CANDRIAM
A NEW YORK LIFE INVESTMENTS COMPANY

Collective Efforts: the Workforce Disclosure Initiative

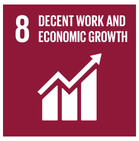
Active Engagement

NOVEMBER 2020

Marketing communication

The topic.

The Covid Crisis has put a renewed spotlight on the "S" in the analysis of Environmental, Social, and Governance factors. Investors not yet convinced by the benefit of integrating ESG in company analysis realized that they were missing the framework and the data to analyze companies' level of preparedness and response to a social crisis such as this one.



Confinements, social distancing, and quarantines have caused tremendous disruptions for workers this year. These disruptions have led most companies to focus on workers' health, wellbeing, and the necessary flexibility to adjust, both at a professional and personal level, to the challenges created. Factors such as workforce stability, and the existence prior to the crisis of wellbeing programs, workers' rights, and employee development, enabled some companies to adapt better than others. These were able to reopen more quickly, maintain morale, and retain key talent. Some companies have even become beacons of agility in this time of crisis.

The urgency and significance of the Social pillar is made even more acute as we marked the five-year anniversary of the UN Sustainable Development Goals in September, whose goals **5: Gender Equality**, **8: Decent Work**, and **10: Reduced Inequalities** relate directly to management of human capital.

The story thus far

Candriam has been integrating social factors as part of our proprietary ESG framework since 2005. Depending on the type of business, workforce and supply chain labour-related factors represent between 20% and 40% of our stakeholder management-related indicators. Such analysis can only be as thorough as the information we can obtain, whether published information or specific information collected through direct contacts. Some companies allow us to collect answers on specific topics not yet covered in annual filings -- such as workforce turnover or industry-specific certifications.

Workforce and supply chain management remains opaque, suffering from a lack of standardized data. These shortcomings hamper ESG analysis and beg for a global initiative akin to the sucess of the CDP for carbon data disclosure 20 years ago.

In 2017 *ShareAction*, supported by a group of investors including Candriam, launched the Workforce Disclosure Initiative (WDI) to increase "the volume and quality of data on workforce governance structures, risk management, health and safety, and other related practices". The initiative has garnered the support of almost 40 investors with $4 trillion assets under management, as of June 2020.

Carbon disclosure, once new, is now widespread. Emissions reporting requires a few figures to assess a company's climate risk. By contrast, workforce and supply chain disclosure is far more complex… and long overdue. The assessment of human capital management does not lend itself to simplification, making it all the more challenging to assess the "S". The annual WDI questionnaire is not for the fainthearted -- 180 questions covering ten key areas, requesting a whopping 364 data points from each company.

The topics range from simple to sensitive, some even with potential legal ramifications. Among the topics are composition and compensation of the workforce, occupational safety, workforce stability, workers' rights, and supply chain workforces. Whilst response under the workforce governance chapter tends to be quasi-systematic (94% response rate), the percentage of companies sharing information drops off for such topics as workers' rights within their supply chain (45%), development of human capital (37%), the structure of their supply chain (27%) or the stability of their own workforce (21% response rate).

These dimensions have acquired renewed relevance and urgency, as investors scramble to understand which companies are best-equipped from a human capital perspective to weather the Covid crisis. Given this experience, we expect this increased relevance to carry over into the post-Covid world.

It will be interesting to see whether the renewed focus on tackling racial discrimination in the workplace, combined with Covid-related concerns, induces a higher number of US-based companies to report as part of the WDI in 2020. For its 2019 reporting season, WDI collected responses from 118 companies in 17 countries. European companies accounted for 91 of the 118. So far, companies responding to the WDI have tended to be large, and often already well-known as leaders in corporate social responsibility.

The WDI aims to become the global standard for human capital and supply chain reporting. It has already played an important role by defining a framework and convincing more than 100 companies to shed light on their human capital and supply chain management. Other ESG standard-setting and corporate reporting initiatives are being set in motion, often broader than the WDI's scope. The term 'alphabet soup' is frequently invoked to describe this explosion of proposals. In addition to the older GRI Global Reporting Initiative and the SASB Sustainability Accounting Standards Board initiatives, we now see the European Union revamping its NFRD Non-Financial Reporting Directive, albeit only applicable to European companies. The four largest accounting firms, together with the IBT, International Business Council, announced that they will launch their own reporting framework. In September 2020, the EU is mooted its own central register of financial and non-financial company information. We support increased disclosure however it comes about, and hope these initiatives will coordinate efforts.

Next steps?

Investors need more companies to participate. Corporate America, having endorsed stakeholder capitalism in 2019, now needs to follow through with concrete action and transparent reporting for the 'worker' stakeholder. The year 2021 should be a time to assess progress and determine whether companies are following through on their promises.

€128 B

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