



Understanding How SASB Addresses Human Capital in the Codified Standards

Introduction

As part of its Human Capital research project, SASB is engaged in consultation with companies, investors, and other market participants to assess the scope and prevalence of related risks and opportunities across its 77 industry standards and develop an evidenced-based view on this cross-cutting theme. This briefing document is intended to facilitate constructive dialogue by communicating important background information on how human capital is represented in the current SASB standards as codified in October 2018.

An Overview of SASB’s Current Approach

SASB standards were created to identify and standardize disclosure on the most business-critical sustainability issues for companies in each of 77 industries. In defining the universe of sustainability issues that serve as a starting point for SASB’s standard-setting work, SASB’s Conceptual Framework¹ establishes five primary sustainability dimensions: Environment, Social Capital, Human Capital, Business Model & Innovation, and Leadership & Governance. Under this structure, there are 26 general issue categories (GICs), which identify key themes associated with each dimension. (See Figure 1.)

Figure 1. SASB’s Universe of Sustainability Issues



¹As of April 2020, SASB’s Conceptual Framework is under revision to reflect the global relevance of the standards and significant market developments since its release in February 2017. For more information on the Conceptual Framework project, please refer to <https://www.sasb.org/standard-setting-process/current-projects/conceptual-framework/>

SASB's Human Capital Dimension

The Human Capital sustainability dimension “addresses the management of a company’s human resources (employees and individual contractors) as key assets to delivering long-term value.” In the SASB standards that were codified in October 2018, SASB identified human capital-related risks and/or opportunities in 50 out of the 77 Sustainable Industry Classification System (SICS) industries (65 percent). However, SASB’s industry-specific, bottom-up approach to standard-setting found that although human capital-related risks are present across a variety of sectors, it often manifests itself differently from one industry to the next. Therefore, variation exists across industries in terms of the disclosure topics and related accounting metrics recommended to capture a company’s management of key human capital issues.

These topics and metrics relate to three fundamental GICs²:

- **Labor Practices:** Includes issues such as child and forced labor, fair wages and provision of benefits, attracting, retaining and maintaining the workforce, and relations with organized labor.

Example metrics:

 - Percentage of workforce covered under collective bargaining
 - Average hourly wage
 - Turnover rates
 - Monetary losses as a result of legal proceedings associated with labor law violations
 - Description of policies/programs to prevent harassment

- **Employee Health & Safety:** Addresses “a company’s ability to create and maintain a safe and healthy workplace environment.” This topic encompasses mental health in addition to physical wellbeing and incorporates training and culture.

Example metrics:

 - Fatality rates
 - Efforts to assess, monitor and mitigate acute and chronic respiratory health conditions
 - Efforts to reduce exposure of workforce to human health hazards
 - Percentage of staff who work in areas where smoking is allowed
 - Amount of monetary losses as a result of legal proceedings associated with employee health and safety violations

- **Employee Engagement, Diversity and Inclusion:** Addresses “a company’s ability to ensure its culture, hiring, and promotion practices embrace the building of a diverse and inclusive workforce.” This includes the issue of discriminatory practices.

Example metrics:

 - Gender and racial/ethnic group representations
 - Amount of monetary losses as a result of legal proceedings associated with employment discrimination
 - Discussion of talent recruitment and retention efforts

Based on SASB’s definition of human capital, direct employees and individual contractors are generally covered under these metrics. For example, in SASB’s Waste Management industry standard, where the workforce has some dependence on contracted workers, the disclosure

² For specific location of these disclosure topics and associated metrics, please see SASB’s Materiality Map: <https://materiality.sasb.org/>

topic for this industry is titled Workforce Health & Safety to encapsulate the notion that health and safety in this industry extends beyond direct employees. The metric associated with this disclosure topic measures workforce health and safety through (1) Total recordable incident rate (TRIR), (2) fatality rate, and (3) near miss frequency rate (NMFR) for (a) direct employees and (b) contract employees.

‘Human Capital’ in Other Sustainability Dimensions

As mentioned, human capital is prevalent across SASB’s 77 industry standards. In fact, approximately 12 percent of the 195 unique disclosure topics in SASB standards address human capital-related issues. However, some of these topics fall outside the Human Capital sustainability dimension. Although the reasons for this may not be entirely intuitive on the surface, the related business risks and opportunities are more closely aligned with another sustainability dimension. A few common examples are provided below:

Human rights and community relations:

Although they may or may not involve employees, risks related to human rights and community relations have a broader scope, so they are more appropriately associated with the Social Capital sustainability dimension. SASB defines human rights and community relations as the “management of the relationship between businesses and the communities in which they serve,”³ which naturally involves human impacts. For example, this GIC may cover socio-economic community impacts and/or cultivation of local workforces in various industries.

Several industry standards include a disclosure topic related to security, human rights, and rights of indigenous people. An example of the metrics associated with this topic is included in Figure 2 from the Oil & Gas – Exploration and Production standard.

Figure 2. Human Capital-related Metrics in the Oil & Gas – Exploration & Production Industry

	Percentage of (1) proved and (2) probable reserves in or near areas of conflict	Quantitative	Percentage (%)	EM-EP-210a.1
Security, Human Rights & Rights of Indigenous Peoples	Percentage of (1) proved and (2) probable reserves in or near indigenous land	Quantitative	Percentage (%)	EM-EP-210a.2
	Discussion of engagement processes and due diligence practices with respect to human rights, indigenous rights, and operation in areas of conflict	Discussion and Analysis	n/a	EM-EP-210a.3

This example illustrates how, in some industries, a risk can have clear ties to both labor and broader human rights. With respect to human capital, the underlying technical protocol associated with metric EM-EP-210a.2 provides specific guidance to companies on how to calculate and report information as outlined below:

The entity shall describe its due diligence practices and procedures with respect to human rights including ... [u]pholding the fundamental International Labor Organization conventions on freedom of association (No. 87), collective bargaining (No. 98), forced

³ SASB, Materiality Map, available at <https://materiality.sasb.org/>

*labor (No. 29, No. 105), child labor (No. 138, No. 182), fair wages (No. 100), and discrimination (No. 111).*⁴

Supply chain management:

Human impacts in a company’s supply chain do not involve direct employees but can nevertheless be managed through indirect channels, so they are associated with the Business Model & Innovation dimension. This GIC incorporates “externalities created by suppliers through their operational activities,” such as “environmental responsibility, human rights, labor practices, and ethics and corruption.”⁵ Often, this is represented across a range of industry standards via metrics focused on supplier audits and adherence to third-party certifications to address a company’s management of environment, social (including workers in the supply chain), and governance risks associated with its suppliers that are in its control as opposed to how suppliers are managing them, which can be complex given the intricacies of multitiered supply chains and the legalities of who is ultimately responsible for the workers under a given supplier.

An example of how SASB standards incorporate human capital issues in the supply chain is included in Figure 3 from the Apparel, Accessories & Footwear industry.

Figure 3. Human Capital-related Metrics in the Apparel, Accessories & Footwear Industry

Labor Conditions in the Supply Chain	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have been audited to a labor code of conduct, (3) percentage of total audits conducted by a third-party auditor	Quantitative	Percentage (%)	CG-AA-430b.1
	Priority non-conformance rate and associated corrective action rate for suppliers’ labor code of conduct audits ³	Quantitative	Rate	CG-AA-430b.2
	Description of the greatest (1) labor and (2) environmental, health, and safety risks in the supply chain	Discussion and Analysis	n/a	CG-AA-430b.3

The technical protocol guidance for reporting metric CG-AA-430b.1 notes that:

*A labor code of conduct is a corporate policy, standard, or contract that outlines a set of working conditions, labor practices, and environmental health and safety requirements for suppliers and contractors. At a minimum, a code of conduct ensures that suppliers are in compliance with regulations.*⁶

The topic summary notes that the industry’s reliance on multitiered system of suppliers, subcontractors, labor recruitment firms and part-time workers make it difficult to manage. This implies that the way companies in the industry can manage/address labor conditions in supply chain—e.g., screening, selection, monitoring, and engagement—is different than managing direct employees, hence a different set of metrics is warranted to convey performance. It is worth noting that sometimes these issues are reflected in the SASB standards even more subtly. For example, the SASB Household & Personal Products standard includes the

⁴ SASB, *Oil & Gas – Exploration & Production Sustainability Accounting Standard* (October 2018).

⁵ Supra note 5.

⁶ SASB, *Apparel, Accessories & Footwear Sustainability Accounting Standard* (October 2018).

disclosure topic “Environmental and Social Impacts of Palm Oil Supply Chain.” The topic summary notes one of the concerns for palm oil buyers is “pressure to ensure minimum standards for working conditions in the supply chain, as the production of palm oil is often associated with labor issues.” The underlying certification standards cited in the metric incorporate these labor concerns.

Critical incident risk management:

In some cases, human capital-related elements are addressed as part of a collective of metrics to assess the broader concept of critical incident risk management, which falls under the Leadership & Governance sustainability dimension. This GIC addresses several key topics including operational safety, emergency preparedness, and response, which in some cases may include a human capital element. Critical incident risk management covers a “company’s use of management systems to understand, prevent, or minimize the occurrence of low-probability, high-impact accidents and emergencies with significant potential environmental and social externalities.” Furthermore, topics related to this GIC address the “long-term effects to an organization, its workers, and society”⁷ if these events should occur.

Examples include the Oil & Gas – Exploration & Production industry, where an oil spill can cause casualties in a company’s labor force while also having broader societal and environmental impacts through the release of hydrocarbons or other hazardous substances. In another instance, companies in the Air Freight and Logistics industry must maintain a strong safety culture at all levels of the organization to ensure effective accident and safety management, including those incidents that may impact employees, such as vehicle operators.

The disclosure topic Operational Safety, Emergency Preparedness & Response in the Chemicals industry standard provides another useful example of how a risk that can be most appropriately managed through effective leadership and governance may also involve environmental, social, and human capital-related impacts. Accidents, explosions, spills, or other emergencies in this industry “can harm workers or people in nearby communities through the release of harmful air emissions and chemical substances, and may also adversely impact the environment.”⁸ The set of metrics associated with this topic (see Figure 4) are intended to capture not only risks related to impacts on the labor force, but also to those on the broader community and environment.

Figure 4. Human Capital-related Metrics in the Chemicals Industry

Operational Safety, Emergency Preparedness & Response	Process Safety Incidents Count (PSIC), Process Safety Total Incident Rate (PSTIR), and Process Safety Incident Severity Rate (PSISR) ⁷	Quantitative	Number, Rate	RT-CH-540a.1
	Number of transport incidents ⁸	Quantitative	Number	RT-CH-540a.2

Conclusion

While the SASB standards specifically address human capital issues as captured in the human capital sustainability dimension, some elements are addressed outside of the dimension as part

⁷ Supra note 5.

⁸ SASB, *Chemicals Sustainability Accounting Standard* (October 2018).

of broader context as these examples illustrate. Additionally, while some of the human capital-related elements may not be intuitively categorized, understanding the broader concepts captured in each standard in addition to reviewing the metrics and the technical protocols can help add clarity to how SASB has thought about certain human capital-related issues.

Furthermore, capital markets increasingly recognize the importance of effectively managing human capital and the potential consequences of mismanagement. Reflecting this trend, regulators in some jurisdictions have begun to require or consider requiring human capital disclosures.⁹

In September 2019, SASB initiated a project to assess the scope and prevalence of various human capital management themes with the objective of developing a framework that will enable systematic assessment of the financially material, industry-specific impacts of these themes across SASB's 77 industry standards. Although this research project is still in its early stages, the outcomes will help shape recommendations to the Standards Board that could result in further standard-setting work to ensure SASB standards effectively capture decision-useful information on the human capital-related risks and opportunities most important to companies and their investors.

⁹ See, for example, the Non-Financial Reporting Directive of the European Commission, available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>, and the rule proposed by the U.S. Securities and Exchange Commission, available at <https://www.sec.gov/rules/proposed/2019/33-10668.pdf>