholders. A typical example is an indicator about the number of grievances that have been 'resolved' but says nothing about whether grievances have been resolved through processes that are satisfactory to affected stakeholders.

In particular, interviewees shared their concerns about two types of information below. In the EU, these concerns will be exacerbated as many investors are required to report this data under the SFDR:

- **Information about allegations of companies' involvement in human rights harms** (usually defined as 'violations' of the UN Global Compact Principles). Interviewees were concerned that third-party scoring agencies' information relating to company action to remediate allegations is often not up to date, due to the time required to research allegations and company responses, and so lacks important insight about the quality of a company's due diligence. In addition, the allegations that show up in scoring tend to focus on risks to the company in the short term, potentially missing issues that may become a business risk over the medium and long term.
- **So-called 'risk prevalence' indicators,** such as the number or percentage of operations and suppliers considered to pose significant risk for incidents of forced labour or child labour. Without context, including whether the risks are endemic to a geography or commodity, and whether the company is acting in ways that exacerbate the risk, this type of indicator fails to offer insight into the quality of a company's HRDD. A high figure from one company may, for example, suggest: a) that serious human rights issues are ingrained in the company and its value chain; b) that it has just acquired a new business in a geography with a prevalence of forced labour or child labour; or c) that it has robust practices to surface these human rights risks so the company can act to address them. A low figure from another company may suggest that it has made significant progress in tackling forced labour or that it has not even done the important work of trying to discover whether and where the problem exists in its value chain. Anecdotally, this has led some companies to fear that data analysts and investors may downgrade their social performance if they report high or increasing prevalence numbers which in turn may incentivise some businesses to conclude it is better not to do proper due diligence or provide appropriate disclosures to the market.

PROMISING PRACTICES

- **Comparing disclosed human rights risks with an investor's own analysis.** One investor shared that they commonly compare what an investee lists as priority human rights issues (in disclosures or as part of engagement) to the issues that the investor has identified via their own in-house research. Gaps or blind spots can then become the focus of follow-up questions or actions.
- **Focusing engagement on higher quality HRDD practices.** Some investors agree KPIs with investees as part of action plans to move companies from high to lower risk thresholds. Such KPIs sometimes reflect an agreement that the company will take HRDD steps that investors see as meaningful, such as: conducting a deep dive assessment into a high-risk operation, context, product, or service; connecting with relevant and credible experts such as the International Labour Organisation, trade unions or local community leaders; or engaging with industry and multi-stakeholder initiatives focused on root causes of harms.
- **Making more sense of action on, and learning from, allegations.** Many investors interviewed are digging deeper into media stories, allegations, and data provider controversy scores to form a judgement about companies' social / human rights credentials. At least in the case of large investors that are publicly committed to address human rights risks and have allocated adequate human resources, the norm appears that incidents / allegations trigger deeper analysis of a company. The exact dimensions and mechanics of this analysis merit further attention, but broadly seem to include a focus on what action the company has taken around the case, and whether company policies, processes, and disclosures signal that the incident is an outlier event. Some investors expressed frustration that information from data providers about previously flagged incidents / allegations can be outdated, often under-representing positive actions taken by a company. One data provider interviewee said they also attempt to provide context to controversies[7] and have introduced more systematic assessments of how companies react to allegations and incidents. This direction of travel is especially important given that a vast majority of investors lack in-house analytical resources to conduct their own analysis.

7 For example, see updates to the MSCI Controversies Score Methodology

- **Upgrading typically used but flawed indicators.** No metric formulation is without risks, but solutions are being found. These efforts focus on minor adaptations to indicators that spotlight the role that a company has played or tried to play in addressing problems. For example, the 2022 Johannesburg Stock Exchange's Sustainability and Climate Disclosure Guidance includes the following metric formulations:
    - Instead of the commonly used metric "% or # of operations and suppliers considered to have significant risk for incidents of child labour, forced or compulsory labour", the JSE uses "% or # of identified child labour of forced and compulsory labour incidents in its operations or value chain; *and the % of these where the reporting entity has played a role in securing remedy for those affected"*; and
    - Instead of the "# and type of community grievances related to salient human rights issue, and % of these resolved", the JSE uses "# and type of grievances reported associated with community impacts related to a salient human rights issue in the reporting period, and an explanation *and % of these that are remedied in agreement with those who expressed the grievance."*

CATEGORY 4: POSITIVE HUMAN RIGHTS OUTCOMES TO WHICH COMPANIES HAVE CONTRIBUTED

Several interviewees said there is a major lack of quantitative information about improvements in outcomes or impacts on people that can be, in part or in full, attributed to a company's actions. Interviewees noted the lack of social metrics for which there are robust, scientific, and accepted means of data collection and measurement, and the need for criteria to allow companies to report such data in ways that contextualise numbers.

Some interviewees noted that when a company has a clear plan to address a particular human rights risk or impact in specific parts of its operations or value chain, and then demonstrates progress against that plan, this provides a good signal that the company is taking seriously the issues concerned. Some investors mentioned that, in their engagements, they often want to see evidence that a company measures and assesses the effectiveness of its efforts, including that the company is setting and reporting against targets.

The desire to have quantified information about outcomes that can be more easily attributable to a company's due diligence activities seems to be driven by numerous motivations, including that this information could help investors to:

- compare a company's performance year-on-year;
- make comparisons – likely around a small number of metrics – between companies;
- evaluate if risks to people that carry significant financial, reputational, and increasingly legal risks are being reduced; and
- form a picture of the impact that investors' own stewardship activities are having on outcomes for people.

DATA CHALLENGES

The key challenges shared by interviewees, borne out by desk research, are that:

- Investors, data providers and companies tend to be: a) counting policies, processes, or corrective actions as proxies for outcome metrics; or b) only focusing on metrics of impact in highly regulated, narrow, employee-focused areas such as health, safety, and diversity.
- Commonly used metrics about outcomes for affected stakeholders tend to be formulated in ways that give limited insight into the role of a company in perpetuating or tackling those challenges. As noted above, this is the case for the metric formulations that many regulators and data providers use concerning forced labour and child labour.
- Data provider analysis seems to focus on whether the company says that it has targets and metrics for human rights issues, even if these targets are not about outcomes. A company may score highly because it sets targets, for example, to conduct social audits across 100% of its first-tier suppliers and 50% of its second-tier suppliers by a certain date. Such a target lacks any insight about outcomes for workers.
- Even in highly regulated areas, such as health and safety, and diversity and inclusion, where outcome metrics are well established, these metrics tend to be focused on business risk or reporting figures rather than outcomes. This has the benefit that an investor has more chance of accessing data for thousands of companies. But it has the drawback that many well-established metrics open space for companies to count in ways that obscure outcomes for people. For example, research[8] shows that the safety metric of Lost Time Injuries (LTI) can be 'gamed' by companies through putting people back to work in different jobs for which a certain level of physical mobility may not be necessary. Such practices can result in worse outcomes for injured workers but reduce a company's LTI rate.

8 See, Muller. J (2019), The Tyranny of Metrics

PROMISING PRACTICES

Interviewees advocated two promising practices: setting out what constitutes a credible social target and / or KPI; and focusing on inequality-related workforce metrics.

1. Criteria for credible social targets and KPIs
This approach is gaining some traction regarding recent corporate disclosure frameworks, where 'criteria' or 'principles' have begun to be articulated for target-setting on social issues.[9] These criteria include that a target should be:

- Focused on the company's salient human rights risks.
- Outcome-oriented, meaning that it should be either: a) a direct measure of outcomes for people such as the number of employees covered by collective bargaining agreements, or the extent to which indigenous communities can exercise their right to free, prior and informed consent; or, b) a measure of systemic changes aimed at improving outcomes for people such as achieving industry-wide commitment to collective bargaining, or embedding land rights in local laws in high-risk contexts.
- Clear about the timescale, including interim milestones, and whether the target applies to the consolidated group, a single entity, its upstream or downstream value chain, or specific geographic regions.
- Supported by information about measurement methods and underlying assumptions.
- Developed with input from internal or external subject-matter experts and, wherever possible, affected stakeholders and / or their legitimate representatives.
- Accompanied by qualitative information to provide context, including, for example, information about the operating contexts in which outcomes are being measured.

2. Focusing on inequality-oriented workforce metrics
Interviewees and desk research suggested it may be possible to overcome common challenges by measuring outcomes for at least one stakeholder group: a company's own workforce. This is a key part of managing human rights issues.

Most companies and data providers already focus on data relating to workers in a company's operations, consistent with regulators' growing attention to human capital management. Every company – regardless of its industry, location, and size – has a workforce and, in principle, should be able to collect, assess and disclose data about that workforce.

Moreover, tracking workforce metrics is increasingly recognised by business to add value to its internal decision-making, which may reduce barriers to investing resources in data collection. Information garnered from interviews, and publicly available information about data provider methodologies, suggests that most, if not all, data providers address labour rights issues as part of their social analysis. Still, the focus in many cases is on a limited set of issues such as health and safety.

PRI resources:

How investors can advance decent work

ADDRESSING INCOME INEQUALITY

Investors are increasingly recognising the systemic risks to the political, economic and financial systems that underpin investment returns – as well as the pressing need, highlighted by the Covid-19 pandemic, to address the climate crisis in tandem with growing inequality. As a result, investors are demanding data and workplace metrics regarding inequalities of income, wealth and opportunity, particularly data that highlights how groups within the workforce compare. Multiple interviewees referenced thematic engagements focused on inequality, the growth of inequality-oriented funds, and initiatives such as the Platform Living Wage Financials.

The World Bank notes that the richest 10% of the global population takes 52% of global income, while the poorest 50% of the population earns just 8.5% of total income. The data is even more stark for global wealth, with the richest 10% of the world's population owning 76% of all wealth while the poorest 50% owns just 2%.[10] Read more in our report, Why and how investors can respond to income inequality.

9 See GRI Universal Standards (GRI 3, 'Material Topics'); Draft European Sustainability Reporting Standards (ESRS 1, Disclosure Principle 1-2); and the Climate Disclosure Standards Board framework for reporting environmental and social information (Requirement 2: 'Management's environmental and social policies, strategies and targets')

10 World Bank (2022), World Inequality Report

Evaluating a company based on a small number of workplace metrics focused on decent work and equality will not cover a company's entire social performance, but may offer insight into:

- outcomes for an important set of any company's affected stakeholders: its workforce;
- a company's culture, lack of safeguards and / or adverse employment relationships with regards to vulnerable and at-risk people; and
- whether a company's workplace practices are tackling or exacerbating pre-existing decent work issues (such as forced labour, the digital divide and gender pay gap amongst others) that are intrinsically linked to economic inequality.

Many interviewees positively referenced the Workforce Disclosure Initiative (WDI) in their analysis. The WDI is an investor coalition made up of 68 institutions, with USD$10 trillion in assets under management. It aims to improve companies' reporting standards on workforce metrics and provides an online reporting platform for companies to disclose workforce and management data. In 2021, 173 global companies took part in the initiative, up by 23% from 2020.

Interviewees also said the number of companies that the WDI covers is too few, and the form of the data can make it challenging to use. What is clear is that the WDI's work is considered by many as a sound methodological starting point to integrate outcome metrics into investment analysis at scale because it addresses a wide range of internationally recognised labour rights across many areas such as workforce composition, wage levels and pay gaps, and worker voice and representation. Multiple indicators across these areas are quantitative and part of existing reporting requirements and benchmarks. The following are illustrative examples:

- The percentage (%) of the company's total direct operations workforce in leadership positions by gender.
- The CEO to median worker pay ratio.
- The percentage (%) of female and male employees in the bottom, lower middle, upper middle, and upper pay quartiles.
- The percentage (%) of male and female employees, as a total of the direct operations workforce, whose basic salary is equal to the legal minimum wage, or just above.
- The number and / or percentage (%) of the company's employees on each contract type (indefinite / permanent employees; fixed-term / temporary employees; full-time employees; part-time employees; non-guaranteed hours employees) as a proportion of the total direct operations workforce.
- The percentage (%) of employees covered by collective bargaining agreements by each of the company's significant operating locations.

KEY TAKEAWAYS

- **Information from each of the four categories is generally being used across all steps of the investment process.** Investors said that certain information, such as the quality of a company's due diligence, is only presently accessible to them via engagement, but they did not suggest that it could only be *used* for engagement. If made more easily available, such information could also significantly enhance the research process; for example, by improving portfolio screening beyond the current reliance on policy coverage, numbers of audits or percentages of business partners that have human rights expectations in their contracts.
- **Combining information across categories would be of significant value.** For example, information about companies' inherent human rights risks coupled with data about board and leadership practices would provide a much sounder basis to assess the investable universe and whether to exclude a company for sustainability reasons, than knowing the company's industry and location. Information about the quality of a company's due diligence could be stress-tested based on whether the company is setting outcome targets and disclosing progress, which could be relevant to the investor's valuation analysis.
- **Information across all categories would enable investors to better target resources within stewardship activities.** For example, information about board and leadership practices could inform the content of proxy resolutions or engagement activities, such that the focus of these stewardship activities can go beyond basic requests such as adopting human rights policies. Information about companies' inherent human rights risks could help identify which companies to prioritise for engagement, and information about outcomes and the extent of progress could inform the content of engagement.
- **Information across all categories could enhance how investors interpret existing data.** For example, companies' controversy scores could be up or downgraded based on the quality of their due diligence. Understanding a company's board and leadership practices could enable an investor to make more sense of whether that company's documented policies and processes are likely to be embedded in day-to-day business decisions.

GENERAL DATA CHALLENGES

This section addresses three key issues that investors and desk research spotlighted as key to improving data quality and availability across all four categories outlined in the previous section.

1. CORPORATE DISCLOSURES

Investors and data providers preferred that analysis of companies' social performance was based on company disclosures that align with standardised reporting frameworks, as it increases the comparability of data for many companies. However, the content of company reporting needs to address the four categories of information set out in the previous section. Otherwise, it will remain impossible for data providers and investors to conduct more incisive analyses of companies' practices and performance.

Interviewees said the data investors are seeking are only accessible via engagement with portfolio companies rather than via disclosures. However, a review of the disclosures of companies that are leaders in implementing the UNGPs suggests that there is no barrier, in principle, to companies reporting the kinds of information that investors require.

Moreover, a close analysis of new and evolving international reporting standards offers cause for cautious optimism that there will be increasing disclosures.

This analysis involved cataloguing specific questions that interviewees shared as important for assessing companies' social performance, and then evaluating whether the principles and requirements of two significant reporting standards and one reporting framework are likely to elicit company disclosures in response to those questions. We focused on Categories 2 (how the board and leadership help embed commitments in company culture and practice) and 3 (the quality of HRDD), and reviewed the GRI Universal Standards, the Draft European Sustainability Reporting Standards and the CDSB framework for reporting environmental and social information. (See footnote[11] for an explanation of why these standards are important.)

Table 2 below presents the results of this analysis:

- Disclosure standards appear to be converging with the same data needs that interviewees identified. This convergence is clearest in the EU standards, but also holds true with others.
- This convergence is positive news for commercial and civil society data providers seeking to improve their own social ratings and rankings, but their efforts can be frustrated by a lack of company disclosure that goes beyond data about policies, processes and activities.

11 The GRI Universal Standards are currently the most widely used sustainability reporting standard and were aligned with the UNGPs and OECD Guidelines in 2021. The Draft European Sustainability Reporting Standards (ESRS), developed by the European Financial Reporting Advisory Group (EFRAG), are set to apply to 50,000 companies, including EU subsidiaries of non-EU companies. The CDSB framework for reporting environmental and social information is the first of its kind to address social reporting using the Task Force on Climate-Related Financial Disclosures (TCFD) framework. CDSB's framework is also part of the founding guidance of the new International Sustainability Standards Board (ISSB), the primary global initiative aimed at consolidating financially material sustainability disclosure standards to "provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions"

Table 2: The overlap of investor data needs and international reporting standards

INVESTORS' DATA NEEDS		Reporting frameworks / requirements		
Questions of interest mentioned by interviewees		GRI 2&3 / GRI-204	EFRAG ESRS	CDSB
Category 2: Board and leadership help to embed commitments	1. Does the board routinely receive updates about progress or challenges in addressing the company's salient human rights risks?	3	3	3
	2. Does the board routinely discuss progress or challenges in addressing the company's salient human rights risks?	2	3	0
	3. Does the board or top leadership approve outcome-oriented and time-bound targets in relation to the company's salient human rights issues?	3	3	3
	4. Does the company ensure leadership is incentivised and accountable for addressing salient human rights issues?	3	3	1

3 Very strong = This reporting framework is expected to elicit relevant disclosures for the indicator
2 Strong = This reporting framework is likely to elicit relevant disclosures for the indicator
1 Weak = This reporting framework is unlikely to elicit relevant disclosures for the indicator
0 This reporting framework will not elicit this information

INVESTORS' DATA NEEDS			Reporting frameworks / requirements		
Questions of interest mentioned by interviewees			GRI 2&3 / GRI-204	EFRAG ESRS	CDSB
Category 3: The quality of companies' human rights due diligence	Clear and credible view on risks and impacts	1. Does the company include all aspects of its operations and its value chain in its assessment of human rights risks?	3	3	2
		2. Does the company disclose its salient human rights risks, understood as the most severe potential negative impacts on people connected with its operations and value chain?	3	2	2
		3. Does the company keep the nature and extent of human rights risks under regular review?	3	2	3
	Taking appropriate action on risks and impacts identified	1. Does the company assess whether and how its actions to address salient risks are achieving the intended outcomes for affected stakeholders?	3	3	2
		2. Does the company review whether its own practices contribute to human rights risks and adapt them as necessary?	1	3	2
		3. Does the company build and use leverage to better address human rights risks, including through collective action where its own leverage is insufficient?	2	3	2
		4. Does the company collaborate with others to address systemic human rights risks, based on shared action plans and targets?	1	3	0
	Engaging with affected stakeholders and credible experts as part of its HRDD	1. Does the company identify which stakeholders in which settings are likely to be the most vulnerable to impacts in connection with its operations?	3	3	2
		2. Does the company identify which stakeholders in which settings are likely to be the most vulnerable to impacts in connection with its value chain?	3	3	0
		3. Does the company gather and act on insights from the perspectives of those stakeholders in its operations and value chain who are identified as being most at risk?	2	3	2
		4. Does the company's engagement with these stakeholders influence company strategies, policies, processes, or practices?	2	3	3

3 Very strong = This reporting framework is expected to elicit relevant disclosures for the indicator
2 Strong = This reporting framework is likely to elicit relevant disclosures for the indicator
1 Weak = This reporting framework is unlikely to elicit relevant disclosures for the indicator
0 This reporting framework will not elicit this information

2. CIVIL SOCIETY AND SOCIAL MEDIA DATA

The PRI signatories interviewed for this project consistently noted the importance of stakeholder involvement – in particular that of civil society – in their responsible investment activities. Several investors shared that they involve civil society voices directly in their own analysis of portfolio human rights risks, and when deciding on time-limited (usually annual) thematic priorities for engagement. One investor said that they have experience in engaging with workers' organisations to gain insight about specific companies of concern.

With regard to the potential for stakeholder insight to inform analysis and investment decisions, interviewees focused on three distinct types of information:

- **Civil society benchmarks and rankings:** Investors find the research, underlying raw data and analysis conducted by benchmarks and ratings to be a useful source of information, most notably in engagement. Commonly referenced were Know the Chain; Ranking Digital Rights; the WDI; and the World Benchmarking Alliance's Social Transformation Framework and Corporate Human Rights Benchmark.

  For more background on these initiatives see:

  Human rights benchmarks for investors: an overview

- **NGO research:** Investors regularly seek out and review NGO reports and articles for insight about human rights risks or impacts in a specific sector or geography and / or company. Multiple interviewees mentioned that the Business and Human Rights Resource Centre[12] is a particularly important resource.
- **Social media and other online resources:** Some investors are beginning to use social media platforms to understand employee and other stakeholders' perspectives about a specific company or issue in a local context. One investor mentioned Glassdoor as an example of where investors can attempt to gain insight into the workplace practices and culture of a specific company.[13]

The most significant issue raised by investors is the form in which information exists (largely PDF or Word documents, online news reports, Excel files, social media posts) as well as the lack of digital tagging, which makes such information very difficult to use and integrate with internal data management systems.

Some experimentation and innovation to address this challenge is underway. One investor mentioned that they are, along with peers, talking to the Business and Human Rights Resource Centre about an investor-focused Application Programme Interface (API), a software tool that would allow the centre's web-based information to integrate with the investor's internal information systems.

CASE STUDY: BANK USES SOCIAL MEDIA TO GAIN INSIGHT

One especially innovative example involved a Dutch bank seeking to get the perspectives of at-risk seafarers regarding the global transport and logistics sectors – a key strategic market for the bank's corporate lending business. By connecting with 'seafarer influencers' on TikTok, the bank was able to have over 130 surveys completed by these workers, in addition to other stakeholder interviews. This brought insights about top concerns (mental health, excessive overtime hours, available resting hours, and harassment of female workers) that were generally unknown or discounted before this analysis.

12 The Resource Centre collects data on the human rights policy and performance of over 10,000 companies in over 180 countries

13 For more information, see MIT/Glass Door Culture 500 research which "measures and compares more than 500 US companies across nine cultural dimensions, by narrowing in on employee data to examine what makes company culture distinctive and effective. The interactive index allows us to see how companies perform across the cultural values that matter most to employees, such as respect, collaboration, and diversity"

3. ASSURANCE AND ANALYSIS

A final issue raised by interviewees was the importance of having confidence in the content that companies report and the analysis of that content by third-party data providers. Increasing the volume of meaningful information and data in the public domain about companies' social performance is a significant challenge. If the capability to verify, evaluate and make sense of that information is lacking, investors and other stakeholders will likely draw vastly different conclusions. This can in turn disincentivise companies from disclosing more meaningful information that requires more expert interpretation.

As such, central to creating a virtuous cycle of data supply and demand is that assurance providers and analysts are capable of, and even accountable for, conducting good quality analysis of corporate disclosures.

Regarding assurance providers, there are professional bodies that could be tasked with building and possibly accrediting the competence needed to assure more mature human rights reporting. Guidance for assurance providers in this area already exists.[14] The demand for service providers to have the skills to assure sustainability reporting is set to grow given moves, most notably in the EU, to require all sustainability information to be assured.

The pathway to ensuring high quality and consistent analysis of corporate reporting is less clear. There is some political momentum to regulate ESG data providers.[15] Larger investors interviewed for this project shared that they tend to use data provider scoring as a trigger for their own in-house analysis, suggesting a degree of distrust. But this is not a viable solution that will work for the wider marketplace, in particular for mid-sized and smaller firms without that internal resource.

The role of technology to scale analysis of information is a much-explored issue. Interviewees mentioned efforts to replace or supplement analysts with technology, such as artificial intelligence and natural language processing.[16] These tools may allow an investor to analyse hundreds of thousands of companies in real time and at a fraction of the cost.

However, experimenting with such tools has yet to deliver. A recent Danish Institute of Human Rights report addresses key barriers to using technology to analyse company reporting, including the format and presentation of data and the limitations of algorithms. The report noted "there is a clear need to acknowledge the limits of what this kind of algorithm-assisted analysis can tell us about the data, in that it cannot assess the quality of reporting, only whether text is relevant to an indicator".

14 See the UN Guiding Principles Assurance Guidance developed by Mazars and Shift in collaboration with Institute of Internal Auditors

15 For an overview of these developments, led in particular by the European Securities and Markets Authority, see ETF Stream (2022), What ESG data provider regulation will achieve for ETFs

16 European Commission (2020), NLP "refers to the machine's ability to identify, process, understand and/or generate information in written and spoken human communications. It is considered as an AI subdomain from several national strategies and AI experts, encompassing applications such as text generation, text mining, classification, and machine translation"

RECOMMENDATIONS

In this research, we have identified a need for relevant and useful information on corporate human rights performance – at scale – based on international standards. To bring this data about, we highlight the following four priorities that will require input from a combination of stakeholders.

MAKE THE DATA AVAILABLE

- **Promote aligning corporate disclosures on social issues with international human rights standards.** This will improve the consistency of information demanded of investee companies and the ability of investors and other stakeholders to develop insights about the human rights risks and impacts associated with their operations and value chains. It will set a common foundation for understanding how companies identify, assess, and manage those risks and impacts.
- **Expand and improve data in the following four areas:**
  - Expand the availability of contextual data. This information will provide investors with a more granular view of company value chains, including where and with whom the company does business and the types of human rights risks that can be anticipated.
  - Focus on whether companies have the necessary culture and leadership to achieve change. Moving from an emphasis on policy commitments and input-output data to understanding investees' leadership and governance characteristics will give a more accurate picture as whether and how companies respecting human rights.
  - Improve insights into the quality of HRDD. Investors need information to fully understand how companies identify and assess risks to and impacts on people; how effective management processes are in mitigating or avoiding these impacts; and how the perspectives of affected stakeholders are incorporated.
  - Measure positive human rights outcomes to which companies have contributed. Quantitative information that can demonstrate the extent of a company's progress in mitigating adverse impacts on people is needed to understand what due diligence is achieving in practice. The information will need to address a broader range of issues than the current dominant focus on health, safety and diversity.

MAKE THE DATA ACCESSIBLE

- **Support increased data tagging, agreed taxonomies and digital corporate reporting.** This would reduce the current barriers to analysis that result from data being highly fragmented and non-standardised in language and format.
- **Explore the potential for artificial intelligence to scale analysis.** Enhanced machine learning and natural language processing techniques should help to provide more automated data harvesting and analysis, including greater access to information in NGO and other third-party reports, allowing human analysis to focus more narrowly on deeper insights.

VERIFY THE DATA

- **Regulate ESG data providers to improve methodological transparency on social and human rights assessments.** This should increase market clarity on the foundations for different assessments and address potential conflicts of interest in the cases where ESG ratings are being rendered for existing clients of the ratings firm.
- **Enhance the quality of assurance services for corporate human rights performance and reporting.** Professional bodies and specialised providers must build on existing subject-matter guidance to advance skills in assuring corporate human rights performance and reporting. This should increase investors' confidence in relying on the growing amounts of data in the public arena.

INTEGRATE DATA INTO THE INVESTMENT AND STEWARDSHIP PROCESS

- **Use information across all categories to inform investment decision-making.** The following actions can be taken by investors to strengthen how they use human rights data across the investment process (research, valuation, portfolio construction, stewardship and reporting):
  - Pursue better mapping of company value chains, combining available datasets with predictive insights to gain a more forward-looking view of where risks of adverse impacts on people are likely to arise.
  - Join up sustainability and traditional investment analysis to reinforce and build understanding of investee human rights risks to people and the implications for corporate financial performance.
  - Expand typical corporate governance analysis to include indicators relating to how a firm's leadership and governance enables respect for human rights throughout its business activities and value chains.
  - Undertake independent analysis to identify gaps and weaknesses in company HRDD processes – and not overly rely on corporate disclosure.
  - Scrutinise allegations and controversies to discern whether events are uncommon or if they reflect general weaknesses in how companies identify, assess, and manage risks to people arising from their business activities or value chains. It is important to understand how companies respond and if they have learned from incidents and strengthened processes.
  - Focus engagement on continuous, high-quality HRDD practices and documentation of outcomes.
  - Set criteria / principles for good outcome measurement, and where companies have access to data on their workforces, set quantitative targets to reduce workplace inequality.
- **Set clear expectations for fund managers and data providers regarding data and analysis.** Asset owners should assess fund managers' and data providers' methodologies for gathering and evaluating human rights-related data and enquire about their robustness, alignment with international standards and relevance to managing portfolio-related adverse impacts on people.
- **Contribute to collaborative investor efforts to enhance corporate performance and disclosures on human rights.** Collaboration can help increase and accelerate market demand for more meaningful information and data, support consistent and coherent improvements in corporate disclosure, and improve practices and create better outcomes for affected stakeholders.

CREDITS

AUTHORS:

- Bob Dannhauser, Senior Advisor, Shift
- Mark Hodge, Vice President, Shift
- Adams Koshy, Senior Specialist, Sustainability Reporting, PRI
- Nikolaj Halkjær Pedersen, Senior Lead for Human Rights, PRI

EDITOR:

Rachael Revesz, PRI

DESIGN:

Alejandro De la Peza, PRI

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 organisation, headquartered in New York City.

Visit shiftproject.org and follow us at @shiftproject

The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

PRI Principles for Responsible Investment

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

UN environment programme | finance initiative

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org

United Nations Global Compact