CHAPTER 4
SOCIAL FACTORS

Social factors are relevant from both a business and an investment perspective and are increasingly being factored into investment analysis and investment decisions. In many cases, investors expect companies to manage these issues by using a best-in-class approach (i.e. a company is better than its peers on a number of material issues relevant to its sector: e.g. occupational health and safety or managing its impact on local communities). In other cases, a social issue can become the focus of an investable opportunity (e.g. gender equality funds). Companies are increasingly expected to engage with their stakeholders openly, transparently and responsively.

This chapter first gives an overview of various social factors and their material impact on potential investment opportunities. It then outlines the most relevant social megatrends, highlighting their relationship with business activities and investment opportunities. Descriptions are then provided of how to identify and apply material social factors, focusing on social analysis at country, sector and company levels in both developed and emerging economies. Finally, all the above-mentioned topics are practically applied in case studies.

CHAPTER 4
SOCIAL FACTORS

1 SOCIAL MEGATRENDS AND THEIR EFFECTS

4.1.1	Explain the systemic relationships and activities between business activities and social issues, including: globalisation; automation and artificial intelligence (AI); inequality and wealth creation; digital disruption, social media and access to electronic devices; changes to work, leisure time and education; changes to individual rights and responsibilities, and family structures; changing demographics, including health and longevity; urbanisation; religion.
4.1.2	Assess key 'megatrends' influencing social change in terms of potential impact on companies and their social practices: climate change; transition risk; water scarcity; pollution; mass migration; loss and/or degradation of natural resources and ecosystem services.

Investors need to note the different **social megatrends** that could have an effect on the businesses of the investee companies. This section looks at the systemic relationships between these social megatrends and business activities of the investee companies, and elaborates on the material impacts of these trends on potential investment opportunities.

What are social megatrends?

Social megatrends are long-term social changes that affect governments, societies and economies permanently over a long period of time.

The megatrends that will be described in this section are:

A. Globalisation.

B. Automation and artificial intelligence (AI).

C. Inequality and wealth creation.

D. Digital disruption, social media and access to electronic devices.

E. Changes to work, leisure time and education.

F. Changes to individual rights and responsibilities and family structures.

G. Changing demographics, including health and longevity.

H. Urbanisation.

I. Religion.

Some **environmental megatrends** have a severe social impact as well. These include:

- Climate change and transition risks.
- Water scarcity.
- Mass migration.

All of these could, in an extreme case, result in mass migration. These social megatrends will change the way we live, work, consume and perceive the world and, as such, will pose new risks or opportunities for investors. Next, we will look at each of them in further detail.

A. Globalisation

One of the biggest megatrends is the integration of local and national economies into a global (and less regulated) market economy. The growth in global interactions has increased international trade and the exchange of ideas and culture. This process is also called **globalisation**.

Globalisation is caused by a rapid increase in cross-border movement of goods, services, technology, people and capital. Depending on the viewpoint, it can be viewed as either a positive or a negative phenomenon. On the one hand, it is stated to have led to increased efficiency in the markets, resulting in wider availability of products at lower costs. However, on the other hand, it is claimed to be detrimental to social well-being due to social structural inequality.

Examples of its implications include:

- **Offshoring**. Due to the lower wages of workers in the garment industry in developing countries, clothes are now mainly produced in countries such as Vietnam, Bangladesh and China. This has led to the disappearance of the textile industry in Western countries. Offshoring also takes place in other sectors.
- **Dependency**. As US-based and Asian companies dominate the industry for mobile telephones, computers and other IT products, European countries are more dependent on these suppliers.

B. Automation and artificial intelligence (AI)

Linked to the increased economic globalisation is the trend of **automation**, which is the technology by which a process or procedure is performed with minimal human assistance. Some of the biggest advantages of automation in industry are that it is:

a. associated with faster production and lower labour costs; and
b. replaces hard, physical or monotonous work.

The largest (social) disadvantage, however, is that it displaces workers due to job replacement, as technology renders their skills or experience unnecessary. It is expected that this trend will increase due to the rise of AI.

AI is expected to have a significant effect on sectors such as:

a. healthcare;
b. automotive;
c. financial services and auditing;
d. security (including military); and
e. creative (in particular, advertising and video games).

Example

Implications for investors

The transportation industry is currently on the brink of becoming more automated, and it is expected that some jobs for drivers (of taxis, buses and lorries, for example) will disappear due to self-driving vehicles. This will be beneficial for companies that develop the best self-driving cars, but less so for traditional heavy goods vehicle (HGV) companies that do not innovate. One of the largest expected implications of this is that by automating the transport industry, major job losses will occur. One possible solution is to invest in upskilling staff to enable their transition to a more AI-enabled world. Investors should take this into account when assessing the risks of an investee company.

C. Inequality and wealth creation

The Organisation for Economic Co-operation and Development (OECD)[i] analyses trends in inequality and poverty for advanced and emerging economies. It examines the drivers of growing inequalities, such as globalisation, skill-biased technological change and changes in countries' policy approaches. It also assesses the effectiveness and efficiency of a wide range of policies, including education, labour market and social policies, in tackling poverty and promoting more inclusive growth. According to the OECD Centre for Opportunity and Equality (COPE) 2015 report, the average income of the richest 10% of the population is about nine times that of the poorest 10% across the OECD.[1] This is also called **economic** or **income inequality**.

There is increasing evidence that growing inequality affects economies and societies. Educational opportunities and social mobility may be reduced resulting in a less skilled and less healthy society with lower purchasing power among the lower and middle classes. This limits total economic growth.

An issue related to the topic of inequality is corporate tax strategies and whether companies are too aggressive in their tax optimisation strategies. As regulators put more focus on this issue, some companies (for instance, in the technology sector) have had to pay huge fines. Others will need to adopt more conservative tax strategies in the future that will impact their bottom line.

D. Digital disruption, social media and access to electronic devices

Another important social trend is the rise of **digital disruption**, which is the change that occurs when new digital technologies and business models affect the value proposition of existing goods and services. This trend is closely related to the increased automation and rise of AI discussed in **sub-section B** above.

Some exemplary cases of disrupting companies include Amazon, Uber and Airbnb. They have managed to enter an existing market, but with different and more digital business approaches than their competitors, and effectively challenged existing business models. There are opportunities for investors who are about to invest, preferably at an early stage, in such companies, although such investments can carry a high-risk profile.

A related issue, as a consequence of digital technologies, is the huge amount of data that can be collected, stored and processed (**big data**), and the ownership or use of the data (including data privacy, monetisation of data, etc.).

Big data has many opportunities including more personalised services, products and (health) treatments. However, controversies have arisen because some data is being used and sold in more extreme or socially unacceptable ways. Examples include social media companies, such as Facebook, Twitter and LinkedIn (e.g. a political or marketing campaign, as seen in the case of Cambridge Analytica that allegedly used Facebook data to try to manipulate elections.

Due to these types of scandals, there is a debate around the growing need for regulating the industry. This can affect the profitability of these companies and should be considered by investors.

Finally, electronic devices are now found everywhere. Almost everyone, both in developed and emerging economies, owns a mobile phone (in many cases a smartphone) and a tablet. The **Internet of Things (IoT)** is the next frontier, where semi-intelligent appliances (called 'embedded systems') communicate directly with each other and with the internet, and make autonomous decisions.

For investors, disruption represents both risks and opportunities. Analysts need to take a forward-looking approach to determine which sectors and companies will thrive and which will struggle in a digital society.

i The OECD is a unique forum where the governments of 37 democracies with market economies work with each other, as well as with more than 100 non-member economies to promote economic growth, prosperity, and sustainable development.

E. Changes to work, leisure time and education

The way we spend our lives has changed dramatically over the last few decades. Various measures have emerged that aim to provide a broad sense of the state of our societies and of how people's lives are evolving. The OECD examines issues of well-being in its *Better Life Index*, which rates a wide range of developed and emerging economies in a number of areas including life satisfaction.

Most countries in the developed world have seen average hours worked decrease significantly. In the UK, the average annual hours actually worked per person in employment decreased from 1,775 hours in 1970 to 1,538 in 2019.[2] This is partially caused by increases in automation and part-time employment.

New technologies increasingly enable workers to be connected to their work from remote locations. This creates an opportunity for employers and employees to adopt more flexible working patterns. However, the constant connection also makes the notion of work–life balance more elusive and can cause stress-related illnesses.

Whilst the number of average working hours has decreased, the average level of education has increased. The percentage of employees with a higher education degree has grown over the last few decades. Yet, some sectors suffer from a lack of qualified employees and are facing an intense 'war on talent' to attract the most skilled workers.

Investors who are assessing companies that rely heavily on employees as a key asset need to pay attention to those companies' human capital management strategies. They should evaluate how the companies are coping with these structural changes in the labour market.

F. Changes to individual rights and responsibilities and family structures

In recent decades, not only has the way we divide work and leisure time changed, but also the role and importance of family (especially in developed countries). Individuals are also less reliant on the structure of the family for (economic and physical) security.

The workforce has become more diverse: more women are now entering the labour market, which has provided women with more financial independence. However, in comparison to men, women are still more likely to become and remain unemployed, have fewer chances to participate in the labour force and – when they do secure employment – often have to accept lower quality jobs. Women also face wage gaps in comparison to men. To improve gender equality, a number of different initiatives have been created, and there is growing evidence that a more diverse workforce leads to better (financial) results for the company. Some best-in-class funds and impact investors take diversity (gender and other types of diversity) into account in their risk analysis and stock selection.

G. Changing demographics, including health and longevity

Due to improvements made in healthcare and changes in lifestyle, life expectancy is increasing. For example, female and male life expectancy (from birth) in the UK increased by two years between 2002 and 2010 (to 78.4 years for men and 82.5 for women).[3] As of 2019, this stood at 79.4 for men and 83 for women.

This increased life expectancy, combined with a falling birth rate, have caused many developed countries' populations to age: the overall median age rose from 28 in 1950 to 41 in 2015, and is forecast to rise to 45 by 2050.[4]

An ageing population has substantial effects on society:

1. The ratio between the active and the inactive part of the workforce drops, impacting national tax revenues and challenging pension systems, including an impact on pension pots that need to last longer.
2. Older people have higher accumulated savings per person than younger people, but spend less on consumer goods, which is a business risk for some industries. In some categories, such as healthcare, expenditure rises sharply when populations age.

Case study

The impact of the global COVID-19 pandemic

The COVID-19 pandemic is one of the largest global health, economic and social crises in recent history. Although it affects every population segment, it is particularly detrimental to those in the most vulnerable situations, including people living in poverty, older people, people with disabilities, adolescents and the indigenous peoples. Health and economic impacts are being felt disproportionately by poor people, particularly among the homeless as they are unable to safely shelter, and are therefore highly exposed to the dangers of the virus. People without access to running water, refugees, migrants or displaced people also stand to suffer disproportionately both from the pandemic and its aftermath. This could include limited movement, fewer employment opportunities and increased xenophobia.[5]

Other impacts include:

- educational: due to the resulting widespread closures of schools and universities.
- increased inequality: it has been found that low-income individuals are more likely to contract COVID-19 and die from it. This is likely because poorer families are more likely to live in crowded housing and work in low-skilled jobs, such as supermarkets and elderly care, which are deemed essential during the crisis. In the USA, millions of low-income people may lack access to healthcare due to being un- or underinsured.
- psychological: there is a concern for a potential spike in suicides, exacerbated by social isolation due to quarantining and social distancing guidelines, fear, unemployment and financial factors.
- reshoring: in which companies and countries decide to reduce supply chain risk by relocating production of strategic importance back to high-wage countries.[6]
- work environment: a changing demand for office buildings and increased working from home.[7]

H. Urbanisation

The places where people live also change. Globally, the population has been, increasingly shifting from rural to urban areas. In the 1950s, approximately 30% of the world population lived in an urban environment. This is expected to increase to 68% by 2050.

This shift can have different kinds of implications for societies, including:

- **Economic**: dramatic increases and changes in costs, often pricing the local working class out of the market.
- **Environmental**: the existence of 'urban heat islands', where urban areas produce and retain heat, becomes a growing concern.
- **Social**: increased mortality from non-communicable diseases associated with lifestyle, including cancer and heart disease. Residents in poor urban areas (such as slums) also suffer "disproportionately from disease, injury, premature death, and the combination of ill-health and poverty entrenches disadvantage over time."[8] See end note comment.

These societal implications provide business opportunities because of the growing need for infrastructure development, but also require companies to address social and environmental issues related to urban living (for instance, pollution and waste management systems).

I. Religion

As a social factor, the changing religious landscape around the world has consequences for consumer preferences. Religion-based politics and conflicts can also have a profound impact on specific local economies.

All investors (faith-based or not) should therefore judge if investee companies take these changes into account from a financial perspective. A distinction should be made between exercise of religion as a social factor and faith-based investing.

Faith-based investors aim to invest their money in line with a specific named faith, and the two most common types are:

- **Christian investors**, who aim to align their investment principles to the Bible, which means that they may refrain from investing in certain companies, whose activities or processes are considered to not be aligned with Christian values.
- **Islamic investors**, who look to invest in line with Shariah principles, also would not invest in companies that profit from alcohol, pornography or gambling, and would exclude companies involved in pork. They will not own investments that pay interest or invest in firms that earn a substantial part of their revenue from interest.

Norms-based exclusion has been one of the first environmental, social, and governance (ESG) investing instruments and many of these first movers were faith-based investors. The Church of England, the Church Investors Group, the Interfaith Center on Corporate Responsibility and other faith-based investors continue to play an important role in ESG advocacy and company engagement, and in submitting shareholder resolutions.

Environmental megatrends with social impact

Climate change and transition risk

Climate change and the neighbouring effect of **transition risk** has social implications. A widespread call is that the transition should be a ‘just’ transition. In the process of adjusting to an economy that does not adversely affect the climate, sectors that employ millions of workers (such as energy, coal, manufacturing, agriculture and forestry) must restructure. It is feared that the period of economic structural change will result in ordinary workers bearing the costs of the transition, leading to unemployment, poverty and exclusion for the working class.

Water scarcity

Climate change has a negative impact on the availability of fresh water. Some corporations with high water usage pose a significant threat to clean and affordable water for communities. The construction of wastewater treatment plants and reduction of groundwater over-drafting appear to be obvious solutions to the worldwide problem. However, this is not as simple as it seems:

- Wastewater treatment is highly capital intensive, so there is restricted access to this technology in some regions.
- The rapid increase in the population of many countries makes this a race that is difficult to win.
- There are enormous costs and skillsets involved in maintaining wastewater treatment plants, even if they are successfully developed.

Mass migration

The scarcity of fresh water and desertification due to climate change in several emerging countries is believed to be one of the reasons for **mass migration** streams from developing countries to developed countries where these issues are less present. Climate change might result in an increase of ‘environmental migrants’ with the most common projection being that the world will have 150 to 200 million climate change migrants by 2050.

Pollution and loss and/or degradation of natural resources and ecosystem services

Factors like pollution and land degradation can also result in stakeholder opposition, social unrest and/or migration.

Conclusion

As discussed in this section, different social megatrends provide both opportunities and risks for investors and analysts. It is therefore important to be aware of these trends and take them into account when making investment decisions.

→ *More specific information on how to apply these trends to investing can be found in Section 4. The next section, Section 2, considers key social issues and business activities.*

2 KEY SOCIAL ISSUES AND BUSINESS ACTIVITIES

4.1.3 Explain key social concepts from an evidence-based perspective: human capital: development, employment standards, and health and safety; product liability/consumer protection: safety, quality, health and demographic risks and data privacy and security; stakeholder opposition/controversial sourcing; social opportunities: access to communications, finance and health and nutrition; social and news media; animal welfare and microbial resistance.

Where should investors start when implementing social factors in their investment decision?

1. A good starting point is to determine which social factors are most controversial or financially material in each industry.
2. As a next step, investors can assess how exposed certain companies are to these sector-specific social factors and if and how the company manages these risks. This might depend on their business models or on the nature and geographical location of their business operations.
3. Finally, where relevant, investors should assess critical social factors in the supply chain.

It should be noted that the social elements that are considered to have the largest financial materiality depend on specific aspects mostly related to their field of industry. The Sustainability Accounting Standards Board (SASB) framework gives guidance on the financially material topics within industries.

Social factors can also be categorised between those impacting external stakeholders (such as customers, local communities and governments) and groups of internal stakeholders (such as the company's employees). See Table 4.1 for examples of social factors that may affect these stakeholders.

Table 4.1: **EXAMPLES OF SOCIAL FACTORS THAT IMPACT INTERNAL AND EXTERNAL STAKEHOLDERS**

SOCIAL FACTORS THAT IMPACT **INTERNAL** STAKEHOLDERS	SOCIAL FACTORS THAT IMPACT **EXTERNAL** STAKEHOLDERS
Human capital development.	Stakeholder opposition and controversial sourcing.
Working conditions, health and safety.	Product liability and consumer protection.
Human rights.	Social opportunities.
Employment standards and labour rights.	Animal welfare and antimicrobial resistance.

This section will provide an overview of the key social factors that can be of interest for investors.

Internal social factors

A. Human capital development

A company's long-term strategy should take into account the development of its workforce.

This ensures that the workforce:

1. is well equipped for performing its tasks and responsibilities;
2. operates under the latest standards and regulations; and
3. remains motivated.

Good human capital management generates a culture and behaviours where the workforce is positively disposed and productive, rather than taking excessive risks or harming customer relationships. It enhances social inclusion, active citizenship and personal development, but also increases competitiveness and employability.

For an investor the following business requirements could be assessed when analysing a company on human capital development. Questions should include:

Does the business…

- identify required skills or competencies to deliver on its strategy, and gaps within the company and areas of skill shortage in the industry ('war on talent')?
- develop an attractive value proposition to attract talent as well as ways to develop competencies of internal employees to retain talent?
- develop measures to monitor its investment in human capital development (for instance, training hours, coaching, etc.) and its return on investment (key performance indicators (KPIs), such as employee engagement, turnover and ability to fill vacancies with internal candidates)?

B. Working conditions, health and safety

One of the most widely felt social factors that has been incorporated by institutional investors is health and safety. Its focus is on protecting the workforce from accidents and fatalities. A specific subtopic is occupational health, which is about limiting workforce exposures to minimise the risk of occupational diseases (such as silicosis) or injury (for example, vibration white finger).

An example of a health and safety factor can be seen in the Rana Plaza disaster, examined in the case study below.

Case study

Rana Plaza disaster

On 24 April 2013, a structural failure resulted in the collapse of the Rana Plaza, an eight-story commercial building, in Dhaka, Bangladesh. This resulted in a death toll of 1,134 people. Approximately 2,500 injured people were rescued from the building alive. It is considered the deadliest structural failure accident in modern human history. The building's owners ignored warnings to avoid using the building after cracks had appeared the day before. Garment workers were ordered to return the following day, and the building collapsed during the morning rush-hour.

The high death toll of this disaster is at least partially caused by managers decision by managers to send workers back into the factories. This was claimed to be due to the pressure to complete orders for buyers on time. Some have argued that the demand for fast fashion and low-cost clothing motivated minimal oversight by clothing brands, and that collectively organised trade unions could have responded to the pressure of management.

cont'd...

Case study

...

This massive tragedy drew attention to pervasive human rights abuses in the garment sector, as well as the failure of the Bangladesh government and corporations sourcing there to create workplaces that respect and protect the lives of workers, and mitigate the risk to companies and their investors. As a result of the Rana Plaza disaster, over 175 brands, such as adidas, Marks and Spencer and H&M, have signed the Bangladesh Accord,[9] where they pledge to commit to higher fire and health and safety standards in Bangladesh.

Led by the Interfaith Center on Corporate Responsibility, the Bangladesh Investor initiative, an investor coalition comprising 250 institutional investors and representing over US$4.5 trillion (£3.2tn) in assets under management, was formed in May 2013 to urge a strong corporate response to Rana Plaza including participation in the Accord.[10]

Health and safety performance indicators should be assessed for both permanent employees and contractors. For example, several oil and gas companies report only fatalities of their permanent employees, and not of their contractors. Given the volume of contracted workers in this sector, it is critical for investors to understand if the company is providing a safe place to work. This is particularly pertinent in emerging market extractive companies.

Besides minimising accidents and fatalities, health and safety has evolved a broader concept of working conditions that promotes employee well-being, as seen for instance through ergonomic workplaces and flexible working hours. The focus is also increasingly on mental health (such as burn out risks in the finance industry) and other employee benefits to promote their well-being outside of the workplace (including medical checks, gym membership sponsoring and training programmes on nutrition-related risks). Another example is “financial wellness”, which is a fairly well-established term among US employers and HR departments. Assistance with personal financial issues like personal budgeting and retirement planning/saving leads to less distracted and less stressed workers.

C. Human rights

Another important social factor for investment professionals is **human rights.** They are rights inherent to all human beings, regardless of:

1. race;
2. sex;
3. nationality;
4. ethnicity;
5. language;
6. religion; or
7. any other status.

Human rights include, for example:

1. the right to life and liberty;
2. freedom from slavery and torture;
3. freedom of opinion and expression; and
4. the right to work and education.

Everyone is entitled to these rights, without discrimination.

The most important foundation for international human rights is the **Universal Declaration of Human Rights (UDHR)**. This declaration was proclaimed by the United Nations General Assembly on 10 December 1948 by General Assembly resolution 217A and is a common standard of achievements for all peoples and all nations.[11]

Human rights violations usually occur deep within supply chains. Companies to which major investors most often have direct exposure, and even their first and second tier suppliers, are less likely to be directly implicated in such practices. For example, in the garment industry, it is more likely that human rights violations will take place in emerging countries where clothing is produced, rather than at the stores where the clothing is being sold. However, both clients and governments expect companies to take responsibility for activities within their supply chain.

UN Guiding Principles and OECD Guidelines for Multinational Enterprises

There are many different guidelines with respect to human rights. However, two have a direct effect on companies, and investors:

- The **United Nations Guiding Principles on Business and Human Rights (UNGPs)**; and
- The **OECD Guidelines for Multinational Enterprises (MNEs)**.

United Nations Guiding Principles on Business and Human Rights

The UNGPs[12] are a set of guidelines implementing the United Nations' *Protect, Respect and Remedy* framework on the issue of human rights and transnational corporations and other business enterprises. Developed by the Special Representative of the Secretary-General (SRSG) John Ruggie, these guiding principles provided the first global standard for preventing and addressing the risk of adverse impacts on human rights linked to business activity. They also continue to provide the internationally accepted framework for enhancing standards and practice regarding business and human rights.

The UNGPs encompass three pillars outlining how states and businesses should implement the framework:

1. the state duty to protect human rights;
2. the corporate responsibility to respect human rights; and
3. access to remedy for victims of business-related abuses.

OECD Guidelines for Multinational Enterprises

The OECD Guidelines for MNEs are a comprehensive set of government-backed recommendations on responsible business conduct. The governments adhering to the Guidelines aim to encourage and maximise the positive impact MNEs can make to sustainable development and enduring social progress. The Guidelines are important recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in areas such as:

1. employment and industrial relations;
2. human rights;
3. environment;
4. information disclosure;
5. combating bribery;
6. consumer interests;
7. science and technology;
8. competition; and
9. taxation.

The study, *Responsible Business Conduct for Institutional Investors*,[13] helps institutional investors implement the due diligence recommendations of the OECD Guidelines for MNEs in order to prevent or address adverse impacts related to human and labour rights, the environment and corruption in their investment portfolios.

It is important to note that these guidelines do not focus on the impact social factors can have on investments (financial materiality), but on the responsibility investors have for the adverse impacts their investments/companies can cause to society. Nowadays, many investors are convinced that they should take ESG factors into account, but these guidelines require governments and investors to adopt a so-called double materiality approach and take the (positive and negative) “social return on investments” into account.

The OECD guidelines and UNGPs are further backed by the European Union’s (EU) corporate social responsibility (CSR) strategy, its regulation on sustainability-related disclosures in the financial services sector and its taxonomy for minimum social safeguards for sustainable activities.

In the Netherlands, the government, non-governmental organisations (NGOs) and institutional investors have signed a Responsible Investment Agreement, in which investors agree to adopt this double materiality approach, follow the OECD guidelines and take responsibility to try to mitigate the negative impact of their investments.[14]

Corporate Human Rights Benchmark

The **Corporate Human Rights Benchmark (CHRB)**[15] is a collaboration led by investors and civil society organisations dedicated to creating the first open and public benchmark of corporate human rights performance.

The CHRB provides a comparative snapshot year-on-year of the largest companies on the planet, looking at the policies, processes and practices they have in place to systematise their human rights approach and how they respond to serious allegations. Initially, only companies from three industries – agricultural products, apparel and extractives – were chosen on the basis of their size and revenues. The measurement themes and indicators within the CHRB provide a truly rigorous and credible proxy measure of corporate human rights performance, which can be used by analysts and investors. The themes consist of multiple questions that are listed in the report. They are:

1. governance and policy commitments;
2. embedding respect and human rights due diligence;
3. remedies and grievance mechanisms;
4. performance – company human rights practices;
5. performance – responses to serious allegations; and
6. transparency.

D. Labour rights

Assessing how companies uphold labour rights is important for investors to gain insights into the corporate culture and the level of employee satisfaction. The most important labour rights have been summarised in **International Labour Standards**. These are aimed at promoting opportunities for women and men to obtain decent and productive work, in terms of freedom, equity, security and dignity, and are included in the fundamental conventions of the International Labour Organization (ILO). These include:

1. freedom of association and protection of the right to organise;
2. right to organise and collective bargaining;
3. forced labour and abolition of forced labour;
4. minimum age;
5. worst forms of child labour;
6. equal remuneration; and

7. discrimination (employment and occupation).

In the subsequent sections, some of these labour rights are explored in further detail.

Freedom of association and employee relations

A company operates most effectively and efficiently when the workforce is positive and productive. This ensures that the costs of turnover, absenteeism or strike actions are reduced. In order to ensure that the rights of the employees are well served, employees should have the freedom to form or join an association or a trade union, which advocates for the interests of the employees.

In some countries or industries this right is limited. For example, several companies within the retail industry are renowned for their anti-union stance. Walmart has been targeted by several international institutional investors to adopt a more pro-union stance. When freedom of association is established, often other labour rights violations, such as forced labour, child labour and discrimination, are better safeguarded.

The lack of freedom of association can occur directly at the level of the investee companies, but is more likely to be an issue in companies' supply chains. By engaging with their investee companies on this topic, investors can press for better industrial relations within a specific sector or country.

Modern slavery and forced labour

Two topics that are less frequently mentioned in responsible investment policies are modern slavery and forced labour.

Modern slavery refers to situations of exploitation that a person cannot refuse or leave because of threats, violence, coercion, deception and/or abuse of power. This is considered to be an umbrella term encompassing practices such as forced labour, debt bondage, forced marriage and human trafficking.[16]

Forced labour is defined by the ILO as:

> *"All work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily".*[17]

Modern slavery and forced labour can take place in every kind of work or service, either in the private, public, informal or formal marketplace, but typically occurs in industries that are poorly regulated, and where the production process requires many workers. In total, no fewer than 25 million people are estimated to be in forced labour.

It is often hidden away in supply chains in the second tier and beyond. Most companies that address modern slavery and forced labour, however, both start and end their due diligence by focusing on their first-tier contractors and suppliers. Besides modern slavery, forced labour can take subtle forms, which makes detecting it very difficult.

The use or threat of physical violence is not essential to characterise a labour relationship as forced labour. Debt bondage, threatening to denounce a worker to immigration authorities or the retention of identity papers can 'force' workers as well. The increasing complexity and international character of supply chains makes more transparency essential.[18]

In 2015, the Parliament of the United Kingdom adopted the **Modern Slavery Act**, which was designed to combat modern slavery.

→ *Further information on the Modern Slavery Act is provided in Section 3 of this chapter.*

Living wage

In sectors that employ and rely on masses of manual labour (such as the garment and footwear, food and beverage, consumer electronics or retail sectors), wages are often insufficient to cover workers' basic living expenses (food, clothing, housing, healthcare and education).

The benefits of paying a living wage are clear. Workers who earn a living wage can meet their own basic needs and those of their families and put savings aside, thus being more likely to find their way out of poverty. They work regular working hours instead of excessive overtime to make 'ends meet' and are more likely to send their children to school instead of work.

In short, the focus on a living wage also advances the respect for a number of other fundamental human rights in global supply chains.

Example

Platform Living Wage Financials

The Platform Living Wage Financials (PLWF)[19] was established at the end of 2018. This is a coalition of (mainly Dutch) financial institutions that encourage and monitor investee companies to address the non-payment of a living wage in their global supply chains. The investor coalition has over €2.6tn (£1.9tn) of assets under management and uses its influence and leverage to engage with its investee companies. They:

1. measure their performance on living wage;
2. discuss the assessment results; and
3. support innovative pilots.

Finally, they make sustainable investment decisions based on (the lack of) progress subject to individual choices and policy preferences of each member of the platform.

External social factors

E. Stakeholder opposition and controversial sourcing

When a company operates in a certain area, it should strive for good relationships with stakeholders, including its local communities. This ensures that the company can continue operating without political interference or informal protest and disruption. Companies should focus on local communities (located near companies' operations) and recognise how they can be involved in stakeholder engagement processes to understand their needs and concerns, and how these can be addressed. A way to establish bottom-up participation is to use **Free Prior Informed Consent (FPIC)**.

Example

Free Prior Informed Consent

A company that plans to develop on ancestral land or use resources of a territory owned by indigenous people, should establish FPIC:

- Free simply means that there is no manipulation or coercion of the indigenous people and that the process is self-directed by those affected by the project.
- Prior implies that consent is sought sufficiently in advance of any activities being either commenced or authorised, and time for the consultation process to occur must be guaranteed by the relative agents.
- Informed suggests that the relevant indigenous people receive satisfactory information on the key points of the project, such as:
  - its nature;

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Example

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- » its size;
- » its pace;
- » its reversibility;
- » the scope of the project;
- » the reason for it; and
- » its duration.

This is the more difficult term of the four, as different groups may find certain information more relevant. The indigenous people should also have access to the primary reports on the economic, environmental and cultural impact that the project will have. The language used must be able to be understood by the indigenous people.

- Finally, consent means a process in which participation and consultation are the central pillars.[20]

Controversial sourcing is also an issue for companies, with suppliers operating in emerging economies. Companies enjoy the cheap products of their suppliers, but when the cost-driven practices of many of them in these chains come to light, there is often considerable debate over the ethics of these practices.

A rather well-known example is the case of conflict minerals and blood diamonds, which are natural resources extracted in a conflict zone and sold to perpetuate the fighting. The most prominent contemporary example has been the eastern provinces of the Democratic Republic of the Congo (DRC), where various armies, rebel groups and outside organisations have profited from mining while contributing to violence and exploitation during wars in the region.

Investors should be aware of issues around controversial sourcing and stakeholder opposition, because they can become a business and reputational risk for the investee company.

F. Product liability and consumer protection

Consumer protection refers to laws and other forms of government regulation designed to protect the rights of consumers. It is based on consumer rights, or the idea that consumers have an inherent right to basic health and safety. These are safeguarded by:

a. enforcing product safety;

b. distributing consumer-related information; and

c. preventing deceptive marketing.

Product liability is the legal responsibility imposed on a business for the manufacturing or selling of defective goods. The laws are built on the principle that manufacturers and vendors have more knowledge about the products than the consumers do. Therefore, these businesses bear the responsibility when things go wrong (even when consumers are somewhat at fault).

Product liability cases can result in civil lawsuits and lucrative monetary judgments for the plaintiffs. They can have consequences for the share price of a company if it has regular product recalls or lawsuits. Investors should take this into account in their investment analysis. There are three main types of product liability:

1. businesses being found liable to consumers when a court finds design flaws;
2. manufacturing defects; or
3. a failure to warn consumers of a possible danger.[21]

Product liability is likely to lead to reputational risks, since consumers can easily express their opinions via social media or boycott the product or service when it is found to be liable. Especially around consumer products, analysts should be aware of such risks.

G. Social opportunities

Lack of social opportunities, especially in developing countries, is an important social issue. Many of the **Sustainable Development Goals (SDGs)** focus around this area. The most closely linked are access to basic needs and services in different areas related to health (including water), education, energy, housing and financial inclusion.

Originally only specific investors, such as development finance institutions, NGOs and foundations focused on these topics and invested for example in microfinance institutions and other impact funds to ensure that people have access to products and services related to communications, finance, and health and nutrition. However, enabling broad and affordable access to basic products and services has proved to be a good business model as well and is increasingly seen as an opportunity for both businesses and investors, especially when aligning the investments with the SDG framework or trying to achieve both a financial and social return on investments.

A similar tool, which can be used by investors, is the **Access to Medicine Index**. The tool analyses how 20 of the world's largest pharmaceutical companies are addressing access to medicine in 106 low- to middle-income countries for 82 diseases, conditions and pathogens, evaluating them in areas where they have the biggest potential and responsibility to make change, such as research and development (R&D) and pricing.[22]

H. Animal welfare and antimicrobial resistance

Concerns around animal welfare have become more prevalent amongst consumers and investors as they increasingly recognise that it is not only ethical to minimise harm caused to animals, but it is also important to understand the negative impacts on human health resulting from intensive farming practices. As a result of antimicrobial resistance (i.e. bacteria, viruses and some parasites becoming more resistant to antibiotics, antivirals and antimalarials), standard treatments become increasingly ineffective and infections persist, which can result in deaths and may spread to others more easily.

A growing investor initiative, which is focused and engaged on the risks and opportunities linked to intensive livestock production is **Farm Animal Investment Risk and Return (FAIRR)**. FAIRR focuses particularly on the increased prevalence of antimicrobial resistance due to intensive farming practices and poor antibiotic stewardship. Companies operating in these ways are more likely to face lawsuits and pressures to change their practices.

3 IDENTIFYING MATERIAL SOCIAL FACTORS FOR INVESTORS

4.1.4	Assess material impacts of social issues on potential investment opportunities, including the dangers of overlooking them: changing demographics, including health and longevity; digital disruption, social media and access to electronic services; individual rights and responsibilities; family structures and roles; education and work; distinction between faith-based ESG investing and exercise of religion as a social factor; inequality; globalisation.
4.1.5	Identify approaches to social analysis at country, sector and company levels in both developed and emerging economies.

As can be seen in **Sections 1** and **2**, there is a wide range of social trends and factors that could have an effect on the risks and opportunities in a portfolio, and these should be considered by investors.

Until now, these factors and trends have been discussed rather in a general sense, as if these factors would have an impact on each country, sector or company equally; this is not the case.

Analysing which social topics are material from an investment point of view should start with an understanding of materiality at both the geographical and industry level. Once this is established, the company-level exposure can be determined by looking at the sector it operates in and which countries/regions it mostly operates in, by considering locations of key suppliers, plants, customers and main tax jurisdictions.

Country

The importance or relevance of a specific social issue depends on the regional or country context including the level of economic development, regulatory framework (e.g. when local labour laws do not fully comply with ILO principles) and cultural or historical factors. For example, population ageing is an important problem in the developed world, but less so in emerging markets. Furthermore, the difference between rural and urban areas is greater in emerging markets than in developed.

Government legislation also plays an increasing role, as the legal responsibility for companies to take responsibility and check the conditions in their supply chains is becoming mandatory in certain jurisdictions. Examples include the UK Modern Slavery Act, the French Corporate Duty of Vigilance Law, the EU Conflict Minerals Regulation and the Dutch Child Labour Due Diligence Law. Investors should look closely at how social factors and trends impact investee companies in the different countries where they operate.

Case study

Two examples of local regulatory frameworks are the EU taxonomy for sustainable activities and the UK Modern Slavery Act.

EU taxonomy for sustainable activities

The EU taxonomy sets performance thresholds for economic activities that make a substantive contribution to one of six environmental objectives:

1. climate change mitigation;
2. climate change adaptation;
3. sustainable and protection of water and marine resources;
4. transition to a circular economy;
5. pollution prevention and control; and
6. protection and restoration of biodiversity and ecosystems.

The activity should substantially contribute to one of the objectives to become taxonomy-aligned, whilst doing no significant harm to the other five, where relevant, and comply with minimum safeguards (e.g. OECD Guidelines on MNEs and the UN Guiding Principles on Business and Human Rights), as shown in the following figure.

The European Parliament and the Council established that for an economic activity to be taxonomy-aligned, the activity should be carried out "in alignment with the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights, including the International Labour Organization's ('ILO') declaration on Fundamental Rights and Principles at Work, the eight ILO core conventions and the International Bill of Human Rights". Where applicable, more stringent requirements in EU law still apply.[23]

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Case study

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Different elements of the EU taxonomy screening

Source: EU Technical Expert Group on Sustainable Finance.[23]

UK Modern Slavery Act

The Modern Slavery Act requires both medium- and large-sized companies to provide a slavery and human trafficking statement each year, which sets out the steps taken to ensure modern slavery is not taking place in their business or supply chains. Many of these statements provide not only general information but also specific numerical data, such as the number of audits initiated for suppliers at high risk or the number of suppliers that have established corrective action plans, which can help investors assess materiality.

The regulatory pressure on companies to provide useful social data is likely to increase further. For example, in the USA, the Human Capital Management Coalition, which includes influential investors such as leading US pension funds, has petitioned the Securities and Exchange Commission to require issuers to disclose information about their human capital management policies, practices and performance. International collaboration is also key. The International Organization of Securities Commissions (IOSCO) connects regulators over the world and provides global frameworks to support worldwide standardisation, which regulators in each country can use as a basis for their own regulations.

Sector

It is important to determine what the most material social factors and trends are per sector.

Certain sectors have deeper inherent social risks, for example due to child labour in the supply chain (clothing/cotton) or the nature of the business (mining).

Social trends also impact sectors differently. For example, automation and artificial intelligence (AI) will have a very different impact on transport (self-driving cars) compared to maintenance (very hard to automate). Demographic change, however, will have a specific impact on the healthcare sector.

Technological developments can also help in tackling injustices in certain sectors, such as satellite imagery which can help to identify illegal deforestation.

Company level

Companies within a sector may not all be exposed to social trends and factors in the same way.

Much will depend on a company's culture, systems, operations and governance. For example, older, more established companies might have better systems in place to manage social risks in their supply chain, but at the same time may find it harder to respond when a company with a disruptive business model enters their market.

Most social issues mentioned above could:

1. impact a company's bottom line;
2. increase workforce issues (including supply chain); and
3. decrease the corporate responsibility (human rights) and its consumer expectations (e.g. animal welfare).

4 APPLICATION OF SOCIAL FACTORS IN INVESTMENTS

4.1.6 Apply material social factors to: risk assessment; quality of management; ratio analysis; financial modelling.

Materiality or risk assessment

The first step of a materiality or risk assessment could be to determine what the impact of social factors and trends could be on the investee companies in the different sectors, operating in the different countries (which is also briefly described in **Section 3**). For example, some sectors, such as the mining and oil and gas industry, are more susceptible to human rights violations or health and safety issues.

This materiality assessment should be part of a company's traditional risk assessment. Non-financial risks, such as social risks, could have a material impact on the performance of the investments and should therefore be taken into account.

Besides risks, certain companies or sectors could also provide investment opportunities, because they identify social trends early on and adapt their company strategy to benefit from these trends instead of being caught at a disadvantage.

Case study

Amazon and Apple

In this case study, we will look in detail at the social aspects of Apple and Amazon.

Amazon

Amazon is a multinational technology company based in Seattle, USA, that focuses on e-commerce, cloud computing, digital streaming and AI. Amazon is known for its disruption of well-established industries through technological innovation and mass scale. Former employees, current employees, the media and politicians have criticised Amazon for poor working conditions at the company. Some examples include:

» In 2011, workers had to carry out tasks in 38°C heat (100°F) at a warehouse in Breinigsville, Pennsylvania. As a result of these inhumane conditions, employees became extremely uncomfortable and suffered from dehydration and some collapsed. Although loading-bay doors could have been opened to bring in fresh air, this was not allowed due to concerns over theft.[24]

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Case study

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» Some workers, known as 'pickers', who travel the buildings with a trolley and a handheld scanner 'picking' customer orders, can walk up to 15 miles during their workday. If they fall behind on their targets, they can be reprimanded. The handheld scanners give real-time information to the employee on how quickly or slowly they are working; the scanners also serve to allow team leaders and area managers to track the specific locations of employees and how much 'idle time' they use when not working.[25]

» In March 2019, it was reported that emergency services responded to 189 calls from 46 Amazon warehouses in 17 US states between 2013 and 2018, all relating to suicidal employees. The workers attributed their mental breakdowns to employer-imposed social isolation, aggressive surveillance, and the hurried and dangerous working conditions at these fulfilment centres.[26]

» In response to criticism that Amazon does not pay its workers a liveable wage, the CEO, Jeff Bezos, announced that from 1 November 2018, all US and UK Amazon employees will earn a minimum of US$15 or £10.78 per hour. Amazon also announced that it would begin lobbying the US Congress to increase the federal minimum wage.

» Although it might seem that by paying lower wages or applying other strict labour conditions has a positive effect on profitability from an investor perspective, analysts should take into account the possibility that legislation, social unrest or higher than expected employee turnover/low morale will likely at some point result in disruptions and increased costs.

Apple/Foxconn/Inventec

Apple is an American multinational technology company based in Cupertino, California, that designs, develops and sells consumer electronics, computer software and online services. Apple has been criticised on the labour practices at their suppliers Foxconn and Inventec:

a. In 2006, it was reported that the working conditions in the factories where contract manufacturers Foxconn and Inventec produced the iPod were poor. One complex of factories that assembled the iPod, among other items, had over 200,000 workers living and working within it. Employees regularly worked more than 60 hours per week and made around US$100 (£71) per month. A little over half of the workers' earnings was required to pay for rent and food from the company. Apple immediately launched an investigation and worked with their manufacturers to ensure acceptable working conditions. In 2007, Apple started yearly audits of all its suppliers regarding workers' rights, slowly raising standards and removing suppliers that did not comply.[27]

b. In 2010, Apple led an investigation into the employment practices at Foxconn, the world's largest contract electronics manufacturer at the time, after the Foxconn suicides. These took place between January and November 2010, when 18 Foxconn employees attempted suicide, resulting in 14 deaths, and drew much media attention.[28]

c. A 2014 BBC investigation found excessive hours and other problems persisted, despite Apple's promise to reform factory practice after the 2010 Foxconn suicides. Reporters gained access to the working conditions inside a factory through recruitment as employees. While the BBC maintained that the experiences of its reporters showed that labour violations were continuing since 2010, Apple publicly disagreed with the BBC and stated: "We are aware of no other company doing as much as Apple to ensure fair and safe working conditions".[29]

d. Controversies like these can impact customer loyalty, and result in fines or employee/supplier strikes. The stock price of Apple, for example, took a 5% hit on 24 April 2012, believed to be linked to the Foxconn riots that day.[30]

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Case study

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Thai Union

Thai Union is a Thailand-based producer of seafood-based food products with a global workforce of over 49,000 people. The company's global brand portfolio includes international brands such as Chicken of the Sea, John West, Sealect and Petit Navire. In 2015, Greenpeace accused Thai Union of being "seriously implicated in horrendous human rights and environmental abuses" and warned shareholders and investors "of the financial risks associated with these destructive and harmful practices":

a. Such controversies led to a loss of revenue[31] as consumers and supermarkets boycotted the products. This led to a required termination of sub-contractors and in turn increased transition and future costs.

b. In 2015, Thai Union released new codes of conduct and stated that it had terminated the relationships with 17 suppliers as a result of forced labour or human trafficking violations since the start of 2015. It also ended the use of employment brokers to source for workers for its seafood processing plants to stop debt bondage.

c. In a statement issued on 10 December 2015, Thai Union declared that it would cease working with all shrimp processing sub-contractors by the end of 2015 and bring all shrimp processing operations in-house to enable full oversight. All processing work would be directly controlled by Thai Union Group to ensure that all workers, whether migrants or Thai, would have safe, legal employment and be treated fairly and with dignity.

d. In December 2016, Thai Union and the World Tuna Purse Seine Organization (WTPO) signed a memorandum of understanding (MOU) to establish a framework to ensure fair labour practices.

e. In May 2018, Thai Union announced it had made an agreement with Greenpeace in which both parties stated that it had made substantial, positive progress on its commitment to implement measures that tackle illegal fishing and overfishing, as well as improve the livelihoods of hundreds of thousands of workers throughout its supply chains. According to Greenpeace: "There is much work still to do, but it's clear the company takes its commitments seriously and is making progress to deliver them."

f. After the agreement was reached, Thai Union released a Vessel Code of Conduct, developed in collaboration with Greenpeace and the International Transport Workers' Federation.

When evaluating a company for investment, both social risks and level of mitigation and management of these risks should be considered. When such issues persist, a consumer boycott or divestment by investors is possible which could affect the share price of the company. However, improving performance can lead to the strengthening of the brand and possibly increasing or future-proofing revenues.

Quality of management

Having identified which social factors are relevant for a particular company, analysts will assess the way the company manages the risks and opportunities associated with these social factors, compared to its peers. This includes looking at the corporate strategy, policies in place, the processes and measures implemented, performance indicators and public disclosure. They will look at current performance and progress over time, and investigate how they compare to industry averages and key competitors. It should be noted that poor management of social factors could be an indicator of poor (stakeholder) management in general, and it could, therefore, be an effective warning for investors.

Ratio analysis and financial modelling

It is very useful to quantify the potential impact of social factor scenarios and include these in the ratio analysis and financial modelling of the investment.

Some scenarios that can be included in the ratio analysis are:

1. occupational health and safety issues (accident and fatalities), which can result in huge fines and liabilities;
2. human capital management issues, which can lead to greater operating costs if new employees need to be trained due to high employee turnover;
3. supply chain issues, which can impact brand reputation and revenues if consumers choose to boycott certain products;
4. local protests that lead to business disruptions at plants or factories; and
5. poor working conditions, which can result in issues with product safety.

Besides specific impacts on estimates regarding future revenues, costs and potential liabilities in a company's financial analysis, analysts might decide to raise the discount rate to reflect a higher risk profile if a company does not manage social factors appropriately.

Case study

Tesco equal pay claim

Tesco plc is a British multinational groceries and general merchandise retailer. It is the 16th largest retailer measured by gross revenues.[32] The company reported in financial reporting period 2017/2018 total group sales of £51 billion and £1,837 million in operating profits.

However, since July 2018, the company is facing a demand for up to £4bn in back pay from thousands of mainly female shopworkers in what could become the UK's largest ever equal pay claim. The retailer is claimed to have breached its duty under section 66 of the **Equality Act 2010** by paying staff in its distribution centres more than those on the shop floor, despite the roles being of 'comparable value'. Shop floor staff – the majority of whom are female – are paid up to £3 less per hour than its predominantly male warehouse and distribution centre workforce.

Section 66 is a 'sex equality clause' that states:

> "If the terms of A's work do not (by whatever means) include a sex equality clause, they are to be treated as including one".

A sex equality clause has the following effect:

- If a term of A's is less favourable to A than a corresponding term of B's is to B, A's term is modified so as not to be less favourable.
- If A does not have a term that corresponds to a term of B's that benefits B, A's terms are modified so as to include such a term.

The employees have formed a Tesco Action Group, which is made up of around 8,000 current and former Tesco staff, to take the claim forward. The claim was formed in addition to a separate legal challenge by Leigh Day, which is representing around 1,000 current and former Tesco staff in a similar equal pay dispute.

A spokesman of the company responded:

> "Tesco works hard to make sure all our colleagues are paid fairly and equally for the jobs they do and are recognised for the great job they do every day serving our shoppers. There are only a very small number of claims being made, and there are strong factual and legal arguments to defend against those claims".

This case is ground-breaking, financially material and goes to the heart of social factors in labour rights. Its outcome could have significant financial consequence for the company and others in the sector.

KEY FACTS

In this chapter an overview was given of the main social megatrends that now influence societies.

Megatrends

The social megatrends have a rather broad range, and include:

a. globalisation;
b. automation and AI in manufacturing and service sectors;
c. inequality and wealth creation;
d. digital disruption and social media;
e. changes to work, leisure time and education;
f. changes to individual rights and responsibilities and family structures;
g. changing demographics, including health and longevity;
h. urbanisation; and
i. religion.

Environmental megatrends with social impact include:

a. climate change and transition risk;
b. water scarcity; and
c. mass migration.

The most important internal and external factors were described earlier in the chapter. These factors are:

Internal social factors

a. human capital development;
b. health and safety;
c. human rights;
d. labour rights;
e. freedom of association and employee relations;
f. forced labour; and
g. living wage.

External social factors

a. stakeholder opposition/controversial sourcing;
b. product liability/consumer protection;
c. social opportunities; and
d. animal welfare and antimicrobial resistance.

Countries, sectors and companies are not affected equally by the different social megatrends and social factors. The analysis of which social factors are material from an investment point of view should start with an understanding of materiality at the geographical and industry levels. Once this is established, the company-level exposure can be determined by looking at the sector it operates in and which countries or regions it mostly operates in (looking at locations of key suppliers, plants, customers and main tax jurisdictions).

Having identified which social factors are relevant for a particular company, analysts will assess the way the company manages the risks and opportunities associated with these social factors, compared to its peers. This includes looking at:

1. corporate strategy;
2. policies in place;
3. processes and measures implemented;
4. performance indicators; and
5. public disclosure.

This process involves looking at:

1. current performance;
2. progress over time; and
3. how that progress compares to industry averages and key competitors.

Increasingly, investors are integrating social factors into the ratio analysis or financial models of investee companies to gain a better understanding of the potential impacts of social factors on a company's financial performance.

CHAPTER 4

SELF-ASSESSMENT

These self-assessment questions are provided only to enable you to test your understanding of the chapter content. They are not indicative of the types and standard of questions you may see in the examination.

Questions

1. **Which social megatrends are important to consider within the investment analysis?**
   (a) Human rights, health and safety and employee relations.
   (b) The Millennium and Sustainable Development Goals.
   (c) Automation, globalisation and longevity.
   (d) Natural capital, biodiversity and climate change adaptation.

2. **What is an example of an internal and an external social factor?**
   (a) Internal: biodiversity; external: product liability.
   (b) Internal: health and safety; external: social opportunities.
   (c) Internal: animal welfare; external: employee relations.
   (d) Internal: ESG analysis; external: engagement service providers.

3. **Why is a (social) materiality assessment important?**
   (a) It is standard procedure in investment analysis, which makes it an important tick-box exercise.
   (b) It is always recommendable to conduct assessments, because these provide you with invaluable insights.
   (c) Not all countries, sectors and companies are affected equally by the different social megatrends and social factors.
   (d) A social materiality assessment is required by law in many jurisdictions.

4. **What is meant with the concept of a just transition?**
   (a) A transition that is aligned with the Paris Agreement.
   (b) A transition that shares the financial and social burden in a fair way.
   (c) A transition that is just in time to prevent stranded assets.
   (d) A transition that respects labour and human rights.

5. **What is the FAIRR initiative?**
   (a) It is a collaboration that aims to reach a just transition.
   (b) It is an initiative to stimulate fair trade.
   (c) It is an investor network to engage on equal pay.
   (d) It is an initiative that focuses on the increased prevalence of antimicrobial resistance.

6. **The OECD Guidelines for Multinational Enterprises**
   (a) state that companies should adhere to the UN Guiding Principles for Business and Human Rights.
   (b) is a voluntary agreement of multinational enterprises to improve their social performance.
   (c) is a comprehensive set of government-backed recommendations on responsible business conduct.
   (d) prescribe that multinational enterprises should perform a financial due diligence on their suppliers to prevent bribery and corruption.

7. **What does 'offshoring' mean?**
   (a) Protecting coastal areas by building offshore dykes to protect cities against climate change.
   (b) Climate migrants moving from shore areas to more inland cities.
   (c) Moving company production to low-income countries.
   (d) Tax avoidance by companies.

8. **What kinds of cases require Free Prior Informed Consent (FPIC)?**
   (a) Developments on ancestral land or the use of resources of a territory owned by indigenous people.
   (b) Consumer acceptance of limitation of product liability.
   (c) Workplace relationships.
   (d) Investments in alcohol, gambling or tobacco.

9. **What does the Access to Medicine Index analyse?**
   (a) How pharmaceutical companies are addressing access to medicine in low- to middle-income countries.
   (b) How affordable medicines are in the major developed markets.
   (c) The percentage of employees covered under a health insurance scheme.
   (d) How much time it takes to access medical assistance in developing countries.

10. Of the following, what is the increase in automation and AI not associated with?

(a) Data privacy concerns in social media companies.

(b) Employment losses in the garment sector.

(c) Employment gains in the IT sector.

(d) Future employment losses in the transportation sector.

11. What does the corporate human rights benchmark look at?

(a) It looks at the policies of corporations on human rights.

(b) It looks at the practices of corporations on human rights.

(c) It looks at the policies and processes of corporations on human rights.

(d) It looks at the policies, processes and practices of corporations on human rights.

12. What is the Platform Living Wage Financials?

(a) A platform of companies offering a living wage to their employees.

(b) A platform of companies demanding their suppliers offer a living wage.

(c) A platform of investors offering a living wage to their employees.

(d) A platform of investors that encourage investee companies to address the non-payment of living wage in their supply chains.

13. Which of the following are included in labour rights?

(a) Freedom of association and protection of the right to organise, minimum wage and protection against physical forms of climate change.

(b) Right to organise and collective bargaining, living wage and minimum age.

(c) Abolition of forced labour, equal remuneration and protection against worst forms of child labour.

(d) Collective labour agreements, healthcare and retirement plans.

14. What has been happening to Income inequality over the last few decades?

(a) It has been growing, which is good for the economy.

(b) It has reduced, which is good for the economy.

(c) It has been growing, which has a negative effect on the economy.

(d) It has reduced, which has a negative effect on the economy.

15. **Which element of the EU taxonomy has a social aspect?**

    (a) Substantially contributing to one of the six objectives.

    (b) Doing no significant harm to the other five objectives.

    (c) Complying with minimum safeguards.

    (d) None of the above.

CHAPTER 4

SELF-ASSESSMENT **ANSWERS**

1. **c.**
2. **b.**
3. **c.**
4. **b.**
5. **d.**
6. **c.**
7. **c.**
8. **a.**
9. **a.**
10. **b.**
11. **d.**
12. **d.**
13. **c.**
14. **c.**
15. **c.**

FURTHER READING

Methodology of the Corporate Human Rights Benchmark 2019, which provides clear guidance on main human rights questions that can be included in ESG integration or engagement activities:

Corporate Human Rights Benchmark Ltd (2019). *Corporate Human Rights Benchmark Methodology 2019*. Available at: www.corporatebenchmark.org/chrb-methodology

Exclusion list of the Norges Bank Investment Management, which is used by many asset owners as guidance for their own exclusions:

Norges Bank Investment Management (2019). *Observation and exclusion of companies*. Available at: www.nbim.no/en/responsibility/exclusion-of-companies/

The 2018 sector takeaways and the 2018 engagement outcomes of the Platform Living Wage Financials (PLWF):

PLWF (2019). *2018 Sector Takeaways*. Available at: www.livingwage.nl/garment-and-footwear/2018-sector-takeaways/

PLWF (2019). *2018 Engagement Outcomes*. Available at: www.livingwage.nl/garment-and-footwear/2018-engagement-outcomes

The New York University's Stern Center for Business and Human Rights' publication on the 'S' of ESG:

O'Connor, C. and Labowitz, S. (2017). *Putting the 'S' in ESG: Measuring Human Rights Performance for Investors.* Available at: www.stern.nyu.edu/experience-stern/global/putting-s-esg-measuring-human-rights-performance-investors

The Principles for Responsible Investment (PRI) supports investors' efforts to address social issues such as human rights, working conditions and modern slavery with companies in their portfolio. The different human rights and labour standards publications are also recommended reading material:

PRI (2019). *Social issues*. Available at: www.unpri.org/esg-issues/social-issues

PRI (2019). *Human rights and Labour Standards*. Available at: www.unpri.org/esg-issues/social-issues/human-rights-and-labour-standards

PRI (2020). *Why and how investors should act on human rights*. Available at: www.unpri.org/human-rights-and-labour-standards/why-and-how-investors-should-act-on-human-rights/6636.article

The World Economic Forum's Global Risk Report is an authoritative publication concerning more than just social issues:

World Economic Forum (2019). *The Global Risks Report 2019*. Available at: www.weforum.org/reports/the-global-risks-report-2019.

END NOTES

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