

Selected human rights indicators in the context of current EU regulation: Towards more social sustainability in the financial and economic system. Part I: Minimum standards

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Briefing Paper

**Selected human rights indicators in the context of current EU regulation:
Towards more social sustainability in the financial and economic system**

Part I: Minimum Standards

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Executive Summary

As existing and upcoming EU regulations and directives come into effect, it will become more and more important to have good (sets of) indicators that can be used to help govern enterprises and direct money towards social sustainability. For this reason, the overarching goal of this briefing paper is to discuss and develop concepts and indicators for the standardised measurement of social sustainability, especially in the context of European sustainable finance measures, such as the Sustainable Finance Disclosure Regulation (SFDR), the Corporate Sustainability Reporting Directive (CSRD), or the “Taxonomy Regulation”.

Social sustainability explicitly refers to the impact of business activities on people and communities. It includes respect for labour rights as well as for other human rights. In principle, social sustainability indicators can fulfil three different functions:

- Definition of minimum standards (e.g. do no significant harm (DNSH) in the meaning of the EU Disclosure Regulation, the minimum safeguards referred to in the Taxonomy Regulation, or standards for obligations related to corporate social responsibility),
- Identification of economic activities that contribute substantially to social sustainability (e.g. in the sense of a social taxonomy),
- Enabling a description of the change in sustainability impacts and/or compliance with social sustainability standards, set for example by legislation or certification schemes.

This briefing paper, funded by the German Federal Ministry of Labour and Social Affairs (BMAS), develops 15 central indicators to represent a “minimum standard” and thus relates to the first of the three functions mentioned above. Indicators cover key human rights and key due diligence processes and were drawn from indicator sets widely used in practice; where useful we also suggest refinements of the existing indicators. The indicators suggested relate to the prohibition of the discrimination of women, to freedom of association, including the right to form trade unions and to collective bargaining, and to the prohibitions of child labour and forced labour. Indicators on key due diligence processes relate to governance, risk analysis, prevention and remedy.

The proposed indicators refer to the company level and not to the level of economic activities (the primary focus of the current Taxonomy Regulation). This is mainly because human rights are universal and the responsibility to respect them applies to each company as a whole. Another advantage of indicators that refer to the company level is that they can, in principle, also be used as KPIs for corporate management purposes.

The briefing paper recommends that indicators should cover both the reporting company and its supply chain. A stepwise introduction appears advisable due to the likelihood of data availability problems. Specifically, we propose a clearly time-limited first stage, during which reporting companies may, if necessary, reduce the depth to which their reporting extends into its supply chain (which does not exempt them from the responsibility to conduct a human rights risk analysis extending to risks beyond tier 1 suppliers).

The paper also recommends more research in a number of areas, particularly on defining threshold values for indicators and standardised procedures that could be used to combine internal (company) and external data (for example from NGOs or the UN human rights protection system) in their assessment of risks to or compliance with human and labour rights.

1 Introduction

“When it comes to specific information on human rights matters, 85% of companies assessed did not describe specific risks of human rights impacts linked to their value chain and almost none described the management of such risks or the engagement of affected stakeholders”.¹ *

This is the sobering finding of study conducted by Frank Bold / Alliance of Corporate Transparency released in September of 2021, which analysed the reporting of 250 large companies. The finding testifies to the necessity to identify indicators that can measure what counts for people potentially impacted by corporate action. Such indicators should also effectively steer businesses towards respecting human rights and promote compliance with the requirements of EU legislation regarding sustainable finance and transparency about companies’ social sustainability impacts. As the existing and upcoming EU regulations and directives come into effect, it will become more and more important to have good (sets of) indicators that can be used to help governing enterprises and directing money towards social sustainability.

For this reason, the overarching goal of our research project and this briefing paper is to discuss and develop concepts and indicators for the standardised measurement of social sustainability, especially in the context of European sustainable finance measures, such as the Sustainable Finance Disclosure Regulation (SFDR), the Corporate Sustainability Reporting Directive (CSRD), or the “Taxonomy Regulation”. All three legal acts define or will define a framework for the finance sector intended to facilitate better integration of sustainability aspects, and also to increase transparency regarding companies’ activities.

Social sustainability in this sense explicitly refers to the impact of business activities on people and the communities they live in. Thus, social sustainability includes respect for labour rights as well as for other human rights. Key reference documents for defining socially sustainable activities in and of companies are the International Bill of Human Rights, the UN Guiding Principles on Business and Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work and related conventions, as well as the UN Sustainable Development Goals (SDGs).

In principle, social sustainability indicators can fulfil three different functions:

- Definition of minimum standards (e.g. do no significant harm (DNSH) in the meaning of the EU Disclosure Regulation, the minimum safeguards referred to in the Taxonomy Regulation, or standards for obligations related to corporate social responsibility (CSR)),
- Identification of economic activities that contribute substantially to social sustainability (e.g. in the sense of a social taxonomy),
- Enabling a description of the change in sustainability impacts and/or compliance with social sustainability standards, set for example by legislation or certification schemes.

The first part of our project, funded by the German Federal Ministry of Labour and Social Affairs (BMAS), includes the task of developing about 15 central indicators to represent a "minimum standard" and thus relates to the first of the three functions mentioned above. The indicators proposed should measure the implementation of the procedures as well as their effectiveness, i.e. the actual human rights performance of the company.

¹ Alliance for Corporate Transparency (29.09.2021): New data on companies’ climate and human rights disclosures: lessons for the EU reform. <https://www.allianceforcorporatetransparency.org/news/new-data-on-companies-climate-and-human-rights-disclosures-lessons-for-the-eu-reform.html>. Database with data up to 2020 accessible at <https://www.allianceforcorporatetransparency.org/>

* All internet sources last accessed Dec. 10, 2021.

The purpose of the project was not to develop a comprehensive system measuring compliance, as this has been done elsewhere (namely in most indicator frameworks we analysed as part of this research) but to come up with sound criteria for developing and selecting of a limited number of "signpost" indicators.

The intent here is to translate the reference documents mentioned above (International Bill of Human Rights and ILO instruments) in line with the UN Guiding Principles on Business and Human Rights (UNGPs)² into indicators for investors to use as one important pillar in making decisions on sustainability issues. The specific objective is to create standardised and comparable indicators that can be integrated — as far as possible — into corporate processes in the form of Key Performance Indicators (KPIs). Thus our briefing paper should be of particular interest for investors, policy makers and standard setters in the area of (human rights) due diligence and those parts of the corporate world committed to respecting human rights at home and in their supply chains.

This briefing paper will have a sequel in the spring of 2022. In this second briefing paper, we will discuss possible indicators that can document a positive, substantial contribution to the achievement of social sustainability goals.

In what follows, we provide an overview of relevant EU regulations (section 2) and continue in section 3 with the identification of human rights that are potentially negatively affected by corporate action, as well as of key processes in form of due diligence activities. We place our emphasis with respect to process indicators on risk analysis, preventive measures, remedy measures as well as on general management. These due diligence indicators (focusing on inputs or efforts) need to be accompanied by indicators that capture outcomes with respect to specific human rights. Due to their relevance across sectors as well as their leverage and pars-pro-toto potentials, several indicators relating to the prohibition of discrimination against women and the freedom of association have been identified and further developed. Additionally, the prohibitions of forced labour and child labour were selected for the development of indicators, because of the global consensus on ending both forms of exploitation.

Section 4 provides an overview of existing indicator frameworks / approaches developed from three different perspectives – that of the human rights community, the corporate viewpoint and that of the financial sector. The key challenge here is not the lack of indicators, but their staggering abundance, spread among different reporting and rating standards and initiatives to measure compliance. The approaches are analysed according to consistent criteria, including the accessibility of the approach, function of the approach, its application in practice, and the relevance of the indicators used.

Section 5 outlines our criteria for 'Minimum Standard Indicators'. However, no single framework discussed in section 4 provides a full set of indicators in line with these criteria. Therefore, based on these criteria, section 6 introduces our proposal of a set of 14 indicators selected from among the existing sets of indicators, including some options for refinement where that seems advisable. Additionally, we discuss whether the indicators are suitable in principle to be employed as KPIs for business management. Section 7 examines the indicators' coherence with EU legal acts relevant for sustainable finance. Lastly, the wrap-up summarises our findings and lists questions requiring further research.

Note on methodology: This briefing paper is based primarily on desk research analysing relevant indicator frameworks from the human rights community, the corporate world and the financial industry.

² UN (2011): Guiding principles on business and human rights (UNGPs): Implementing the United Nations "Protect, Respect and Remedy" framework, UNGP 11, Commentary. Available at https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf

We developed our criteria for the analysis of the indicator frameworks by considering human rights requirements relating to meaningful measurement and general user requirements with respect to indicators. Preliminary findings were shared with a select group of experts (see Annex 0). Wider consultation of stakeholders and rights holders has not been possible due to the tight time frame.

2 Background: EU Sustainable Finance and Corporate Sustainability Reporting Regulation

The primary objective of the research project is to develop concepts and indicators for the standardised measurement of social sustainability and suitable for use in the implementation of existing and planned European regulations on sustainable finance and corporate sustainability reporting. In particular, it is of utmost importance to ensure coherence with the following EU legal acts:

- Corporate Sustainability Reporting Directive (CSRD)
- Taxonomy Regulation
- The planned social taxonomy
- Sustainable Finance Disclosure Regulation (SFDR)
- Climate Transition Benchmark Regulation
- The planned EU legislation on sustainable corporate governance

In order to better understand these legal acts, we will begin with a brief overview of their collective background, origins, content and the timeline of their enactment and applicability.

2.1 Emergence of the concept of sustainable finance and corporate sustainability reporting

Although the term sustainability dates back as far as the 18th century, when the concept emerged in the field of forestry management, corporate reporting on sustainability is a relatively new phenomenon. The practice of "non-financial" reporting, on subjects like sustainability and corporate social responsibility (CSR), did not start until the late 1990s, though it has expanded significantly over the last two decades.

A major step towards establishing corporate sustainability reporting at European level was taken in 2014, with the adoption of the Directive on the disclosure of non-financial and diversity information (EU)537/2014³, referred to as the "Non-financial Reporting Directive" (NFRD).

Another step followed two years later, when the EU Commission set up a high-level expert group on sustainable finance. On 31 January 2018, this group put forth its final report⁴, in which it presented a comprehensive vision for the development of an EU strategy for sustainable finance. The report articulates two imperatives for sustainable finance:

1. Ensuring that the financial sector makes a greater contribution to sustainable and inclusive growth by financing the long-term needs of society;
2. Strengthening financial stability by ensuring that environmental, social and governance (ESG) factors are taken into account in investment decision-making.

³ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0095>

⁴ EU High-Level Expert Group on Sustainable Finance (2018): Financing a sustainable European economy. Final Report. https://ec.europa.eu/info/sites/default/files/180131-sustainable-finance-final-report_en.pdf

This report formed the basis for the EU Commission's Action Plan: Financing Sustainable Growth⁵ (COM (2018) 97), announced in March 2018. The plan identifies three objectives and ten key actions to achieve them (Fig. 1).

Among the measures implemented in line with this plan are **Regulation (EU) 2019/2088 on sustainability-related disclosure requirements in the financial services sector (SFDR)**⁶, **Regulation (EU) 2019/2089 on climate benchmarks**⁷, and **Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (Taxonomy)**⁸. In April 2021, the Commission adopted a **Proposal for a Corporate Sustainability Reporting Directive - COM(2021) 189 final 2021/0104(COD) (CSRD)**.⁹

EU Action Plan: Financing Sustainable Growth



Fig. 1: Objectives and actions defined in the Action Plan: Financing Sustainable Growth, Source: Financing Sustainable Growth (COM (2018) 97)

The SFDR, the Taxonomy Regulation and the Climate Transition Benchmark Regulation have already entered into force, while for the CSRD the next step is for the European Parliament and the Member States in the Council to negotiate a final legislative text on the basis of the Commission proposal. At the time of writing, the release of a communication regarding a social taxonomy and a proposal for an EU legislation on Sustainable Corporate Governance is thought to be imminent.

Below we describe the individual legal acts in more detail, in the order in which they appear in the list at the start of this section.

2.2 Corporate Sustainability Reporting Directive (CSRD)

The CSRD proposed by the Commission in April 2021 amounts to a fundamental reform of the regulation of corporate “non-financial” reporting in the EU. It would extend the scope of reporting obligations (more and smaller companies would be required to report) and provides for the adoption of mandatory European reporting standards. Under article 19b of the proposed directive, these standards would have to specify the information that undertakings would be required to disclose about social factors. According to the proposed directive, this would have to include information about:

⁵ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097>

⁶ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02019R2088-20200712>

⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32019R2089>

⁸ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852>

⁹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189>

- “equal opportunities for all, including gender equality and equal pay for equal work, training and skills development, and employment and inclusion of people with disabilities”;
- “working conditions, including secure and adaptable employment, wages, social dialogue, collective bargaining and the involvement of workers, work-life balance, and a healthy, safe and well-adapted work environment”;
- “respect for the human rights, fundamental freedoms, democratic principles and standards established in the International Bill of Human Rights and other core UN human rights conventions, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work and the ILO fundamental conventions and the Charter of Fundamental Rights of the European Union.” (Art. 19(b), pt. 2(b)(i)–(iii))

Once adopted at the EU level, the directive will have to be transposed into national law by December 1, 2022 in order to be applicable for corporate reporting on 2023 activities.

2.3 Taxonomy Regulation

The Taxonomy Regulation entered into force on July 12, 2021. The centrepiece of the EU’s package of sustainability measures, it defines environmentally sustainable economic activities. Article 3 sets out criteria for use in determining whether an economic activity can be classified as environmentally sustainable. Specifically, it must make a significant contribution to the achievement of one or more of the six EU environmental objectives, do no significant harm to any of the other environmental objectives, must be carried out in compliance with minimum safeguards and with technical screening criteria. The only mention of human and labour rights in the operative part of the Taxonomy Regulation is that in Article 18, which defines minimum safeguards as procedures implemented “to ensure alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights”.

The Taxonomy Regulation introduces new disclosure requirements that will come into effect as early as 1 January 2022. Two groups of companies will come under new requirements: financial market participants offering financial products in the EU and companies required to report non-financial information under the NFRD (and later under the CSRD). Companies in the first group who wish to market a financial product as sustainable will have to report the percentage of the product’s portfolio representing taxonomy-compliant investments. The non-financial statements of companies in the second group, i.e. those falling within the scope of the NFRD/CSRD, will have to include information on how and to what extent their activities qualify as economic activities within the meaning of the Taxonomy Regulation.

2.4 Social Taxonomy

Recital 59 of the Taxonomy Regulation calls for the regular review of the regulation, inter alia, with respect to its possible extension to include social objectives / a social taxonomy. To this end, the Platform on Sustainable Finance¹⁰ was tasked with proposing a social taxonomy, explaining how the existing taxonomy could be extended or a parallel taxonomy be developed to cover sustainable social issues on an equal footing with environmental issues. The Platform’s first draft report on this topic¹¹ was published in July 2021 (referred to below as the Social Taxonomy Draft Report); the final report with

¹⁰ A permanent expert group of the European Commission established under Article 20 of the Taxonomy Regulation to assist the Commission in developing its sustainable finance policies.

¹¹ Platform on Sustainable Finance (2021): Draft Report by Subgroup 4: Social Taxonomy (Social Taxonomy Draft Report). https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sf-draft-report-social-taxonomy-july2021_en.pdf

recommendations for moving forward with the development of a social taxonomy is expected by the end of 2021.

2.5 Sustainable Finance Disclosure Regulation (SFDR)

The EU's SFDR, which entered into force 31 December 2019, regulates disclosures relating to the sustainability risks in investment decisions taken in the financial services sector. Most of the SFDR's provisions became applicable for financial service providers on 10 March 2021, in accordance with Article 20(2) of the regulation.

Through this regulation, the European Supervisory Authorities - so-called ESAs - have been tasked with developing Regulatory Technical Standards (RTS) latest by December 30, 2021. At the time of writing, drafts have been published (draft RTS)¹² and include, among other measures, mandatory and additional reporting indicators on the so-called Principal Adverse Impacts (PAI), also on the topic of human and labour rights.

2.6 Climate Transition Benchmark Regulation

The requirements introduced by the Climate Benchmark Regulation became applicable April 30, 2020. As its name suggests, this regulation is chiefly aimed at counteracting greenwashing by introducing minimum standards for two climate benchmarks. Another goal is to improve transparency regarding the consideration of sustainability factors and to enable comparability via disclosure obligations. However, the sustainability-related disclosure requirements only relate to the RTS on sustainability indicators for adverse impacts, mentioned above, drafted by the ESAs. For this reason, we do not consider this provision separately below, but rather in the context of the RTS and the SFDR.

2.7 Planned EU legislation on sustainable corporate governance

Expected for 2021 but rescheduled for March 2022, are legislative proposals from the EU Commission on sustainable corporate governance (in particular directors' duties) and due diligence (essentially a supply chain due diligence law). A very few EU member states, Germany among them, already have laws on human rights due diligence in the supply chain. But there are no corresponding European (or German) standards for indicators yet.

2.8 Preliminary Findings

In view of the requirements under existing and upcoming regulations, good indicators are going to become even more important for use in assessing the governance of enterprises and directing money in the financial sector towards investments that increase sustainability in the business context. Ensuring that the indicators are coherent and compatible with the logics of all the aforementioned regulations will be of particular importance, which is why we will return to examine the issue of the compatibility at greater depth in section 7.

3 Human Rights Affected By Corporate Action

This section will give a short overview of the human rights and labour rights potentially negatively impacted by corporate action. The rights we discuss derive from the key human rights and ILO conventions. While all human rights are interrelated and interdependent, the scope of the project, i.e. the objective of suggesting approximately 15 KPIs, necessitates a selection among them.

¹² ESAs (2021): Final Report on draft Regulatory Technical Standards.
https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Draft%20Technical%20Standards/2021/962778/JC%202021%2003%20-%20Joint%20ESAs%20Final%20Report%20on%20RTS%20under%20SFDR.pdf

The selection of rights and process standards we ultimately arrived at was made solely for the purposes of this project. Neither exhaustive, nor prescriptive, it simply represents a starting point. It is possible, and maybe necessary to develop indicators for rights not addressed by this project, due to the indivisible and interdependent nature of human rights and the widely recognised fact that “business enterprises can have an impact on virtually the entire spectrum of internationally recognised human rights”.¹³

Likewise, the five core elements of human rights due diligence form a coherent system of procedural steps cyclically building on each other. Nonetheless, the limited scope of the project required a selection of those processes which appear to have the most immediate outcomes for rights holders.

The limited scope of this project furthermore required us to deviate from the established good practice for the development of indicators in the human rights community. Good practice requires the participation of stakeholders, i.e. those who will use the indicators in their work, and rights holders, i.e. those affected by the action the indicators are supposed to capture, in contextualising and developing human rights indicators.¹⁴ We were able to present the methodology and proposals to a small segment of the expert community, but not to a larger group of stakeholders or affected rights holders.

With all that being said, we were guided by the following considerations and criteria when selecting the human rights, labour rights and process standards, for which to propose indicators:

Less is more: A small selection of human rights, labour rights and process standards

As defined from the start, the scope of the project requires that we propose approximately 15 indicators, ten for human rights and labour rights, and five for process standards. Our initial approach was to develop several indicators for a very limited number of rights and process standards. However, in the course of the project, we opted to modify this approach and cover more rights and procedural standards with fewer indicators. Our reasoning was that this modified approach better reflected the reality of the wide range of rights impacted by economic activities and could potentially increase compatibility of the proposed indicators with the EU regulatory framework. This appears to reflect the reality of impacts of economic activities on rights more appropriately and potentially increases the compatibility of the proposed indicators within the EU regulatory framework.

Making the selection decisions – Criteria

The indicators to be proposed should reflect the impacts economic activities might have on rights holders (employees, consumers, local communities). This requirement had significant implications for the selection of the rights or process standards on which we would work. For instance, while establishing a human rights policy is an important part of a company’s due diligence process and lies fully within the company’s sphere of influence, its immediate effect on stakeholders and rights holders is limited. Risk analysis, remedy measures and preventive measures, on the other hand, have the potential to directly affect the outcomes for stakeholders and affected communities. Accordingly, we identified risk analysis, remedy measures and preventive measures as being highly relevant and selected those three process standards. In addition, we decided to address aspects of a company’s general management structure concerning human rights. Our reasoning here was that governance plays an essential role in the ultimate success of measures to ensure human rights compliance within a company.

¹³ UNGP 12, Commentary.

¹⁴ On stakeholder participation and transparency, see: DeFelice, Damiano (2015): Business and Human Rights Indicators to Measure the Corporate Responsibility to Respect: Challenges and Opportunities. In: Human Rights Quarterly 37 (2), pp. 511–555; Bloch Veiberg, Catherine, Gabriela Factor, Jacqueline R. Tedaldi (2019): Measuring business impacts on human rights: Practice and trends in the use of indicators for HRIA. In: Götzmann, Nora (ed.) Handbook on human rights impact assessment. Edgar Elgar, pp. 336-353. An overview of the methodological issues: Choudhury, Zahid ul Arefin et al. (2018): Counting Torture: Towards the Translation of Robust, Useful, and Inclusive Human Rights Indicators. In: Nordic Journal of Human Rights 136 (2), pp. 132–150. For an early example of rights holder led indicator development, see the summary of the Metagora-Project: <https://www.aaas.org/sites/default/files/Metagora.pdf>

Corporate action has the potential to impact any human right or labour right, so we had the full range to choose from when selecting those for which we would develop indicators. We sought to identify those rights that are particularly affected by economic activities and those whose abuse is typically caused by an enterprise.¹⁵ To help us to do so, we examined established indicator systems developed by a number of different institutions and organisations (see section 4).

Example 1: Econsense identifies the social issues most frequently addressed in guidelines for ESG reporting produced by various bodies and relates them to human rights. They end up with 40 “human rights issues”, 14 of which are issues upon which companies exert a high degree of influence.¹⁶

Example 2: The Corporate Human Rights Benchmark (CHRB) identifies industry-specific key risks (“risks commonly regarded as potentially severe or likely within the industry”¹⁷) and then provides indicators to assess the performance and adverse human rights impacts of enterprises in that industry.¹⁸

On that basis, we developed the following criteria to guide our own process for the selection of human rights and labour rights:

- Relevance: cross-industry / cross-sector
- Leveraging potential: Having positive spill-over effects on other human rights or labour rights or – conversely – indicative of problems relating to other human rights
- Significance for company decisions

Based on these criteria (though it must be said that they were not all fully met in all instances) and on the evidence available on the frequency of rights abuses resulting from corporate action, we selected the following human rights and labour rights for our project:

- Prohibition of forced labour
- Prohibition of child labour
- Prohibition of discrimination against women
- Freedom of association (extending to the right to collective bargaining)

Companies clearly have strong impacts (be they positive or negative) on these four rights, which have been recognised as fundamental rights at work and form part of the core labour standards of the ILO. The fact that almost all of the approaches examined for this briefing paper (see below, section 4) include indicators for the selected rights also testifies to their relevance.

¹⁵ Numerous studies have been conducted on this topic, focusing on specific sectors, on specific risks for abuses or on actual abuses, among them: Weiss, Daniel et al. (2020): Die Achtung von Menschenrechten entlang globaler Wertschöpfungsketten. Risiken und Chancen für Branchen der deutschen Wirtschaft. Berlin: BMAS, <https://www.adelphi.de/de/system/files/mediathek/bilder/fb-543-achtung-von-menschenrechten-entlang-globaler-wertschoepfungsketten.pdf>

¹⁶ Econsense (2020): Menschenrechte messbar machen. Eine umfassende Zusammenstellung quantitativer Menschenrechtsindikatoren für Unternehmen. Diskussionspapier, pp. 7–10. https://econsense.de/app/uploads/2020/09/2020_econsense_Menschenrechtsindikatoren_Diskussionspapier.pdf. English version available at: https://econsense.de/app/uploads/2020/09/2020_econsense_Paper_Human_Rights_Indicators.pdf. The accompanying spread sheet is available at: https://econsense.de/app/uploads/2020/09/2020_econsense_Menschenrechtsindikatoren_final-DE.xlsx (in German) or https://econsense.de/app/uploads/2020/09/2020_econsense_Human_Rights_Indicators_final-EN.xlsx (in English).

¹⁷ Corporate Human Rights Benchmark (CHRB) (2016): Corporate Human Rights Benchmark Pilot Methodology 2016, p. 24. <https://assets.worldbenchmarkingalliance.org/app/uploads/2021/04/CHRB2016PilotMethodology.pdf>

¹⁸ Last report: Corporate Human Rights Benchmark (CHRB) (2020): Across sectors: Agricultural products, Apparel, Automotive manufacturing, Extractives & ICT manufacturing. <https://assets.worldbenchmarkingalliance.org/app/uploads/2020/11/WBA-2020-CHRB-Key-Findings-Report.pdf>

We explain our choices in more detail below in section 6.2, but before turning now to an assessment of existing approaches, we wish to clarify two points relating to the prohibition of child labour and of the prohibition of discrimination against women:

Child labour: The prohibition of child labour encompasses different categories of prohibited child labour, in particular hazardous work by children and, for other forms of work, setting minimum age requirements. Regrettably, the data on child labour currently available, even at the state level,¹⁹ do not adequately reflect the different categories of child labour. Thus we use the term “prohibition of child labour” to include all categories of prohibited child labour. Improving the systems for collecting data on the different forms of prohibited child labour would certainly be beneficial.

Discrimination against women: Although there is a human rights convention (the Convention on the Elimination of All Forms of Discrimination Against Women, CEDAW) specifically aimed at ending discrimination against women, all of the human rights treaties prohibit discrimination on the basis of sex. Article 2.1 of the two International Covenants (ICCPR and ICESCR)²⁰ can serve as an example. Both International Covenants also oblige states “to ensure the equal right of men and women” to enjoy all the rights they contain (Art. 3 in both).

However, economic activities and business models often rely on the structural discrimination of women, to the extent that their economic activities and business models would not function without it. Prominent examples here are the textile and apparel sector and the care sector, particularly with regard to care in private homes.²¹ While discrimination against women has many faces and is caused by multiple factors, we concentrate on equality at the workplace: data on this are widely available and it lies well within the sphere of influence of companies. Moreover, reducing discrimination against women in the workplace has a high potential to positively affect other human rights and society at large,²² and not only those of women, particularly when combined with an intersectional understanding of discrimination and a contemporary view on gender. The prohibition of discrimination of women is thus what we call a *pars pro toto* right.

4 Existing Approaches to Indicator Development: A Brief Assessment

Drafted by the late UN Secretary-General’s Special Representative for Business and Human Rights John Ruggie and unanimously endorsed by the UN Human Rights Council in 2011, the UN Guiding Principles on Business and Human Rights (UNGPs) provide an authoritative framework to prevent and address adverse business-related impacts on human rights. Over the past ten years, a growing number of states have taken steps to promote effective implementation of the UNGPs (through National Action

¹⁹ UNICEF regularly publishes data on child labour for the 5-14 age group on <https://data.unicef.org/resources/dataset/percentage-children-aged-5-14-years-engaged-child-labour-sex-place-residence-household-wealth-quintile/>. The SDG Global Database contains data on the “Proportion of children engaged in economic activity, by sex and age”. Only ILO statistics cover children in hazardous work; however, they are based on country data that are only available for a handful of countries.

²⁰ Adopted by the UN in 1966, both of the Covenants use the legal language of their day: “without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.” Contemporary interpretations of the Covenants read “other status” as referring (though not exclusively) to gender identity and/or sexual orientation. A search of the Universal Human Rights Index finds 451 recommendations relation to equality and non-discrimination for LGBTI issued to states by the treaty bodies for the two International Covenants. Search String: Mechanism: ICCPR, ICESCR + Human Rights Themes: Equality and Non-Discrimination + Concerned Persons/Groups: Lesbian, gay, bisexual and transgender and intersex persons (LGBTI) at <https://uhri.ohchr.org/>

²¹ See Niebank, Jan-Christian (2018): *Bringing human rights into fashion: issues, challenges and underused potentials in the transnational garment industry*. Berlin: German Institute for Human Rights; Freitag, Nora / Phan-Warneke, Lê (forthcoming): *To care or not to care: Ending Labour Exploitation of Live-in Care Workers within the European Union*. Berlin: German Institute for Human Rights.

²² See SDG 5 and numerous studies demonstrating the business case for gender equality.

Plans²³ and human rights due diligence laws²⁴). Likewise, more and more companies around the world have committed to implementing the UNGPs.²⁵ With these ambitions arises a need to measure whether or not and how well states and companies live up to their duties and responsibilities. Companies need to be able “to know and show”²⁶ the extent to which they respect and ensure compliance with human rights. And civil society and the competent authorities responsible for the official monitoring and enforcement must be equipped to examine companies’ efforts independently.

4.1 How to measure fulfillment human rights as state obligations

Human rights are first and foremost state obligations, and past attempts to formulate indicators have tried to capture whether states are fulfilling their obligations or getting better or worse at doing so.²⁷ The most comprehensive set of indicators thus far was that developed by the OHCHR in 2012 (OHCHR Guide).²⁸ The OHCHR suggests three types of indicators – structural, process and outcome indicators – to holistically capture the different facets of human rights implementation:

Structural indicators measure the state’s commitment to fulfilling its duties vis-à-vis the right in question, as demonstrated for example through treaty ratifications, adopted policies, laws, or policy statements;

Process indicators measure the duty bearer’s ongoing efforts to realise the right in question and to meet its obligations in that respect, for example, in the form of specific programmes, budget allocations, and regulatory interventions that can be monitored over a specific time-frame;

Outcome indicators measure the tangible effects those measures have in terms of actual progress towards the realisation of the right in question.²⁹

4.2 How to measure corporate respect for human rights

While some organisations and institutions have taken up the OHCHR Guide as an authoritative approach to measuring the realisation of (specific) human rights,³⁰ the applicability of this approach to the measurement of UNGP implementation is limited, due to its focus on the state as the primary duty bearer. One cannot simply transpose state obligations onto companies, as their spheres of influence are fundamentally different.

The UNGPs differentiate between the duty of states and the responsibility of companies. Importantly, companies’ responsibility to respect the rights of those who might be adversely affected by their actions and operations exists independently of what governments do.³¹ Thus the field of business and human rights needs its own measurement approach, one that takes the conceptual requirements of the UNGPs into account. Existing approaches to measuring whether and to what extent companies are meeting their

²³ For a quick overview on NAPs, see: <https://globalnaps.org/> For a comparative view on Western NAPs see: Niebank, Jan-Christian (2020): Comparing National Action Plans implementing the UN Guiding Principles on Business and Human Rights: Comparison of European countries and the United States of America. Berlin: German Institute for Human Rights. <https://www.ssoar.info/ssoar/handle/document/66887>

²⁴ See <https://www.business-humanrights.org/en/big-issues/mandatory-due-diligence/national-regional-developments-on-mhrdd/> ; for a June 2021 overview of due diligence legislation, enacted or proposed, and civil society initiatives in the EU, see: <https://media.business-humanrights.org/media/documents/ECCJ-mandatory-HREDD-map-June-2021.pdf>

²⁵ See the statements by business and investors endorsing mandatory due diligence: <https://www.business-humanrights.org/en/big-issues/mandatory-due-diligence/companies-investors-in-support-of-mhrdd/>

²⁶ UNGP 5, Commentary.

²⁷ The treaty bodies, tasked with monitoring compliance with human rights treaties, have not developed indicator sets; their reporting guidelines give some indication on what data the treaty bodies want to consider to assess treaty compliance: UN (2009): Compilation Of Guidelines On The Form And Content of Reports To Be Submitted By States Parties To The International Human Rights Treaties. UN Doc. HRI/GEN/2/Rev.6.

²⁸ Unlike other initiatives, which attempt to measure the implementation of a single right or a set of specific rights, see: <https://www.politicalterroryscale.org/> for key civil and political rights; and <https://humanrightsmmeasurement.org/> for key economic and social rights.

²⁹ OHCHR (2012): Human Rights Indicators: A Guide to Measurement and Implementation (OHCHR Guide), pp. 33–38. https://www.ohchr.org/Documents/Publications/Human_rights_indicators_en.pdf

³⁰ See for example FAO (2009): Methods to Monitor the Human Right to Adequate Food. Volume II, pp. 25–27. <https://www.fao.org/3/i0351e/i0351e.pdf>

³¹ John Ruggie (2021): Marking the UNGPs 10th anniversary. Video statement. <https://www.ohchr.org/EN/Issues/Business/Pages/UNGPS10.aspx#Ruggie>

responsibility to respect human rights are therefore of great interest for the purposes of this project, as we hoped to be able to draw on or build on them in constructing our own approach.

In the following, we discuss several of the approaches we examined, including some developed in the human rights community and some from the corporate community, and also approaches used in the financial sector. Annex 9.2 lists further approaches that we did not include in our in-depth assessment, but from which we also selected individual indicators later on:

Perspectives of the human rights community

Measurement approaches developed by the human rights community in the field of business and human rights usually incorporate the perspectives of three groups of rights holders:

- workers in companies and their entire value chains (including their families),
- consumers, and
- communities that might be adversely affected by business operations due to their geographic proximity to business operations, projects or premises, for example due to environmental damages or forced evictions.

Some approaches focus on specific (high-risk) sectors (for example the German Textilbündnis³²), while others are more generic and could be applied to any industry. All three of the approaches described here are applied across multiple sectors.

Corporate Human Rights Benchmark (CHRB)

Part of the World Benchmarking Alliance (WBA), the Corporate Human Rights Benchmark was established in 2016 to steer the private sector towards a more sustainable future. The CHRB measures and ranks the human rights impact and social performance of large multinational enterprises, releasing its findings in annual reports that are publicly available at no cost. The CHRB looks both at the human rights due diligence processes companies have in place and at their actual performance, including how they respond to serious allegations. One focus of the CHRB assessment is on supply chain performance, with supply chain defined to include all business relationships, tier one and beyond. The CHRB considers living wages and gender equality as key cross-cutting social issues. As of 2021, CHRB assesses companies across five sectors³³:

- the agricultural products sector,³⁴
- the apparel sector,
- the extractives sector,
- the ICT manufacturing sector, and
- the automotive manufacturing sector.

CHRB uses publicly available information that companies disclose on their websites, other platforms or via the CHRB Disclosure Platform. During the assessment process, the companies under review are offered the opportunity to furnish additional information or provide feedback on the CHRB's initial assessment. Stakeholders were closely involved in both the design and testing of the CHRB methodology.

By way of example, the assessment performed for the “CHRB Methodology 2020 for the Agricultural Products, Apparel and Extractives Industries” (CHRB Methodology 2020) is based on 42 indicators,

³² <https://www.textilbuendnis.com/en/sorgfaltspflichten/>

³³ The CHRB methodology has been revised for 2022-2023, see for the new format: <https://www.worldbenchmarkingalliance.org/research/the-methodology-for-the-2022-corporate-human-rights-benchmark/>

³⁴ From 2022 onwards, this will be the food and agricultural products sector.

which are grouped into six “measurement themes”. Each measurement theme is assigned a specific weighting percentage (between 10 and 25).

- Governance and policy commitments (weighted at 10%);
- Embedding respect and human rights due diligence (weighted at 25%);
- Remedies and grievance mechanisms (weighted at 15%);
- Performance: company human rights practices (weighted at 20%);
- Performance: responses to serious allegations (weighted at 20%);
- Transparency (weighted at 10%).³⁵

This approach combines two critical perspectives: The first three measurement themes follow the UNGPs conceptual requirements regarding due diligence processes that companies should have in place to ensure that they are aware of their salient risks, prevent adverse impacts and provide remedies in cases where human rights are harmed. In short, these measurement themes are assessing **business efforts**. With the fourth and fifth measurement themes, however, the CHRB is examining **the outcomes of these efforts and the actual impacts** companies have. This approach allows CHRB to determine whether companies have established effective due diligence processes that function in reality, rather than only on paper, and whether their commitment to human rights has been successfully carried over into practice.³⁶ The approach enables comparability within a sector as well as across sectors, and, because the benchmark assessments are conducted every year, over time as well.

Shift/Mazars: UN Guiding Principles Reporting Framework (UNGPRF)

The UNGPRF was developed through the Human Rights Reporting and Assurance Frameworks Initiative and launched in 2015. It is aimed at providing companies with guidance on how to report on their UNGP implementation. It also serves as a supporting tool for companies in the context of their dialogue with both internal stakeholders (e.g. employees) and external stakeholders. The process through which the reporting framework was developed involved global consultations with a large variety of stakeholders including companies, investors and assurance providers, civil society organisations, government representatives, and academics.³⁷

Encompassing 31 questions, the UNGPRF assists companies to set up effective human rights policies and due diligence processes and to share relevant, meaningful information in their reports. The reporting framework is organised in three parts and structured largely as a series of overarching and supporting questions.

- Part A focuses on the company’s public commitment to human rights and asks how this commitment is anchored in the company’s management and implemented in its day-to-day operations.
- Part B asks the company to look at its human rights risks and to identify those that are most salient (risk-based approach).
- Part C requires companies to demonstrate how they respond to these prioritised risks, mitigate them, engage with all relevant stakeholders on them, track performance and evolving risks and provide remedy in the event that it causes or contributes to a negative impact.³⁸

UNGPRF covers companies’ own global operations as well as their entire supply chains. Although all companies must answer the eight overarching questions in their reporting, it is up to them to decide how

³⁵ The 2022-2023 CHRB Methodology no longer includes the measurement theme “Transparency”, so the weighting will be adjusted: Remedies and grievance mechanisms will be weighted at 20%, and Performance: company human rights practices (sector-specific) at 25%.

³⁶ Cf. the so-called theory of change, which is a framework focusing on activities, output, outcome and impact, <https://www.worldbenchmarkingalliance.org/theory-of-change/>

³⁷ <https://www.ungpreporting.org/about-us/>

³⁸ https://www.ungpreporting.org/wp-content/uploads/UNGPRReportingFramework_2017.pdf

many of the supporting questions to address and in what depth. This is intended to reduce barriers to reporting and to encourage progress over time.

The reporting framework is firmly aligned with the UNGPs and provides comprehensive and clear guidance for companies on implementing and promoting them. The UNGPRF is broadly accepted and applied by at least 80 companies internationally.³⁹ It has three shortcomings:

- the information provided is not independently verifiable;
- the framework focuses on a company's efforts rather than its performance, in the sense of the outcomes and impact its actions have on rights holders;
- it does not measure and rank companies' UNGP implementation.

ShareAction: Workforce Disclosure Initiative (WDI)

The Workforce Disclosure Initiative (WDI) was founded by a coalition of investors working with the British NGO ShareAction and piloted in 2017. It is intended to enable investors to consider and compare companies' performance with regard to the quality of jobs held by employees in their global operations and the workforce in the supply chain. WDI currently has 56 investor signatories, which collectively represent more than 7.5 trillion USD in assets under management (as of June 2021).⁴⁰

Stakeholders with diverse backgrounds and expertise were involved directly or asked to provide input and review outcomes when the WDI survey was first designed in 2016, and in the subsequent annual reporting rounds. These include companies (both reporting and non-reporting companies), investors, NGOs, trade unions, academia, and representatives from bodies working on other reporting standards. Their feedback has been used to continually refine the survey. It builds on existing reporting standards such as GRI and SASB.

Out of the 750 companies around the world that WDI requested to participate in the 2020 survey, 141 sent in reports.⁴¹ The WDI reporting standard is designed to apply to companies across all sectors and business models. Companies can choose whether to report on the entire WDI standard or to answering only a set of the more highly prioritised questions (this option is intended particularly for companies just starting to report on workplace metrics). To this end, the questions in the WDI survey are structured in three tiers: the Foundation tier (55 per cent of the questions), the Intermediate tier (35 per cent of the questions), and the Comprehensive (10 per cent). For most questions, the individual reporting company can determine whether the information it provides is made available to the public (published on the WDI website) or only to the WDI investor signatories (all the information is used in aggregate analysis however).

³⁹ See for the companies: <https://www.ungpreporting.org/database-analysis/explore-disclosures/companies-page/>

⁴⁰ <https://www.ungpreporting.org/database-analysis/explore-disclosures/companies-page/>

⁴¹ <https://www.castlefield.com/news-media/blog/workforce-disclosure-initiative-2020-webinar/>

The WDI survey is structured in 13 sections:

- Governance
- Risk assessment and due diligence
- Workforce composition
- Diversity and inclusion
- Workforce wage levels and pay gaps
- Stability
- Training and development
- Health, safety and wellbeing
- Worker voice and representation
- Grievance mechanisms
- Supply chain transparency
- Responsible sourcing
- Supply chain working conditions

The majority of sections relate only to the company's own operations (sections 3-10), but the first two sections require companies to report on both their own operations and their supply chain and the last two (11-13) focus entirely on the company's supply chain.

WDI's focus is on transparency, not performance. Therefore, the more information companies share the better the score they receive. The publication of participating companies' scorecards encourages a "race to the top", as companies seek to be seen as doing better than their peers.

We determined that the WDI survey deserved a closer look, as the intentions of its developers were exactly the same as our own in this research: to use the measurement of performance as a means to encourage money to flow towards more corporate responsibility and better outcomes for people. Therefore, we used a couple of the indicators developed for and used in the WDI survey. Moreover, many of the world's leading companies across a range of sectors have already started reporting according to the WDI standard (e.g. Adidas, AstraZeneca, Bayer, BMW, Burberry, Enel and HSBC).⁴²

Corporate perspectives

Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) standards are a reporting framework developed by the Global Sustainability Standards Board, which is advised by what are currently the 48 members (mostly from the business community) of its Stakeholder Council. The first draft framework was published in 1999. GRI standards are updated every three years, most recently in October 2021.⁴³ The GRI 1 standard states: "The objective of sustainability reporting using the GRI Sustainability Reporting Standards ... is to provide transparency on how an organisation contributes or aims to contribute to sustainable development."

The framework supports companies in disclosing the positive and/or adverse effects they have on the environment and social systems in which they operate and on which they have significant impacts. But GRI also considers that social and environmental aspects in turn impact the company as well. Mandatory reporting on impacts on human rights was incorporated into the latest version of the standard

⁴² Complete list of reporting companies: <https://www.ungpreporting.org/database-analysis/explore-disclosures/companies-page/>

⁴³ The most recent update focused on GRI 1 - Foundation (former GRI 101), GRI 2 - General Disclosures (former GRI 102), GRI 3 - Management approach (former GRI 103) and introduced sector specific indicators for the Oil and Gas Sector in GRI 11. No changes have been made to the social and human rights specific indicators in GRI 400s since 2016. <https://www.globalreporting.org/standards/>

(released in October 2021), making it a “material topic” on which all companies must disclose information and which must be included in their due diligence processes.

Essentially, reporting frameworks are intended to support the decision-making by stakeholders. Stakeholders covered by GRI are “individuals or groups that have interests that are affected or could be affected by an organisation’s activities. Common categories of stakeholders for organisations are business partners, civil society organisations, consumers, customers, employees and other workers, governments, local communities, non-governmental organisations, shareholders and other investors, suppliers, trade unions, and vulnerable groups.” (GRI 1 Section 2.4).

The set of indicators includes both process indicators (risk analysis and preventive measures) and indicators that directly refer to specific human rights. While most of the indicators relate to matters directly in the sphere of influence of the company or, where applicable, its customers, companies are obliged to report on their value chain (GRI 2-6) and consider the supply chain as part of their stakeholders during the due diligence process (GRI 3). Moreover, there are specific human rights indicators that directly reference the supply chain, e.g. GRI 407-1: Freedom of Association and Collective Bargaining. This is also the case for indicators relating to child labour (GRI 408-1) and forced labour (GRI 409-1).

The use of the GRI framework is not mandatory, but it is the most widely used sustainability reporting framework globally. To date, nearly 40,000 GRI reports have been prepared by companies. A total of 73 per cent of the world’s 250 largest companies and 67 per cent of the 5,200 companies constituting the 100 biggest enterprises in 52 countries apply GRI standards to disclose information about their business practices in an annual sustainability or financial report.⁴⁴ Hence one can assume that the information was subject to a limited-assurance audit. Moreover, the indicators proposed by the GRI cover approximately the same breadth and depth of topics as the ISO-26000 norm recommendations. Thus, the GRI standards complement and operationalise these recommendations. GRI standards can be applied by large corporations as well as SMEs, governments and NGOs. In practice, it is mostly large organisations and multinationals that use the GRI.⁴⁵

B Corporation Impact Assessment

The B Corporation Impact Assessment was developed by a group of independent experts in business and academia which calls itself the B Corporation’s Standards Advisory Council. In general, the B Corporation Impact Assessment is intended as a tool to measure a company’s current impact in terms of its social and environmental performance. This is done by the means of an objective and comprehensive rating system. The rating is determined by the information the company provides on a questionnaire about their business practices and the supporting information it provides, which are then reviewed by B Corporation (B Corp). For a (for-profit) firm to be awarded or maintain B Corp certification, it must attain a minimum score on the B Corporation Impact Assessment and make specific commitments, defined by B Corp, to stakeholders in their company’s governance documents, as well as pay an annual fee based on their sales. Companies must re-certify every three years.⁴⁶

The set of indicators in the impact assessment includes process indicators as well as indicators that directly refer to specific human rights. Most of the indicators are related to the company’s sphere, though some questions in the assessment relate to suppliers, communities or customers and for the certification, stakeholder consideration in the company’s governance is required. The questionnaire and external review by B Corp are not made available to the public. Thus, stakeholders cannot use the

⁴⁴ <https://www.globalreporting.org/about-gri/news-center/2020-12-01-sustainability-reporting-is-growing-with-gri-the-global-common-language/>

⁴⁵ See overview here: <https://www.performancemagazine.org/sustainability-reporting-gri-standards/>

⁴⁶ <https://bcorporation.net>

information they contain to make investment decisions, though they may consider the fact that the company is certified by B Corp. Therefore, B Corp certification status can be seen as a branding tool.⁴⁷

Econsense: Discussion Paper 2020

Econsense is a network of companies that operating internationally want to actively shape the change to a more sustainable economy and society. The network supports efforts by its 40 members from all sectors to anchor sustainability in their operational practice, in strategy or along the supply chain, offering guidelines and a platform for exchange.

In the autumn of 2020 Econsense published a discussion paper (plus a spread-sheet) on indicators for human rights.⁴⁸ The network did not intend the indicators compiled from many sources to be understood as a “ready-to-use tool” but rather as a basis for further discussion and research. The indicators attempt to capture companies’ efforts, their immediate outputs and outcomes for people. They also measure at different levels: one indicator (for the issue “minimum working age”) tries to measure only at supplier level, 30 relate to both the company’s own operations and its suppliers’ operations, and 42 to the company alone.

Econsense points to the increasing relevance of ESG reporting against quantitative indicators, including in the sustainable finance context, and a lack of methods for reporting on human rights in quantitative form. They make four key points that we heeded in the course of our research:

- Having an indicator framework does not absolve companies from the responsibility to institute the relevant due diligence processes;
- KPIs are indispensable if human rights are to be integrated into companies’ operations;
- More research is needed to develop indicators that capture outcomes and impacts;
- Insufficient data are available on modern slavery and (worst forms of) child labour, and these deficits need to be addressed.

In essence, econsense identifies the social issues most frequently addressed in the ESG reporting guidelines of various bodies and relates them to human rights. They end up with 40 “human rights issues”, including 14 issues over which companies exert a high degree of influence. For the 12 issues over which companies have “little influence”, no indicators are suggested.

Many of the indicators that econsense suggests, particularly those which capture aspects of the lower levels of the supply chain, will require a company to acquire data more or less from scratch; econsense mentions “surveys” as one way to do so. To generate data to which they would not normally have access may make acceptance of the indicator set difficult, particularly for SMEs (which however are not members in the econsense network).

Moreover, a number of the indicators econsense suggests are intended to capture abuses, for instance, the proposed indicator for freedom of expression for example “Number of reported cases, e.g. via the whistle-blower hotline, in which the company exerted pressure on employees that restricted freedom of opinion and expression”.⁴⁹ The transformation of this indicator into a KPI will be difficult, but it also poses measurement problems: determining whether corporate “pressure ... restricted freedom of opinion and expression” presupposes a legal assessment as to whether in a reported case freedom of opinion and

⁴⁷ E.g. <https://www.pwc.co.uk/industries/retail-consumer/insights/b-corp.html>

⁴⁸ Econsense (2020), op. cit.

⁴⁹ Authors translation from the original German. In the English version published by econsense, the rendering is slightly different: “... pressure against the employees’ right to express themselves freely”.

expression were actually infringed or not, and counting only the former and not the latter cases for measurement purposes.

Indicators asking for the number of “violations” or “complaints”, as many econsense indicators do, also pose the problem of specificity and thus interpretation. Take the following indicators, for example: “Number of allegations and/or legal proceedings faced by the company related to working hours” and “Proportion of employees (e.g. migrant workers) reporting discrimination and abuse at work who initiated legal or administrative action.” While these indicators capture important information with regard to freedom from discrimination and the right to rest and leisure, the numerical value of the indicators is not easy to interpret and highly dependent on context, i.e. whether justice is easily accessible in a country or not. A large number of complaints would frequently indicate both the existence of many problems and that there is a modicum of accessibility of the justice system in society and a certain level of trust into that system. The reverse is not necessarily true however: While a low number of complaints could mean that there are few problems, it may – depending on context - only point to limited accessibility of or trust in the justice system.

Despite these shortcomings, though, we have drawn extensively on the econsense compilation. It remains one of the attempts to systematically relate human rights as enshrined in the Covenants with the UNGPs.

Perspectives of the financial sector

International Finance Corporation: EHS Guidelines and ESG Performance Indicators

The Environmental, Health, and Safety Guidelines (EHS Guidelines) developed by the International Finance Corporation (IFC) are in-depth technical reference documents providing general and sector-specific guidance on EHS issues.⁵⁰ The World Bank Group requires borrowers/clients to apply the EHS Guidelines relevant to their operations. While the EHS Guidelines define performance levels, particularly with respect to issues related to environmental impacts, their purpose is not to measure performance using a set of indicators, but to provide detailed and operationalised technical benchmarks on how to include cross-cutting environmental, health, and safety issues in project planning and implementation.

The IFC has also issued a set of indicators called the ESG Performance Indicators. The aim is to enhance sustainability reporting by providing a framework for the required data, the tools with which to measure them.⁵¹ Their purpose is somewhat similar to ours: to help investors to focus on significant ESG issues (with 13 thematic indicators plus 20 governance indicators) and to help companies to focus their sustainability reporting on issues that matter to investors (with 43 thematic indicators plus 20 governance indicators).

The set of indicators covers both process indicators and indicators relating to specific human rights issues, although the term “human rights” is not used. The indicators rely on publicly available information, metrics are mostly binary (yes/no). They are grouped along the lines of the World Bank Performance Standards, and for each indicator the IFC sets out its assumption/evidence as to how the relevant indicator influences the performance of a company. This amounts to an invitation to prioritise certain risks over others - based on an assessment in which human rights play no role.

⁵⁰ All accessible at https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/EHS-Guidelines/

⁵¹ See https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Company-Resources/ESG+Performance+Indicators_SA/ and a quick overview: https://www.ifc.org/wps/wcm/connect/410a775c-4acf-4e87-8079-59e28c6419ca/ESG%2BPerformance%2BIndicators%2Bwebpage_FAQ_design_updated_06_17_21_copyright.docx?MOD=AJPERES&CVID=nEKRSRD

For many human rights related risks, e.g. adverse impacts on indigenous communities or the workforce, indicators attempt to capture risks by marking the existence of “public controversies, including legal actions”. While the level of impact on company performance for almost all indicators which capture “public controversies, including legal actions” is classified as “high”, from a human rights perspective, the indicator is ambivalent at best: the existence of public controversy captures the quality of public debate, but not necessarily impacts on human rights.

Thus overall, the ESG Performance Indicators are an example of a system offering a few selected indicators with human rights relevance (albeit not with explicit reference) that is geared towards machine-readability and that focuses on risks to the reputation of companies and financial institutions.

ISS-ESG

There are many rating agencies which measure/analyse company risks. As an example, we chose the rating agency ISS-ESG.⁵² ISS-ESG issues mainly ratings of companies but also ratings of financial products (e.g., of green bonds or funds) and countries, for instance. Their ratings are aimed at reducing the complexity of ecological, social and governance-related impact contexts by aggregating diverse information and data within the framework of a system of indicators, weights and assessments in one or more key figures.

They issue an overall grade based on the sustainability practices of a given company and how they compare to the average ratings in their sector. The rating also includes a score for the company’s transparency level which is determined on the basis of whether all the relevant information for the rating is publicly available. Moreover, controversies with respect to the different areas covered (social, environmental, and governance topics) are included in the rating. Controversies involving the company are also reported in the form of a severity indicator, which is determined by following a norm-based research. Stakeholders covered by the set of indicators are employees and workers in the supply chain, consumers, affected communities, society (in the context of a company’s relations with governments and influence on public policy), and animals. The set of indicators covers both process indicators (regarding risk analysis, preventive measures and grievance and remedies) and indicators that directly refer to specific rights.

Ratings provide users with useful information to serve as a basis for their decision-making on (sustainable) investments and are presented in a way that is easy to understand and to the point. ISS-ESG’s ratings are based on an extensive examination of publicly available and potentially audited information. Hence, unlike other approaches, it does not rely solely on the integrity of a company in making its own disclosures.

However, ISS-ESG do not make their set of indicators available to the public, for fear that others might copy their (sector-specific) approach. Furthermore, ratings are expensive and the results are owned by the client who commissioned them rather than by all (interested) stakeholders.

Dow Jones Sustainability Index

The Dow Jones Sustainability Index (DJSI) consists of several indices for different regions of the world as well as one overarching index. The latter, the DJSI World Index, applies a transparent, rules-based component selection process to rate the sustainability performance of companies based on the Total Sustainability Scores, which result from the annual S&P Global Corporate Sustainability Assessment (CSA). DJSIs are float-adjusted market capitalisation weighted indices that measure the performance of companies selected against ESG criteria using a sustainability best-in-class approach. Depending on the index, the best-in-class cut-off percentages for the inclusion in the respective index vary: top 10 per

⁵² <https://www.issgovernance.com/esg/ratings/>

cent for the global index, top 20 per cent for regional indices, and top 30 per cent for country indices. Companies in certain industries or which have revenues streams from certain industries that exceed a predefined threshold are excluded from the DJSI.

In order to be considered for the DJSI, companies are asked to fill out a questionnaire and usually have to support their answers with publicly available information. Since its introduction in 1999, the questionnaire for applicable companies has been continuously adjusted and extended.

The stakeholders covered by the set of indicators for the social dimension are mostly employees and the supply chain, while community-related indicators mostly refer to philanthropic activities of the company, reflecting the index' origins in the corporate social responsibility world of the late 1990s.

Each year, 250 companies are selected for the index based on ESG criteria. For companies listed on the index, it serves as an incentive to continue engaging in sustainable business practices and for their competitors, as in incentive to step-up their sustainability efforts. The set of indicators used for the questionnaire includes both process indicators and indicators that directly relate to specific human rights.

However, the index only considers the largest conglomerates, thus it disregards SMEs. Moreover, it came under severe criticism when the oil company BP was listed as one of the most sustainable companies in the sector in 2010, despite being responsible for huge oil spills in the gulf of Mexico that same year. This raises questions about how well Dow Jones does the ESG research for their index, particularly in view of the fact that most of the other sustainability indices did not list BP that year.

4.3 Preliminary findings

The approaches described above have several noteworthy similarities. Firstly, with a few exceptions, all focus on the company as a whole and not on separate business activities, as the Taxonomy Regulation does. This suggests that a company-level approach should be taken when choosing and/or developing social indicators, since the aim is for these indicators to be used in companies' external reporting. A company-level approach would allow for coherence with existing, well-established and applied approaches and hence avoid additional data requirements. When we shared our results with a small group of experts, they agreed that process indicators should at least be company-level indicators if not multinational enterprise-level indicators. While it would be possible to have impact indicators for specific human rights that focused on business activities, it seems very probable that a granular focus of this kind would be more difficult and less well-suited for human rights topics than it is for environmental topics. Human rights impacts can arise from virtually any economic activity of a company. The human rights due diligence process aiming at addressing these impacts that a company establishes is generally established at the entity level, not least for reasons of efficiency. Given the relevance of human rights for all economic activities, "[i]t would be difficult to do justice to these topics [such as trade union rights] by singling out one activity of an economic entity."⁵³ This same applies for impact indicators, which are supposed to measure the effectiveness of the human rights due diligence process.

Secondly, none of the approaches we examined that propose or consist of a set of indicators for company reporting have been democratically legitimised. Although some of the approaches are widespread, their application is voluntary. Obligatory reporting, sanctions or incentives must have a different legal foundation. Some of the other approaches have yet to be 'translated' into a form that companies can use in practice. Thus, results from an application of the different frameworks are not comparable with each other, which is however fundamental for sustainable finance decisions.

⁵³ Social Taxonomy Draft Report, op. cit., pp. 19–20.

Thirdly, most already existing indicators are largely qualitative in nature. Many indicators developed from corporate and financial sector perspectives are similar to check-lists, for instance, if it is asked which human rights are mentioned in the Supplier Code of Conduct. Furthermore, their often binary construction will make it difficult to track progress – a company can indicate either that it respects or (causes or contributes to) abuses of human rights. Counting individual abuses, however, poses its own difficulties of interpretation. Nonetheless, at the kick-off meeting with experts in October 2021, the experts expressed the wish for the inclusion of some indicators that track the efforts of the company towards compliance with human rights. Another point is that most indicators addressing human rights adherence by companies are input- and output-oriented: they focus on processes within the company-sphere, seldom considering outcomes, let alone impacts of the business activities on other spheres, such as society, or up- and downstream processes. However, it is important to have indicators that give an insight into the positive and negative impacts of a company's activities on human rights.

Our analysis of existing indicator frameworks also shows that the different perspectives are associated with different data requirements: While the frameworks designed from the corporate perspective rely largely on internal information provided by companies, the approaches whose origins lay in the human rights community and the financial sector augment this information with information from external sources. The experts we consulted were divided on the question of whether information from external sources should be included, but agreed that if external data is used then there must be a standardised mechanism for the verification of the information in place.⁵⁴ This question is of key importance particularly with respect to the quality of companies' risk analysis and any action they take on that basis, and the authorities' assessment thereof, such as under the German Act on Corporate Due Diligence Obligations for the Prevention of Human Rights Violations in Supply Chains (Lieferkettensorgfaltspflichtengesetz – LkSG) . It is also relevant for assessments performed by organisations in the financial sector.⁵⁵ In the context of indicator development this creates the necessity for an in-depth research of how such a standardised mechanism to include external sources could be established and what it adds in comparison to the current situation in terms of quality and effect.

All of that aside, none of the existing approaches we examined provides a full set of indicators that, taken by itself, would be able to fulfil the purpose of measuring a company's respect for human rights in its business activities and the resulting outcomes, let alone measuring the impacts of those activities. They are all plagued either by a lack of data or by a lack of machine readability making them unsuitable as a basis for effective decision-making with respect to sustainable finance and resulting in insufficiently reliable measurements, thereby creating "measurement friction". Even the financial sector lacks a system capable of supporting a consistent assessment regarding the compliance of enterprises with human rights.

As we were unable to identify any set of indicators fitting our purposes, in what follows we will introduce the core criteria necessary to make a meaningful indicator (section 5) and use these to identify single indicators from the approaches we analysed that meet our criteria, at least to a sufficient extent (section 6). Experts consulted in October 2021 agreed that a mix of indicators taken from different approaches is reasonable. Wherever possible, existing, well-established indicators should be selected, but when indicators from the existing approaches are not sufficient, new indicators should be developed.

⁵⁴ While limited or reasonable assurance will be provided through sustainability report audits (as proposed by the draft CSRD), these will not be able to address the verification of external information. For this, a standardised mechanism must be developed which is not in the scope of this research project.

⁵⁵ See draft RTS Art. 7: "Description of policies to identify and prioritise principal adverse sustainability impacts section (2): Where information relating to any of the indicators used is not readily available, the section referred to in point (c) of Article 4(2) shall also contain details of the best efforts used to obtain the information either directly from investee companies, or by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions".

5 Core Criteria for the Choice of Indicators

As we stated above, our aim is to develop indicators for the processes we selected (process indicators) as well as for the human and labour rights selected (output or outcome, ideally impact indicators) (cf. section 3), seeking to measure the implementation of the human rights due diligence process by a company as well as its effectiveness.

Indicators for both of aspects should be meaningful, operational and applicable within the EU regulatory framework.

In an effort to further detail and complement these requirements, we analysed the criteria developed and recommended in the IASS study “Mandatory Reporting on Corporate Sustainability Performance”⁵⁶ (IASS Study) and applied them, where appropriate.⁵⁷ The IASS study comprehensively analyses 14 corporate sustainability reporting frameworks against a set of ten criteria and provides further recommendations for criteria to be applied when developing a universal reporting standard.⁵⁸ Both the criteria applied in the analysis as well as the recommendations were developed with the participation of experts.⁵⁹ While the IASS study discusses the criteria on the level of the reporting framework, they are also relevant for the indicator level (appropriately adjusted in some cases, and with some exceptions, see below). When comparing the identified set of criteria against the criteria put forward for indicators in the OHCHR Guide, we observed a considerable overlap (taking into account that the OHCHR Guide concerns states and not companies/enterprises), which we took as confirmation of their relevance and validity.

Generally, the development of the indicators, and accordingly of the criteria for the indicators, should follow a rights-based approach, i.e. it should reflect the principles of participation, transparency, and accountability, and adhere to the practice of disaggregating data along the recognised grounds of discrimination, where relevant.⁶⁰ Given this requirement, it makes sense to look into already existing sets of indicators, to ensure that the indicators were, at a minimum, sufficiently discussed with external stakeholders or better yet developed with their participation and that have been tested in practice or, as in most cases here, are already in widespread use.

Meaningful in substance

Indicators should be meaningful in substance, i.e. suitable for the international framework, in particular by covering human rights abuses and violations typically caused by economic activities.⁶¹ This requirement is partly reflected in the step of selecting human rights and process standards (see supra, section 3). Another dimension of this requirement is that the indicators should aim to capture the core of the human right rather than peripheral aspects.⁶² In line with a human rights-based approach, the disaggregation of data along the recognised grounds of discrimination, where relevant, forms another important element of meaningfulness, as it contributes to detecting structural root causes for human rights problems.⁶³ However, even those attempting to measure a state’s performance with respect to human rights performance concede that practicability and feasibility considerably limit the acquisition of

⁵⁶ IASS Study=Brockhoff, Dorothea et al. (2020): Publizitätspflicht zur Nachhaltigkeit. Entwicklung eines Anforderungskatalogs für einen universellen Standard. Potsdam: IASS. https://publications.iass-potsdam.de/rest/items/item_6000443_2/component/file_6000444/content

⁵⁷ The respective source of the criterion is indicated in brackets.

⁵⁸ The criteria are set out in Tabelle 1, pp. 23 et seq; the recommendations are set out in Tabelle 4, pp. 35 et seqq.

⁵⁹ IASS Study, op. cit., pp. 22, 35.

⁶⁰ European Network of National Human Rights Institutions (ENNHRI) (2021): Welcoming a social taxonomy in support of human rights, p. 2. <https://ennhri.org/wp-content/uploads/2021/08/Social-Taxonomy-submission-2021.pdf>

⁶¹ Cf. criteria of “completeness” of the IASS Study, which is not directly applicable, as the point of reference for the indicators is well-defined for the purpose of this project.

⁶² In a similar vein, the OHCHR takes the step of defining “attributes” reflecting the essence of a human right for which indicators are developed subsequently: OHCHR Guide, op. cit., p. 30 et seqq.

⁶³ OHCHR Guide, op. cit., p. 70.

disaggregated data.⁶⁴ These concerns also hold true at the enterprise level. It is not within the limited scope of this project to discuss how these challenges could be addressed, but this is an issue that will have to be considered when further refining the indicators.

Universally applicable

The indicators should be universally applicable, that is, applicable across industries and applicable (subject to adjustment, where necessary) to all sizes and legal forms of enterprises (IASS Study). Universal applicability also encompasses applicability to the entire supply chain.

As this study concerns the development of a limited number of indicators for minimum safeguards, indicators applicable across industries are prioritised. Elements such as proportionality or risk-based approach can be taken into consideration when developing indicators in order to account for industry specific differences or differences in the size of companies. These requirements are in line with UNGP 14, which stipulates that the “responsibility of business enterprises to respect [all] human rights applies to all enterprises, regardless of their size, sector, operational context, ownership and structure”. However, the UNGP acknowledge that “[i]n practice, some human rights may be at greater risk than other in particular industries or contexts”.⁶⁵

Effectiveness (effort, output, outcome)

The OHCHR Guide focuses on “compliance indicators”, which are indicators designed to reflect the level of compliance with human rights obligations “yielding outcomes that can be associated with improved enjoyment of human rights”.⁶⁶ Transposing this requirement to enterprises, effectiveness requires that indicators for process standards reflect the level of implementation, and indicators for human rights reflect the concrete impacts which economic activities have on rights holders (see IASS Study). To put this in more positive terms, effectiveness means that the indicators must help achieve the goal, which, for the purposes of this project, is the protection of human rights in practice. Indicators should focus on measuring outcomes (direct result) as well as impacts (long-term effects) of an economic activity (IASS Study).

Measurable and comparable: existence of a metric and standard for measurement

The indicators should also generate meaningful and reliable information for users, i.e. investors. This requires that the result is assessable, in particular by being measurable (quantified) (IASS Study).⁶⁷ Comparability of indicators requires that the value of an indicator is derived according to a standardised and transparent method.

Verifiable

Another element of meaningfulness and reliability relates to the possibility to scrutinise the information captured in the indicator. The indicator should refer to information that is subject to e.g. an audit by a qualified, external body,⁶⁸ or information that is supported by evidence (IASS Study). In a similar vein, the OHCHR Guide calls for preference to be given to objective, fact-based indicators relying on information which is, in principle, directly observable.⁶⁹

⁶⁴ OHCHR Guide, op. cit., pp. 68 et seq.

⁶⁵ See UNGP 14, Commentary. The OHCHR Guide also recommends a set of universal indicators, but stresses the importance of additional, context-specific indicators, OHCHR Guide, op. cit., pp. 22 et seq., 44.

⁶⁶ OHCHR Guide, op. cit., p. 20.

⁶⁷ The OHCHR Guide also indicates a preference for quantitative indicators, OHCHR Guide, op. cit., p. 19.

⁶⁸ The new CSRD regime likely requires limited / reasonable assurance audits (Proposal for a Corporate Sustainability Reporting Directive - COM(2021) 189 final, 2021/0104(COD), p. 10.

⁶⁹ OHCHR Guide, op. cit., p. 19.

Operational and practical: data easily available and broad dissemination

The data required for the indicator should consist only of data that are already available or can be made available without unreasonable effort (data from within the company or external data) and the indicator should be easily put into practice (IASS Study). Another relevant element of “ease of use” is that the indicator should not be difficult to understand (IASS Study). The chances for widespread acceptance of an indicator are greater if it is already being used by a lot of enterprises. These requirements facilitate the application of the indicators in practice and thus help ensure the implementation of the regulatory framework.⁷⁰

Transparent and participatory development: Participation of affected persons or stakeholders

The indicators should be developed in a transparent and participatory process, including relevant stakeholders (IASS Study). Ideally, indicators should be democratically legitimised, either by bottom-up processes or by legal regulation. Transparency and participation, both being part of a rights-based approach to developing indicators, support the effectiveness and meaningfulness of indicators.

Applicability within the EU regulatory framework

To ensure a coherent approach and thus the possibility of implementation, the indicators should be applicable within the EU regulatory framework related to sustainable finance. It is essential that the indicators be unambiguous, as their use may be required by law in the context of Article 18 of the Taxonomy Regulation (“Minimum safeguards”) as well as in the context of a possible extension of the taxonomy towards social objectives. The criteria “measurable and comparable” as well as “verifiable” help ensure that this requirement is met. The IASS Study requires the framework and thus the individual indicator to be suitable for use as a legally binding indicator, e.g. indicators must be compliant with existent legislation. How the indicators we suggest meet this requirement can be found below, in section 7.

All of these criteria guided us when assessing indicators of existing frameworks. Naturally, some criteria proved to be more relevant than others for the final selection of the indicators we suggest. In particular, while some criteria, such as “meaningful in substance”, “universally applicable” or “verifiable” produced very similar results, the results from checks against the other criteria were more varied (cf. Table 2 and Table 4).

6 Proposal for Indicators

Building on the work described in the previous sections, we selected indicators for the due diligence processes and human rights whose selection we discussed in section 3. All indicators proposed here were initially taken from existing indicator frameworks following the approach outlined above (sections 4 and 55) and then, if necessary, slightly adapted. We assessed the indicators used in the existing frameworks against our set of criteria and selected the ones which matched our criteria best and thus are, in our view, the most convincing.

Most of the indicator frameworks we discussed in section 4 were developed in order to measure compliance with the UNGPs or other guidelines/standards. Measuring compliance is systemic in the sense that efforts (inputs and resources) are (ideally) connected to and weighed against the outputs and outcomes, e.g. the number of complaints is related to (the number or quality of) measures taken to mitigate complaints. Very often, the frameworks analysed also define different levels of compliance, to motivate companies to engage in a race to the top. The set of indicators we propose below does not follow the same logic: It does not cover all human rights that corporate action can potentially impact or

⁷⁰ The OHCHR Guide notes that indicators should be easy to understand and to apply, and rely on easily available information, in order to avoid opportunity costs deterring from providing the necessary information, see OHCHR Guide, op. cit., p. 51.

all due diligence processes; neither does it weigh efforts against outcomes. This is because the proposed set of indicators serves a different function: that of minimum standards that investors should take into account in directing the flow of investments. The indicators we propose are intended as signposts: they should have a steering effect.

While our selection of indicators appears to represent the best of what has been implemented in practice thus far, we have still identified potential for refining and - from a human rights viewpoint - improving some of the indicators we propose. We therefore present options and elements for alternative indicators built on the existing ones. These refined indicators would be more difficult to put into practice, as they are not yet established in sustainability reporting. However, they give an idea of what we should be aiming (in the future) if we want to use indicators as tools that effectively shape business and steer it towards a human rights orientation. For ease of reference, we link the proposed indicators to the GRI standard because it seems probable that the GRI approach will play an important role in the future European Standard for Corporate Sustainability Reporting.⁷¹

Human rights abuses and violations occur not only at the company level but also and especially in the (deeper) supply chain. Indicators should reflect this, meaning they should cover the whole supply chain, in addition to the company's own area of business and subsidiaries. This would be in line with the UNGPs: companies should include their supply chains in their human rights due diligence, based on a risk-based approach and, in particular, based on their risk analysis (cf. UNGP 13, Commentary).

In reality, however, there are obstacles to achieving this depth of coverage, especially with regard to the availability of reliable data on the deeper supply chain. For this reason, a stepwise approach is conceivable, in which companies would have to report at least on tier-1 for a limited period of time (stage 1); later, once data accessibility had improved, the reporting obligation would extend down to deeper supply chain levels (stage 2). In general, the obligation should focus on the salient topics for the reporting company's supply chain, identified in the human rights-based risk analysis; this risk analysis must in any case encompass risks beyond tier-1 from the very beginning.

As explained in our preliminary findings in section 4.3, the company level should be chosen as the reference point for most human rights indicators. The level "economic activities" (the level primarily addressed in the Taxonomy Regulation) can be considered in exceptional cases. Those of the indicators we are proposing that we believe might be candidates for such exceptions are marked with an asterisk in Tables 1 and 3.

6.1 Indicators for human rights due diligence processes

Ensuring respect for human rights requires that companies have adequate management processes in place for this purpose. It is for this reason that the UNGPs, among others, focus on management processes. As explained in section 3, we consider the process dimensions of risk analysis, prevention and remediation in addition to the general governance level.

The indicators selected for this purpose are found below in Table 1, and their evaluation against the criteria developed above is presented in Table 2.

⁷¹ EFRAG (08.07.2021): EFRAG & GRI landmark Statement of Cooperation. <https://www.efrag.org/Assets/Download?assetUrl=%2fsites%2fwebpublishing%2fSiteAssets%2fEFRAG%2520GRI%2520COOPERATION%2520PR.pdf>

As we consider all of our proposed indicators to be “meaningful in substance”, “universally applicable for all companies (in principle)” and “verifiable”, our focus in what follows is on the evaluation against the criteria which produced less uniform results.

The entries in the second column in Table 2 depict the level of the results chain (effort, output, outcome) at which effectiveness is measured. For process indicators, this is generally the effort level, i.e. the level of implementation. However, statements about the outputs and outcomes attained (in the human rights situation) as the result of company processes are theoretically possible, and this must be taken into account through the use of human rights specific indicators (see section 6.2). As Table 2 shows, most of the indicators proposed largely meet the criteria we set.

Table 1: Overview: Process indicators proposed and suggestions for further development

Process Indicator	Source and GRI-reference	Suggestions for refinements
General governance		
<p>Responsibility within the executive team The company identifies who within the senior executive team has operational responsibility for ensuring human rights are respected.</p>	Oxfam Supermarket Scorecard T1.2 (GRI 2-12)	
<p>Stakeholder engagement* In the last three years, the company has engaged relevant stakeholders by providing at least two examples of engagements on human rights issue (in original indicator: on forced labour and human trafficking) with stakeholders such as policy makers, worker rights organisations, or local NGOs (in original indicator: in countries in which its first-tier suppliers... operate).</p>	Based on KnowTheChain Full Benchmark Methodology 1.5 (1), Subset 3 (1) (GRI 3-3 d.f.)	<p>... not only for forced labour and human trafficking, but also for other human right issues (based on risk analysis) ... rights holders to be explicitly included as stakeholders ... and suppliers below the first tier (based on the risk analysis) ... qualification of engagement as meaningful ... and with members of highest level of management participating.</p>
Risk analysis		
<p>Annual risk analysis There is a risk analysis on human rights issues that is no more than one year old.</p>	in accordance with e.g. LkSG ISS-ESG, DJSI (GRI 3 Section 1)	see below for aspects for this indicator

Process Indicator	Source and GRI-reference	Suggestions for refinements
Supplier mapping* The company maps its suppliers.	CHRB Methodology 2020 D.1.3, D.2.3 (GRI 102-9)	... according to the relevance based on the risk analysis ... and discloses the mapping publicly.
Prevention		
Assessment of supplier performance* Does the company assess supplier performance against its own human rights commitments, as applicable, as part of the process for selecting new suppliers? AND If yes, what percentage of new suppliers (in the last reporting period) were assessed in this way)?	WDI 12.2 (GRI 414-1) WDI (12.2a)	... and draws on feedback from both internal and external sources, including affected stakeholders (cf. UNGP 20 (b)) ... according to the relevance based on the risk analysis
Remedy		
Assessment of grievance mechanism(s) Does the company assess the effectiveness of its grievance mechanism(s) against the criteria in Principle 31 of the UNGPs (that is, whether the mechanism(s) is legitimate, accessible, predictable, equitable, transparent, and compatible with human rights)?	WDI 10.3 (GRI 103-2)	... and the company reports the results of the assessment

Nota bene: Indicators marked with an asterisk* indicate that the respective indicator may also be related to economic activities.

Table 2: Evaluation of the proposed process indicators

Process Indicator	Effectiveness (effort, output, outcome) ⁷²	Existence of a metric	Standard for measurement	Broad dissemination	Data (easily) available	Participation of affected persons or relevant stakeholders
General governance						
Responsibility within the executive team	effort	binary	Yes	min. 16 international super-markets	yes	yes
Stakeholder engagement	effort/ outcome	binary	no	min. 60 companies per sector	yes	yes
Risk analysis						
Annual risk analysis	effort	binary	diverse	Yes	yes	yes
Supplier mapping	effort	binary	yes	min. 220 companies	depends	yes
Prevention						
Assessment of supplier performance	effort	yes	yes	min. 140 companies	depends	yes
Remedy						
Assessment of grievance mechanism(s)	effort	binary	Not specified	min. 140 companies	depends	yes

⁷² Cf. above, section 5 for a detailed description of the applied criteria.

General governance

Responsibility within the executive team: “The company identifies who within the senior executive team has operational responsibility for ensuring human rights are respected.” This is a well-manageable indicator, with enormous consequences for personal motivation at the highest management level.

Stakeholder engagement: Effective human rights due diligence needs to be based on meaningful stakeholder engagement, especially engagement with (potentially) affected persons. The UNGPs require companies to listen to stakeholder voices, take their concerns seriously and to continuously adopt their business practices accordingly. The UNGPs mention stakeholder participation in several contexts: that of risk analysis (UNGP 18b), of effectiveness monitoring (UNGP 20b) and of stakeholder consultation with respect to the establishment of the company's own grievance mechanism (UNGP 31h). Thus, this is an important cross-cutting issue. From our point of view, stakeholder participation includes the involvement of civil society, trade unions and, in particular, (potentially) affected rights holders. The importance of the involvement of these groups makes a narrative indicator appropriate here - as an exception.

Refining the indicator: As Table 1 shows, we are suggesting the inclusion of further characteristics in the selected indicator. For example, the personal participation of members of the highest management level in selected engagement with stakeholders would send a strong signal that the company takes its responsibility seriously.

Risk Analysis

Annual risk analysis: “There is a risk analysis on human rights issues that is no more than one year old.” This indicator highlights a centre element in human rights management.

Refining the indicator: The indicator frameworks analysed formulate different requirements with respect to risk analyses; we have added our recommendations for the risk analysis indicator proposed here. The proposed indicator could be modified such that companies' human rights risk analysis would have to meet the following requirements in order for them to be able to answer "yes" to the proposed indicator (“threshold”):

- The analysis is updated at least annually or more often, if necessary.
- The analysis covers the company's own area of business and those of group companies plus the supply chains.
- Stakeholders, in particular affected persons or their representatives, are involved in the analysis.
- At a minimum, the analysis addresses sector-typical risks and takes the operational, in particular regional, context into account.
- The prioritisation of human rights risk is determined by the severity of the potential impacts on people (i.e. rights holders), not by risk to the business.⁷³

Section 6.3 shows how these requirements can be used to build a KPI.

Supplier mapping: We propose this indicator, which provides more transparency, in order to include supply chains in a meaningful way. We place it in the context of risk analysis to make clear that it refers to mapping in terms of relevance to risks.

Refining the indicator: The publication of this mapping would be another important step towards transparency and verifiability (“know and show”). However, there are questions relating inter alia to

⁷³ Cf. UNGP 17, Commentary and UNGP 24.

antitrust law that need to be clarified before a refinement of the indicator in this respect can be attempted.

Prevention

Assessment of supplier performance: We focus on the supply chain level in an effort to strengthen the implementation of human rights due diligence in relation to the supply chain, as we did with the indicator on supplier mapping. In addition, we emphasise the assessment aspect with regard to existing (self-)commitments, combined with business-related consequences following these assessments, in the hope of indirectly encouraging such upstream steps.

Refining the indicator: Stakeholder views are important information sources when it comes to verifying the due diligence performance of suppliers. We therefore propose to add “consultations with affected stakeholders” in line with UNGP 20 (b) to the indicator. Companies are required to meaningfully consult (affected) stakeholders in their own due diligence processes, and the same should be expected of them when assessing how their suppliers implement human rights due diligence.

Remedy

Assessment of grievance mechanism(s): We chose an indicator concerning the grievance mechanism because an effective grievance mechanism is one of the main sources of learning about a human rights issue in need of remedy. The assessment against the relatively detailed UNGP 31 requirements for grievance mechanisms is a first step for ensuring the availability of this source. The requirements include, in particular, that the mechanism is “a source of continuous learning” and that it is “based on engagement and dialogue with the stakeholder groups for whose use they are intended” (UNGP 31 (g) and (h)).

Refining the indicator: The publication of this assessment would be another important step towards transparency and verifiability (“know and show”) and, apart from that, it would build trust among potential users in the mechanism.

This compilation of indicators on human rights due diligence processes in companies should make it possible to measure the essential aspects of due diligence across all sectors, irrespective of company size. Assessing whether and which other processes and procedures in companies should be used as supplementary indicators should be a subject for further research and input by stakeholders and rights holders.

6.2 Indicators for specific human rights

The purpose of due diligence management processes is to prevent a company and its operations from having negative impacts on rights holders and ensure that it mitigates/remedies such impacts should they occur; this is why indicators for management processes (inputs or efforts) need to be accompanied by indicators capturing outcomes with respect to specific human rights. All of the human rights indicators we are proposing are listed in Table 3, below. Table 4 gives an overview of the assessment of these same indicators against the most significant criteria described in section 5. Like the process indicators discussed in the previous section, the specific human rights indicators fulfil our criteria to a large extent, as Table 4 shows.

Following Table 4, we provide more detailed descriptions of some of the human rights indicators that we selected.

Table 3: Overview: Specific human rights indicators proposed and suggestions for further development

Specific human right indicators	Source and GRI-reference	Suggestions for refinements
Prohibition of discrimination against women		
Wage disparities Unadjusted gender pay gap	SFDR/RTS (Mandatory indicators applicable to investments in investee companies No. 12) (GRI 405-2)	... unadjusted gender pay gap below the national average
	Based on BCorp → Community → Diversity, Equity, & Inclusion	... We expect our direct suppliers to annually conduct a pay equity analysis by gender and to report on the result
Distribution of power Percentage of women within the organisation's governance bodies	GRI 405-1 a. i	
Freedom of association		
Collective bargaining agreements Provide the percentage of employees covered by collective bargaining agreements for all locations in the company's direct operations	WDI 9.2 (GRI 2-30 a)	... Provide the percentage of employees covered by collective bargaining agreements for all direct suppliers
Alternative worker participation * Alternative worker participation in countries with severe legal limitations	ISS-ESG A.1.1.1.2. c (GRI 2-30 b, GRI 407-1)	... Percentage of own suppliers in countries with severe legal/factual limitations, where there is alternative worker participation, in particular alternative forms of organising (e.g., worker councils or worker-management dialogues)
Prohibition of child labour		
Significant risk of child labour * a. Operations and suppliers considered to have significant risk for	GRI 408-1 (a-b)	"Percentage of operations considered to have significant risk..."

Specific human right indicators	Source and GRI-reference	Suggestions for refinements
<p>incidents of: i. child labour; ii. young workers exposed to hazardous work.</p> <p>b. Operations and suppliers considered to have significant risk for incidents of child labour either in terms of: i. type of operation (such as manufacturing plant) and supplier; ii. countries or geographic areas with operations and suppliers considered at risk.</p>		<p>and (as a separate indicator)</p> <p>„Percentage of suppliers considered to have significant risk...“</p>
<p>Training concerning prohibition of child labour *</p> <p>The company trains its first-tier suppliers on risks and policies that address child labour and discloses the percentage of first-tier suppliers trained.</p>	<p>based on KnowTheChain Full Benchmark Methodology 1.4 (2) (GRI 408-1 c, GRI 3-3 d)</p>	<p>Percentage of first-tier suppliers trained on risks of the various forms of child labour (e.g. young workers exposed to hazardous work, worst forms of child labour) in the last two years</p>
Prohibition of forced labour		
<p>Significant risk of forced labour *</p> <p>Operations and suppliers considered to have significant risk for incidents of forced or compulsory labour either in terms of: i. type of operation (such as manufacturing plant) and supplier; ii. countries or geographic areas with operations and suppliers considered at risk.</p>	<p>GRI 409-1 a</p>	<p>Divide in two: in „operations considered to have significant risk...“ and „suppliers considered to have significant risk“</p>
<p>Training concerning prohibition of forced labour *</p> <p>The company trains its first-tier suppliers on risks and policies that address forced labour and human trafficking and discloses the percentage of first-tier suppliers trained.</p>	<p>KnowTheChain Full Benchmark Methodology 1.4 (2) (GRI 409-1 b, GRI 3-3 d)</p>	<p>Percentage of first-tier suppliers trained on risks and policies that address forced labour and human trafficking in the last two years</p>

Nota bene: Indicators marked with an asterisk* indicate that the respective indicator may also be related to economic activities.

Table 4: Evaluation of the proposed human rights indicators

Specific human right indicators	Effectiveness (effort, output, outcome) ⁷⁴	Existence of a metric	Standard for measurement	Broad dissemination	Data easily available	Participation of affected persons or relevant stakeholders
Prohibition of discrimination against women						
Unadjusted gender pay gap	output	yes	yes	yes	yes	yes
Distribution of power	output	Yes	yes	yes	yes	yes
Freedom of association						
Collective bargaining agreements	output	yes	yes	yes (141 leading internat. companies reported in 2020)	yes	yes
Alternative worker participation	output	yes	no	yes (>25k ratings for >800 clients)	depends	yes
Prohibition of child labour						
Significant risk of child labour	effort	yes	no	yes (> 3k companies in 52 countries)	depends	yes

⁷⁴ Cf. section 5 for a detailed description of the applied criteria.

Specific human right indicators	Effectiveness (effort, output, outcome) ⁷⁴	Existence of a metric	Standard for measurement	Broad dissemination	Data easily available	Participation of affected persons or relevant stakeholders
Training concerning prohibition of child labour	effort	no	no	n/a	yes	no
Prohibition of forced labour						
Significant risk of forced labour	effort	yes	yes	yes	depends	yes
Training concerning prohibition of forced labour	effort	no	no	yes (min. 37 companies per sector)	yes	yes

Prohibition of discrimination against women

Women make up half of the world's population. When and where women are discriminated against, indications are strong that other groups in the population – especially children, sexual and ethnic minorities and others – are likewise vulnerable to discriminatory practices. Based on this correlation, we decided to use “discrimination against women” as a key human rights indicator (“pars pro toto indicator”), since in addition to capturing impacts on half of the population, it gives, by extension, an indication of the extent of impacts on other vulnerable groups or of how intersectional discrimination may be impacting certain groups of people. In the business world, discrimination against women takes two major forms, each equally important: unequal distribution of power and influence and wage disparities. At a minimum, these two aspects must be measured in order to gain an understanding of how well a company is performing with respect to equality for women.

Unadjusted gender pay gap: This is one of the most widely known indicators for the measurement of wage disparities. Data on this indicator exist on an aggregated national level in all EU Member States⁷⁵ and in many other countries.⁷⁶ With the selected indicator, companies measure their own company-wide unadjusted gender pay gap. Companies' unadjusted gender pay gap is a strong indicator that allows comparison of performance across companies; it is well-established in practice, and the data are easy to collect and verifiable.

The unadjusted gender pay gap can be traced to hidden and obvious structural barriers that lead to wage disparities, such as the systematic undervaluation of sectors staffed basically only by women, often women with a migrant background (e.g. care and textiles industries). Some of these barriers can be eliminated by companies themselves, for example, by paying wages based on collective bargaining agreements.⁷⁷ Society-wide barriers, particularly gender stereotypes translated into laws and practice and resulting into a lower social status of women, are neither caused by companies nor do they lie in their direct sphere of influence. But companies can still contribute to improving the situation in their own operations and the supply chain, e.g. by providing on-site child care and having zero tolerance for sexual harassment, even when this is not required by national law, and/or making efforts to raise awareness among male and female workers.

Refining the indicator: As we have indicated above, the measurement of human rights performance is an instrument that should produce better human rights outcomes for people. Apart from passing on the responsibility to report and improve on the indicator along the supply chain (see below), the indicator could be revved up to the “unadjusted gender pay gap **below the national average**”. If all companies endeavour to fall below the national average, this should ultimately lead to a steady decrease in the unadjusted gender pay gap in general.

Additional indicator for the supply chain: Discrimination against women remains a fact in the business world of the EU and is even more widespread in other regions like the Middle East and North Africa or South Asia.⁷⁸ While it will be difficult for EU companies to change these realities in third countries, businesses should try using their relationships to raise awareness among their suppliers. We therefore propose an additional indicator for the supply chain: “**We expect our direct suppliers to conduct an annual pay equity analysis by gender and to report on the result**”. This suggestion builds on a BCorp indicator already in use. While the indicator may not lead directly reduce the gender pay gap in third countries, it will confront suppliers regularly with the expectation of equal pay, which

⁷⁵ See https://ec.europa.eu/info/policies/justice-and-fundamental-rights/gender-equality/equal-pay/gender-pay-gap-situation-eu_en for an introduction and data for EU Member States.

⁷⁶ See ILO: <https://ilostat.ilo.org/data/#>

⁷⁷ See on the debate on unions and wages and how they affect men and women differently: Mishel, Lawrence (08.04.2021): The enormous impact of eroded collective bargaining on wages. <https://www.epi.org/publication/eroded-collective-bargaining/>

⁷⁸ <https://www.enterprisesurveys.org/en/data/exploretopics/gender>

might – over time – improve the chances for women to achieve pay equity with men and increase their incomes.

Percentage of women within the organisation’s governance bodies (GRI 405-1): Men are overrepresented in companies’ governance boards worldwide; and the proposed indicator measures the proportion of women in decision-making positions.⁷⁹ We chose this GRI indicator because it entails more relevant information than, for example, the indicator “board composition”. In addition, the data are easy to collect and verifiable. Since it is a GRI indicator, it is already widely used in practice.

Freedom of association

The right to association and the right to bargain collectively are empowerment tools that enable workers to exercise their human rights at work and related labour rights. In places where workers face restrictions on freedom of association, other population groups often face such restrictions as well, e.g. the press or civil society.⁸⁰ A measurement focus on the right to association and the right to bargain collectively is particularly indispensable when it comes to global supply chains, since many supply chains extend to countries where both of these rights are (severely) restricted. While it is important that indicators measure these rights in companies’ own operations, they must also cover suppliers and be applicable in different contexts.

Collective bargaining agreements: An indicator that performed well against our selection criteria is “Provide the percentage of employees covered by collective bargaining agreements for all locations in the company’s direct operations” (WDI). The data can be collected easily, and the information is meaningful with respect to the overall fairness with which an employer treats its employees.⁸¹ It also has effects on wages: while not sufficient to ensure minimum, let alone living wages, collective bargaining can protect a minimum standard.

Refining the indicator: This indicator might be even stronger if it measured collective bargaining agreements for employees in the supply chain. Building on the WDI indicator, we therefore propose: **“Provide the percentage of employees covered by collective bargaining agreements for all direct suppliers”** as an option to fine-tune the indicator for the supply chain to increase its leverage.

Alternative worker participation: Our first indicator (collective bargaining agreements) cannot be applied to all supply chains, as in many countries freedom of association is severely restricted. Thus we built on another indicator (ISS-ESG), developed for these situations: **“Alternative worker participation in countries with severe legal limitations”**. This indicator captures functional equivalents to trade unions that might lead to actual improvements on the ground and could serve as models for other companies in similar situations.

Refining the indicator: While we take up the ISS-ESG indicator, we also propose to increase its leverage through the following refinement: **“Percentage of own suppliers in countries with severe legal/factual limitations, where there is alternative worker participation, in particular alternative forms of organising (e.g., worker councils or worker-management dialogues)”**.

Prohibition of child labour

Strong indicators for measuring compliance with the prohibition of child labour are hard to find. Most approaches we looked at measure solely the risk dimension and do not differentiate between various

⁷⁹ World Bank Data, based on their enterprise surveys, provide a desirable, more granular picture of the different levels of decision-making and data on the percentage of women staff, in production and administration, per region/country. Country level data are, however, not updated regularly and thus not comparable. <https://www.enterprisesurveys.org/en/data/exploretopics/gender>

⁸⁰ For the debate, see Baccaro, Lucio et al. (2019): Theoretical and empirical links between trade unions and democracy. In: *Economic and Industrial Democracy* 40 (1), pp. 3–19.

⁸¹ See ILO statistics on country levels: <https://ilostat.ilo.org/topics/collective-bargaining/> and <https://ilostat.ilo.org/topics/union-membership/>

forms of child labour. Although we are aware of the shortcomings of this way of working, we decided to adopt it for practical reasons. It is unlikely that more specific data on child labour can be gained from companies at this stage, given that companies and/or governments have not collected this data so far.

Significant risk of child labour: We propose the use of the GRI indicator 408-1, because it does look separately at the various forms that child labour can take: **“a. Operations and suppliers considered to have significant risk for incidents of: i. child labour; ii. young workers exposed to hazardous work. b. Operations and suppliers considered to have significant risk for incidents of child labour either in terms of: i. type of operation (such as manufacturing plant) and supplier; ii. countries or geographic areas with operations and suppliers considered at risk.”** Many companies already report on this indicator, and it is more specific than most other indicators that aim at measuring child labour. It also includes suppliers, which is very important, because risks for child labour are significantly higher outside the EU. We did not include the last part of indicator 408-1 (“c. Measures taken by the organisation in the reporting period intended to contribute to the effective abolition of child labour”), since our criteria for indicators requires the form of a metric and comparability.

Refining the indicator: We suggest dividing the GRI indicator into two indicators, one on “operations considered to have significant risk...” and one on “suppliers considered to have significant risk”, to ensure that companies reporting on child labour put at least as much effort into the risk analysis for their supply chain as they do into the analysis for their own operations.

Training concerning the prohibition of child labour: An additional indicator we suggest for the prohibitions of child labour and of forced labour is the KnowTheChain indicator **“The company: (2) trains its first-tier suppliers on risks and policies that address forced labour and human trafficking and discloses the percentage of first-tier suppliers trained”**.⁸² This indicator could have a positive steering effect on companies, however its binary metric (yes/no) makes it unsuitable as a KPI.

Refining the indicator: We therefore suggest changing the indicator slightly so that it can be adopted as a KPI: **“Percentage of first-tier suppliers trained on risks of the various forms of child labour (e.g. young workers exposed to hazardous work, worst forms of child labour) in the last two years”**.

Prohibition of forced labour

Significant risk of forced labour: It was almost as difficult to identify strong indicators on the prohibition of forced labour as it was in the case of child labour. In the end, we decided to suggest the GRI indicator for this topic as well, and for the same reasons (see above). GRI indicator 409-1: **“a. Operations and suppliers considered to have significant risk for incidents of forced or compulsory labour either in terms of: i. type of operation (such as manufacturing plant) and supplier; ii. countries or geographic areas with operations and suppliers considered at risk.”** To be consistent in our approach, in this case, too, we refrained from including the second part of the indicator, which requires a narrative (“b. Measures taken by the organisation in the reporting period intended to contribute to the elimination of all forms of forced or compulsory labour.”).

Refining the indicator: As we did for child labour, we propose to divide the indicator into two, so that risks in the supply chain are measured separately.

Training concerning the prohibition: see above, on **“Training concerning the prohibition of child labour”**

⁸² <https://knowthechain.org/benchmark-methodology/>

Refining the indicator: see above on child labour. To make the indicator usable as a KPI, it can be adapted: **“Percentage of first-tier suppliers trained on risks of forced labour in the last two years.”**

We also considered the inclusion of an additional indicator on forced labour (which could be adapted to apply to the worst forms of child labour). The KnowTheChain indicator “The company integrates ... the elimination of forced labour into supplier contracts”⁸³ measures the prevention dimension. While it can easily be turned into a performance indicator (“Percentage of supplier contracts that include the elimination of forced labour”), the informative value of this indicator is questionable. On the one hand, there is global consensus on the illegality of forced labour, so we can expect all contracts to adhere to this international norm. On the other hand, if companies explicitly formulate this prohibition and respective sanctions in contracts with other companies, this may increase compliance with the prohibition of forced labour.

6.3 Proposed indicators as Key Performance Indicators (KPIs)

In what follows, we will examine whether and how the selected indicators lend themselves for use as KPIs in the management of companies.

Definition: Key Performance Indicator⁸⁴

Term: Term used in business administration for general indicators relating to the success, performance or utilisation of capacity of an enterprise, of its individual organisational units or of a machine.

Purpose: Because of their bearing on performance, KPIs are used by management and controlling to control company processes, individual projects or departments and to evaluate them accordingly for progress. Depending on the perspective adopted (e.g. internal accounting, customers or management), various variables can be used as KPIs.

Selecting the indicators that are of relevance for the respective company is only a first step. It is also necessary to set target values for the indicators that are appropriate for the company. In principle, the indicators best suited for (sensitive) controlling are those with a multi-level metric. They answer the questions: “In what direction are we moving?” and “How far are we from our goal?” Purely qualitative or binary indicators cannot be transformed into multi-level metrics and are not suitable as KPIs.

However, binary indicators whose value depends on the fulfilment of a set of requirements can be converted into multi-metric indicators. For example, the initially binary indicator “There is a risk analysis on human rights issues that is no more than one year old” can potentially be differentiated into a multi-level indicator: “How many of the indicator requirements (listed above at the end of section 6.1) are met?” As Table 5 (below) makes clear, most of the indicators that we selected are suitable for use as KPIs, though some must first be converted into indicators with a multi-level metric (see asterisks in the second column).

⁸³ KnowTheChain, Full Benchmark Methodology, Version 3 (August 2019), Indicator 3.3. <https://knowthechain.org/benchmark-methodology/>

⁸⁴ Gabler Wirtschaftslexikon, Online. <https://wirtschaftslexikon.gabler.de/definition/key-performance-indicator-kpi-52670> (authors' translation).

Table 5: Suitability of proposed indicators as KPIs

Indicator	Suitable as KPI
General governance	
Responsibility within the executive team The company identifies who within the senior executive team has operational responsibility for ensuring human rights are respected.	no
Risk analysis	
Annual risk analysis There is a risk analysis on human rights issues that is no more than one year old.	yes*
Supplier mapping The company maps its suppliers.	yes*
Prevention	
Assessment of supplier performance Does the company assess supplier performance against its own human rights commitments, as applicable, as part of the process for selecting new suppliers? AND If yes, what percentage of new suppliers (in the last reporting period) were assessed in this way ...?	yes*
Stakeholder engagement In the last three years, the company has engaged relevant stakeholders by providing at least two examples of engagements on forced labour and human trafficking with stakeholders such as policy makers, workers' rights organisations, or local NGOs in countries in which its first-tier suppliers ... operate.	no
Remedy	
Assessment of grievance mechanism(s) Does the company assess the effectiveness of its grievance mechanism(s) against the criteria in Principle 31 of the UNGPs (that is, whether the mechanism(s) is legitimate, accessible, predictable, equitable, transparent, and compatible with human rights)?	yes*
Prohibition of discrimination against women	
Wage disparities Unadjusted gender pay gap	yes
Distribution of power Percentage of women within the organisation's governance bodies	yes
Freedom of association	
Collective bargaining agreements Provide the percentage of employees covered by collective bargaining agreements for all locations in the company's direct operations	yes

Indicator	Suitable as KPI
Alternative worker participation Alternative worker participation in countries with severe legal limitations	yes*
Prohibition of child labour	
Significant risk of child labour a. Operations and suppliers considered to have significant risk for incidents of: i. child labour; ii. young workers exposed to hazardous work. b. Operations and suppliers considered to have significant risk for incidents of child labour either in terms of: i. type of operation (such as manufacturing plant) and supplier; ii. countries or geographic areas with operations and suppliers considered at risk.	yes*
Prohibition of forced labour	
Significant risk of forced labour Operations and suppliers considered to have significant risk for incidents of forced or compulsory labour either in terms of: i. type of operation (such as manufacturing plant) and supplier; ii. countries or geographic areas with operations and suppliers considered at risk.	yes*
Training concerning prohibition of forced labour The company trains its first-tier suppliers on risks and policies that address forced labour and human trafficking and discloses the percentage of first-tier suppliers trained	yes*

Nota bene: The asterisk* indicates that the indicator has to be transformed into a multi-level indicator to be used as KPI.

6.4 Defining thresholds

Companies have to define threshold values for their KPIs, meaning values which a company must reach, in order to meet the goal whose fulfilment the indicator monitors. In principle, each company could define its own threshold values initially, unless specified otherwise. For the financial sector however, it would be helpful to establish generally accepted threshold values for the indicators, in order to provide a basis upon which investors could make (legally) secure decisions with regard to the companies or economic activities to be financed.

However, **generally accepted or standardised threshold values are not yet available for almost any sustainability topic**. For this reason, the EU Commission has begun to define threshold values within the framework of the extensive taxonomy process, specifically threshold values determining whether an economic activity can be considered sustainable. There are now several sets of recommendations for these thresholds available, some more well developed than others, **but these are only for environmental topics**. There are no generally accepted threshold values for social issues, such as human rights issues. There are several reasons for this, for instance, the fact that for many of these issues there are no generally accepted indicators and that some of those human rights indicators that are in use, are not yet sufficiently well developed. This lack of threshold values for human rights issues applies even with respect to the approaches we examined in section 4. This is due in part to the fact that the aim of most of these approaches is to arrive at an overall assessment of companies (e.g. by

calculating a score based on weighted indicator values) rather than applying minimum standards at the level of human rights impacts or of human rights due diligence processes.⁸⁵

Thus, the endeavour to establish "generally accepted threshold values for human rights" is very much in its infancy and the establishment will not be easy. Thus far, we have been able to make only a very limited contribution within the framework of this project, e.g. see our refinement option for the indicator "unadjusted gender pay gap" in section 6.2. The development of comprehensive proposals for threshold values for the proposed human rights indicators is not feasible at this time.

7 Matching the Selected Indicators with the Requirements of the Broader Regulatory Framework

In the following, we will discuss in detail how the selected indicators can be related to the various European laws and legislative projects described in section 2.

7.1 Corporate Sustainability Reporting Directive (CSRD)

Among other measures, the proposed CSRD would introduce mandatory European reporting standards, which have yet to be developed. If this proposal is adopted, the first core standards will have to be adopted by no later than 31 October 2022. These will have to specify, at a minimum, the information that companies should report to serve the needs of the financial market participants subject to SFDR disclosure requirements. Standards specifying "complementary information that companies should report" as well as "information specific to the sector in which a company operates" are to be adopted by 31 October 2023. The requirements for these standards regarding social factors can be found in Art. 19b of the directive as outlined in section 2.2.

The Commission mandated the European Financial Reporting Advisory Group (EFRAG) to develop draft standards, incorporating the expertise of relevant stakeholders. The EFRAG Project Taskforce on European Sustainability Reporting Standards put forth its initial take on the future standards early September 2021 in a working paper entitled "Climate Standard Prototype".⁸⁶ The prototype presented is designed to take into account both the Taxonomy Regulation and the SFDR as well as ensure compatibility with other international initiatives (i.e. GRI).

Since we proceeded in a similar way in our project, it can be assumed that the use of the indicators on human and labour rights that we have selected in the future European standards would be unproblematic.

7.2 Taxonomy Regulation

As we noted in section 2.3, human and labour rights are mentioned only once in the operative part of the Taxonomy Regulation, in Article 18, which sets out minimum safeguards. Article 18 does not mention indicators, however. What it does provide for is the implementation of procedures ensuring alignment with "the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights, including the fundamental principles and rights contained in the eight core conventions set out in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and in the International Bill of Human Rights." As these documents also guided the

⁸⁵ See Phung, Sara / Utlu, Deniz (2020): Human rights in the palm oil sector. Berlin: German Institute for Human Rights, p. 42: "In contrast to social and ecological impacts for which threshold values can be calculated, human rights are not scalable. The HRIA, the recording of adverse impacts on human rights, always involves a legal assessment, i.e., it checks whether the constituent elements of legal norms are fulfilled. Compared to pollutants (for whose emission a threshold value can be set which should not be exceeded, but where a falling below it is possible and ultimately necessary for production) human rights are hardly quantifiable, and their violation is not permissible in any form or to any extent."

⁸⁶ <https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FsiteAssets%2FEFRAG%2520PTF-ESRS%2520Climate%2520standard%2520prototype%2520working%2520paper.pdf>

selection of our indicators, the indicators should, in principle, fit within the framework provided by the Taxonomy Regulation.

7.3 Social Taxonomy

At the time of writing, the Platform on Sustainable Finance has not yet published its final report on the social taxonomy. Therefore, we must base our assessment of compatibility on the Social Taxonomy Draft Report, released in July 2021. Judging from this report, it seems likely that the social taxonomy proposed will be similar in structure to the existing Taxonomy Regulation. However, there are likely to be some significant differences between the two taxonomies as well: The existing taxonomy refers exclusively to economic activities, but the social taxonomy will have to reflect the fact that social issues can very frequently only be identified at the company level. Another difference will lie in the social taxonomy's orientation towards "internationally agreed authoritative norms and principles" rather than "natural science and international frameworks such as the Paris Agreement". It is likely that the norms and principles used for the new social taxonomy will be the same as those used for the minimum safeguards in the Taxonomy Regulation.

The Platform's draft report also speaks of two dimensions of a social taxonomy:

- a horizontal dimension, representing implementation of "respect and support for human rights" and
- a vertical dimension, which is concerned with "products and services essential for adequate living conditions".

It also posits that "the vertical dimension might be more focused on substantial contribution, whereas the horizontal dimension might play a more prominent role as 'do no significant harm'".⁸⁷

The indicators we have selected are part of the horizontal dimension and fit seamlessly into the framework proposed by the draft report, as they are exclusively based on the norms and principles used in that framework.

In addition to discussing the social taxonomy's relationship to the existing Taxonomy Regulation, the report addresses its relationship to the SFDR. In this context, the draft report refers to a contribution that a social taxonomy could make to the disclosure obligations of financial market participants:

"As work on the social taxonomy is still progressing, the present social reporting requirements in the SFDR might not be sufficient once the social taxonomy has been fully developed. For example, 'involvement in violations of the UNGC [UN Global Compact] principles or OECD Guidelines for Multinational Enterprises' and 'involvement in violations of the UNGC principles' (SFRD PAI Annex 1) are open to interpretation and need to be more specific in order become criteria in a social taxonomy with the necessary accuracy. The same is true for the indicators and policies to monitor: (i) compliance with the UNGC principles or OECD Guidelines for multinational enterprises or (ii) grievance-/complaint-handling mechanisms to address violations of the UNGC principles or OECD Guidelines. (SFRD PAI Annex 1)."

The indicators we have selected and refined can and should make a similar contribution to improving the corresponding disclosure requirements.

1.1 Sustainable Finance Disclosure Regulation (SFRD)

In the SFDR, indicators come into play in the Regulatory Technical Standards (RTS) prepared by the ESAs and adopted by the EU Commission as delegated acts to the SFDR. For example, Annex 1 of the

⁸⁷ Social Taxonomy Draft Report, op.cit., p. 27.

Final Report on draft RTS specifies mandatory “principal adverse impact” (PAI) indicators on human and labour rights. In particular, these are:

- Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises;
- Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises;
- Average unadjusted gender pay gap of investee companies;
- Average ratio of female to male board members in investee companies.

These four indicators largely correspond to indicators that we are proposing. Even the explicit reference to the UN Global Compact does not pose too much of an issue, as the UNGPs “reinforce the Global Compact and provide an authoritative framework for participants on the policies and processes they should implement in order to ensure that they meet their responsibility to respect human rights.”⁸⁸

Moreover, the indicators we have selected are not inconsistent with the additional indicators in Annex 1 of the RTS, but rather aim in the same direction or go into even more detail.

7.4 Planned Legislation on Sustainable Corporate Governance

Since the Commission's proposals on sustainable corporate governance/due diligence are not yet available at the time of writing, we have not been able to compare our proposed indicators with the Commission's proposals. However, we assume that the planned legislative proposals will fit into the existing frameworks and therefore see no obstacles to our indicators also being used in the area of sustainable corporate governance/due diligence.

8 Results and recommendations

None of the existing indicator frameworks that we have examined is sufficient on its own to be used as a measurement system for minimum standards for human rights. However, our compilation of indicators, which builds on existing frameworks, appears to be both feasible and compatible with the current EU legislation and guidelines around sustainable finance and sustainable corporate governance/reporting, and at the same time, practicable. The link to the GRI, which is becoming more important at the EU level, seems to be feasible in principle, at least for the processes and human rights considered here.

Our proposed indicators refer to the company level and not to the level of economic activities (the primary focus of the current Taxonomy Regulation). This is mainly because human rights are universal and the responsibility to respect them applies to each company as a whole. Another advantage of indicators that refer to the company level is that they can, in principle, also be used as KPIs for corporate management purposes. However, acknowledging the need for compatibility with the Taxonomy Regulation, we have identified those of our indicators for which a reference to the level of economic activities seems possible.

We recommend that indicators should cover both the reporting company and its supply chain. We further recommend considering a stepwise introduction due to the likelihood of data availability problems. Specifically, we propose a clearly time-limited first stage, during which the reporting company may, if necessary, reduce the depth to which its reporting extends into its supply chain. Even during

⁸⁸ UN Global Compact (2011, updated 2014): The UN Guiding Principles on Business and Human Rights: Relationship to UN Global Compact Commitments, p. 2. Available at <https://www.unglobalcompact.org/library/1461>

such a first stage however, companies must not, under any circumstances, be exempted from their responsibility to conduct a human rights risk analysis extending to risks beyond tier 1 suppliers.

In our view, through refinements and modifications, many existing indicators could potentially be improved. Where we have selected indicators that we believe to fall into this category, we have made proposals for refining them. Methodologically, we distinguish three categories of these refinements: those involving the definition of a general threshold, those extending the indicator's coverage of the supply chain down to tier-n, and those raising the quality required of the action the indicator measures (e.g. more transparency, participation).

There is a long way to go to establish "generally accepted threshold values for human rights". Thus far, we have been able to make only a very limited contribution within the framework of this project, as for example in the refinement for the indicator "unadjusted gender pay gap" in section 6.2. For more comprehensive proposals for threshold values for human rights indicators, further research is needed.

We also recommend that more research be conducted to develop and define standardised procedures that could be used to combine internal (company) and external data (for example from NGOs or the UN human rights protection system) in their assessment of risks to or compliance with human and labour rights. To our knowledge, there are no standardised processes for this. Rating agencies may employ artificial intelligence to find "public controversies" about a company's activities and impacts, but this does not address the key problem of how companies can integrate external information on human rights impacts into their procedures, processes and actions. Since this is also a major bone of political contention, we recommend that more research be done with the aim of proposing a standardised procedure for the incorporation of external data in such assessments.

Our final recommendation relates to the scope of the indicators, and ultimately, to their function and use. We have endeavoured to suggest only a few exemplary "signpost" indicators that capture key human rights outcomes that matter to people as well as related due diligence processes. Our aim was not to draw up a comprehensive set of compliance indicators since this work has already been done elsewhere. Most indicators we suggest would also lend themselves for use as KPIs for companies. Such a limited set of indicators can serve as signposts on the road to more sustainability, which can have a steering effect.

Thus, with respect to the different functions of social sustainability indicators we outlined in section 1, the proposals set out in this paper clearly fall into the realm of the defining minimum standards in the meaning of the EU Disclosure Regulation or the minimum safeguards referred to in the Taxonomy Regulation. Our proposal does not fulfil the other functions we outlined above, i.e. the description of the change in sustainability impacts and/or compliance with social sustainability standards. This does not imply that further minimum standard or signpost indicators should not be developed for other human rights and labour rights, the use of which could be triggered by the identification of significant risks in the risk analyses of companies (e.g. relating to wage levels or to health and safety at work).

Last but not least: Despite its importance as signposts, adherence with "minimum standards" is hardly a vision or a mission likely to inspire all the steps necessary towards positive change. Therefore, in the second stage of our project, we will work on indicators that could be used to document a positive, substantial contribution to the achievement of social goals.

9 Annexes

9.1 Abbreviations

CHRB: Corporate Human Rights Benchmark 12
 CSR: corporate social responsibility 5
 CSRD: Corporate Sustainability Reporting Directive 7
 DJSI: Dow Jones Sustainability Index 22
 DNSH: do no significant harm 5
 EFRAG: European Financial Reporting Advisory Group 45
 EHS: Environmental, Health, and Safety 21
 ESA: European Supervisory Authorities 10
 ESG: environmental, social and governance 7
 GRI: Global Reporting Initiative 17
 IASS: Institute For Advanced Sustainability Studies 25
 ICCPR: International Covenant on Civil and Political Rights 13
 ICESCR: International Covenant on Economic, Social and Cultural Rights 13
 IFC: International Finance Corporation 21

ISS: Institutional Shareholder Services group of companies 22
 LkSG: Lieferkettensorgfaltspflichtengesetz 24
 NFRD: Non-Financial Reporting Directive 9
 OHCHR: Office of the High Commissioner for Human Rights 14
 PAI: Principal Adverse Impacts 10
 RTS: Regulatory Technical Standard 10
 SASB: Sustainability Accounting Standards Board 17
 SDGs: Sustainable Development Goals 5
 SFDR: Sustainable Finance Disclosure Regulation 4, 5, 7
 UNGC: UN Global Compact 46
 UNGPRF: UN Guiding Principles Reporting Framework 16
 UNGPs: UN Guiding Principles on Business and Human Rights 6
 WDI: Workforce Disclosure Initiative 17

9.2 Additional approaches consulted

Table 6: **Overview: Approaches we took into account for this study, but decided not to introduce in the text**

Framework/Approach	Main purpose	Why disregarded for in-depth analysis
“Measuring Stakeholder Capitalism” by World Economic Forum (WEF)	Collection of indicators especially for KPIs	Our approach started beyond KPIs
FairTrade	Consumer label, independently audited	Data are dependent on reporting and on-site visits by auditors
Green Button (“Grüner Knopf”)	Government-run certification label for sustainable textiles, based on existing labels	Sector-specific only
ISO 26000	Guidance for CSR	Has no set of indicators
KnowTheChain	Company rating on supply chain management with particular focus on forced labour	Binary indicators, heavy on efforts

Framework/Approach	Main purpose	Why disregarded for in-depth analysis
Oxfam Supermarket Scorecard	Supply Chain in the food sector	Sector-specific only
Sustainability Accounting Standards Board (SASB)	Sector specific sets of sustainability indicators	Only sector specific indicators

9.3 Experts Consulted in October 2021

Name of Expert	Organisation
Karl-Ludwig Brockmann	Kreditanstalt für Wiederaufbau (KfW)
Susanne Gasde	Bundesministerium für Arbeit und Soziales (BMAS, VIb3), Commissioning authority
Alexander Görne-Zagel	Bundesministerium für Arbeit und Soziales (BMAS, VIb3), Commissioning authority
Cornelia Heydenreich	Germanwatch
Nadine Hönighaus	econsense Forum Nachhaltige Entwicklung der Deutschen Wirtschaft e. V.
Antje Schneeweiß	Arbeitskreis kirchlicher Investoren (AKI) and Platform on Sustainable Finance
Sigurt Vitols	Wissenschaftszentrum Berlin für Sozialforschung (WZB)
Volker Weber	Forum Nachhaltige Geldanlagen (FNG)
Annalisa Werner-Bugiel	Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ)
Michael Windfuhr	Member of the UN Committee on Economic, Social and Cultural Rights / Vice director, German Institute for Human Rights

About the institutions and the authors

The **German Institute for Human Rights** is Germany's independent National Human Rights Institution (Section 1 of the Act on the Legal Status and Mandate of the German Institute for Human Rights, DIMR-Gesetz). It strives to ensure that Germany respects and promotes human rights domestically and in its international relations. The Institute also supports and monitors the implementation of the UN Convention on the Rights of Persons with Disabilities and the UN Convention on the Rights of the Child and has established Monitoring Mechanisms for these purposes.

The **Fair Finance Institute** (FaFin) was founded in 2016, and is independent of the financial sector and political parties. FaFin supports policymakers, administration, citizens' initiatives, financial institutions and other organisations with services such as research, consulting, networking, organisation of events, design of transformation processes and project development. All of these services revolve around finance and sustainability. See more: www.fair-finance-institute.de.

The views expressed in this paper are attributable only to German Institute for Human Rights and the Fair Finance Institute, and not necessarily reflect the views of other institutions with which they are associated or the funders of the research.

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