



RESEARCH PROJECT

Human Capital

Preliminary Framework: Executive Summary

Prepared by the Sustainability Accounting Standards Board®

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Human Capital in the SASB Standards

The sustainability topics associated with SASB's standards are organized under five broad sustainability dimensions: Environment, Social Capital, Human Capital, Business Model and Innovation, and Leadership and Governance. Organized under each dimension, there are multiple general issue categories (GICs) that broadly define relevant sustainability issues.

Within the Human Capital dimension, there are three GICs:

- **Employee health and safety** – This category addresses a company's ability to create and maintain a safe and healthy workplace environment that is free of injuries, fatalities, and illness (both chronic and acute). It is traditionally accomplished through implementing safety management plans, developing training requirements for employees and contractors, and conducting regular audits of their own practices as well as those of subcontractors. The category further captures how companies ensure physical and mental health of workforce through technology, training, corporate culture, regulatory compliance, monitoring and testing, and personal protective equipment.
- **Labor practices** – This category addresses a company's ability to uphold commonly accepted labor standards in the workplace, including compliance with labor laws and internationally accepted norms and standards. This includes, but is not limited to, ensuring basic human rights related to child labor, forced or bonded labor, exploitative labor, fair wages and overtime pay, and other basic workers' rights. It also includes minimum wage policies and provision of benefits, which may influence how a workforce is attracted, retained, and motivated. This category further addresses a company's relationship with organized labor and freedom of association.
- **Employee diversity, inclusion, and engagement** – This category addresses a company's ability to ensure that its culture and hiring and promotion practices embrace the building of a diverse and inclusive workforce that reflects the makeup of local talent pools and its customer base. It addresses the issues of discriminatory practices on the bases of race, gender, ethnicity, religion, sexual orientation, and other factors.

Human capital, in addition to environmental and social impacts, is also embedded in SASB's **Supply Chain Management** general issue category, which is part of its Business Model and Innovation sustainability dimension.

As a thematic issue, human capital is the second most prevalent issue across the SASB standards, second only to climate risk. Human capital disclosure topics are present in 50 out of 77 industries (65%) and in 12% of total number of disclosure topics across all SASB standards. In addition, 12% of the total industry-specific metrics across the SASB standards relate to human capital management.

SASB's Human Capital Management Research Project

Despite the robust coverage of human capital issues across the SASB standards, the evolving body of evidence of the financial impacts of human capital management, in addition to investor interest in the subject, led to the addition of the Human Capital Management Research Project to SASB's Research Program in September of 2019.

SASB initiated the Human Capital Research Project to assess the scope and prevalence of various human capital management (HCM) themes broadly across SASB's 77 industry standards. This project will enable SASB to further develop its evidenced-based and market-informed view on human capital management themes across our standards through the development of a Human Capital Framework. This framework will serve as the foundation for SASB's view on human capital by identifying and analyzing broad, thematic evidence relevant to how SASB accounts for human capital management. This evidence will ultimately provide the opportunity for SASB to more adequately address existing issues in our codified standards and evolving and emerging human capital issues resulting from shifts in the broader macroeconomy and global business landscape.

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The Human Capital Research Project consists of 6 key phases:

Project Phase	Phase Description	Status
Literature Review	The literature review phase was a dedicated period of research and evidence-gathering to inform SASB’s initial view on how it defines and accounts for human capital across its standards, including implications for its general issue taxonomy for human capital issues. As described in SASB’s Conceptual Framework, SASB’s general issue categories are foundational to its standard-setting process. As such, the initial phase of SASB’s Human Capital Framework was focused on gathering a wide body of evidence to support potential revisions to its general issue taxonomy.	Complete
Preliminary Framework Development	SASB’s Preliminary Framework presents the body of evidence from the literature review phase and an analysis on how it broadly defines human capital issues across its standards, including implications for its general issue taxonomy for human capital.	Complete
Early Hypothesis Tester Consultation	The Early Hypothesis Tester Consultation phase was designed as a targeted consultation to solicit key stakeholder feedback on the body of evidence presented in the Preliminary Framework to inform potential revisions to the general issue taxonomy for human capital issues.	Complete
Preliminary Framework Revision	SASB used the additional market input from the Early Hypothesis Tester phase and other sourced evidence to further develop our view on how these human capital themes fit into the SASB standard taxonomy. This feedback and additional evidence will further develop the framework to describe the connectivity between this set of relevant industry-agnostic human capital general themes and potential financial impacts by citing relevant evidence.	Complete
Public Consultation Period	SASB will initiate an open consultation period on the revised preliminary Human Capital Framework. SASB will seek feedback from a wide range of stakeholders to develop a more industry-specific view on the impacts of these themes outlined in the Preliminary Framework and further strengthen the evidence basis for its framework.	In Progress
Human Capital Framework Finalization	SASB will finalize and publish its Human Capital Framework and discuss the connections between those issues and potential financial impacts, citing relevant evidence. In addition, SASB will provide their preliminary conclusions on the impacts of these themes on the SASB standard taxonomy; an industry heat map outlining SASB’s current view on the relevant industry-specific impacts of these themes; and an initial proposal on a first set of projects to modify human capital in the industry standards.	Planned

SASB's Preliminary Human Capital Framework

Purpose

SASB is releasing the *Preliminary Framework on Human Capital and the SASB Standards* document in order to outline and solicit feedback on a series of preliminary conclusions regarding how the body of evidence cited may inform SASB's standard taxonomy for human capital issues. The Preliminary Framework and the solicitation of feedback on the body of evidence presented in the document is part of SASB's public consultation phase.

Preliminary Framework Contents

The Preliminary Framework consists of the following key sections:

Introduction. The Introduction provides an overview of the project, including the current Public Consultation. This section includes background information on the Human Capital Research Project and outlines critical information on the Public Consultation's purpose, objective, format, and expected outcomes.

The Public Consultation. This section provides an overview of the public consultation period, including its objectives, format, and how stakeholders can engage. This section has additionally been provided in this executive summary below in the section "Public Consultation".

Summary of Conclusions. The Summary of Conclusions section consists of SASB's preliminary conclusions regarding how SASB accounts for human capital issues given potential implications of certain macroenvironmental trends and their associated business impacts. Each conclusion provides a brief summary of these implications including a synopsis of our assessment of the supporting evidence based on our literature review and targeted consultation. Stakeholders are encouraged to prepare feedback on these preliminary conclusions based on the relevant stakeholder survey and the associated engagement questions posed in the "Additional Comments & Feedback" section of each stakeholder-specific survey. The links to the stakeholder-specific surveys are located under the "Public Consultation" section of SASB's [Human Capital Research Project website](https://www.sasb.org/standard-setting-process/active-projects/human-capital/) available at: <https://www.sasb.org/standard-setting-process/active-projects/human-capital/>.

Supporting Evidence. SASB has included a Supporting Evidence section that provides a more complete evidence-based rationale for each conclusion. This section is intended for readers that are interested in the detailed supporting evidence. Each conclusion is supported by three elements: Macroenvironmental Value Drivers, Business Impacts, and an Analysis and Conclusions section. These elements are defined as follows:

- **Macroenvironmental Value Drivers** are defined as broad, global thematic issues or trends that have implications for the ways in which businesses interact with their workforces and how this interaction drives long-term value creation.
- **Business Impacts** represent the ways in which the macroenvironmental value drivers are affecting how businesses interact with their workforces.

- **Analysis and Conclusions** tie the body of evidence to potential implications for how SASB accounts for human capital issues across its standards, including implications for SASB’s general issue taxonomy.

Summary of Conclusions

Based on an extensive literature review, SASB has developed the following preliminary conclusions with respect to evidence pertaining to how SASB accounts for human capital issues:

1. **Mental health, wellbeing, and health-related benefits.** Several trends highlight the increasing importance of the health and wellbeing of employees, including health impacts related to common mental health issues (e.g. stress, depression, and anxiety), chronic diseases (e.g. musculoskeletal disorders and cardiovascular disease), and broad health benefits for workers (e.g., paid sick leave, medical leave, flexible arrangements). There may be an opportunity for SASB to more effectively account for these issues within SASB’s standards.
2. **Workplace culture.** Evidence highlights the increasing importance of the concept of workplace, or organizational, culture and specifically its embodiment of certain values, processes, and outcomes such as engagement, diversity, and inclusion in the workforce. Values, processes, and outcomes like diversity, inclusion, and engagement drive returns to the company’s acquisition, development, and retention strategies and produce a more productive, fair, and respectful work environment. This may have implications for SASB’s “Employee Engagement, Diversity, & Inclusion” general issue category relating these themes to the broader concepts associated with workplace culture.
3. **Workforce investment.** Businesses are playing an increasingly critical role in providing employees with career-building opportunities and financial investment in workers, with implications for worker financial wellbeing and job stability. These impacts relate to elements of SASB’s “Labor Relations” general issue category, but may have broader implications for SASB’s general issue taxonomy.
4. **Alternative workforce¹.** Greater prevalence of the use of alternative workforces has highlighted the potential to more effectively account for this multifaceted issue within the SASB standards and the potential implications of this issue within our standard taxonomy. This trend relates to the growing size of this worker classification and the expansion of the use of alternative workforces by a range of businesses.
5. **Labor conditions in the supply chain.** Globalization, technological advancement and adoption, and related evolving trends in international trade have increased the importance of labor conditions in the supply chain, specifically related to the human capital elements of supply chain management. Emerging regulation and enforcement of existing regulations for supply chain management, specifically related to human rights abuses through forced and compulsory labor, child labor, and other forms of modern slavery, may have implications for how SASB accounts for this issue across its standards.

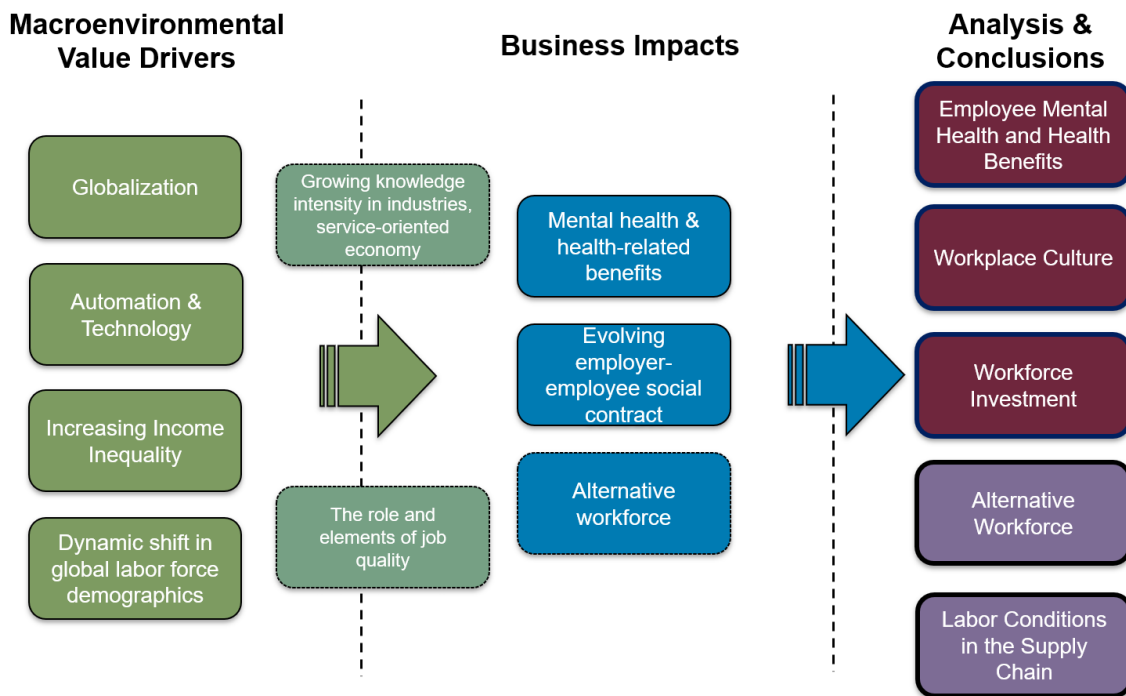
¹Alternative workforce (also the contingent workforce) is defined as a provisional group of workers who work for an organization on a nonpermanent basis, which include freelancers, independent professionals, temporary contract workers, independent contractors, or consultants (but excludes workers who form part of an outsourcing arrangement with a third-party as part of the alternative workforce); See EY, *Is the gig economy a fleeting fad, or an enduring legacy? in 2016* (EYGM Limited, 2016), pdf pg. 5, accessed March 9, 2020, <https://gigeconomy.ey.com/Documents/Gig%20Economy%20Report.pdf>.

6. **Workforce composition and workforce costs.** Additional activity metrics² related to workforce composition and workforce costs by type (including salaries and benefits and excluding training costs) may provide fundamental information about a company’s given workforce and normalize these fundamental descriptive data points across different companies.

Supporting Evidence

Each of the previous conclusions is supported by evidence associated with one or more macroenvironmental drivers and its related business impacts.

Preliminary Framework Structure



Each of these items is briefly described below. (Full details on each element and the associated supporting evidence can be found in the full revised Preliminary Framework document):

Macroenvironmental Drivers

Globalization. Shifts in global value chains are impacting trade intensity between goods and services, which is impacting the nature of work, and subsequently, the market for human capital related to education, skills, and capabilities. The faster growth in trade of services relative to that of goods, resulting from growing digital flows and the acceleration of technology advancement and adoption, has implications for economies and the changing nature of work, especially as economies shift toward service-oriented and, in some cases, knowledge-intensive economic activity. At the same time, these

² SASB defines an activity metric as a metric that quantify the scale of a company’s business and are intended for use in conjunction with accounting metrics to normalize data and facilitate comparison.

macroenvironmental effects are placing increasing financial pressures on workers that do not have these increasingly specialized skills.

Technology & Automation. The growing importance of technology in business is also increasingly shaping the nature of work. As technology and automation replace certain core business functions, value creation is increasingly becoming concentrated in upstream activities, such as R&D and innovation, and downstream activities, such as distribution, marketing, after-sale services. Implications include increased demand for specialized skillsets and the reduced demand for workers that are less specialized, and in the most extreme cases, the displacement of workers by increased automation of business functions.

Growing Income Inequality. While increased integration of technology, including automation, has fundamentally shifted trade toward a service-oriented economy and changed the skills demanded in the labor market, it has also had effects on wage polarization, particularly in urban centers, creating an increasing opportunity divide between low-skilled and high-skilled workers. Increasing income inequality is further exacerbated by other broad trends such as the growing transition from defined benefit to defined contribution plans, reduced employer savings rates, increased household debt, and increasing costs of living, which have compounding effects on the ability of particularly low-income and workers lacking specialized skills to be financially and economically secure in the present and future. The confluence of these events has emphasized the importance of job quality in the context of this opportunity divide, the implications of considering job quality in the modern employer-employee social contract, and how to address this issue based on the needs of the firm and workers in order produce outcomes that create or add long-term value to the firm.

Shifting Global Labor Demographics. Virtually every country in the world is experiencing growth in both size and proportion of older persons (defined as persons aged 65 years or older) in their respective populations. This trend is particularly applicable to certain advanced economies. Younger generations, such as Millennials and Generation Z, are becoming a more significant portion of the global workforce, thereby becoming a predominant force in shaping how and in what ways work is performed with particular implications related to evolving expectations around the employer-employee social contract. The ways in which young generations are influencing the employer-employee social contract include but are not limited to the value of a meaningful job, flexibility, learning opportunities, and opportunities for advancement (in addition to more traditional incentives such as compensation and benefits). Consequently, in some industries that are especially competitive and/or are in constrained talent markets, employers are tailoring their recruitment and retention strategies as a key part of their broader business objectives.

Business Impacts

Mental Health, Wellbeing, & Health-Related Benefits. As businesses become increasingly reliant on innovation to maintain competitiveness, intellectual capital and knowledge-intensive work are growing in importance. This altered demand for human capital skills and capabilities has placed additional importance on the role of mental wellbeing of workers as the nature of work continues to change with technology advancement and adoption. Furthermore, other health-related benefits, particularly paid sick leave, medical leave, and flexible work arrangements, are playing an increasingly important role in addressing both physical illness and mental and emotional wellbeing. These impacts have potential implications for how SASB defines its Employee Health and Safety general issue category, including how it accounts for mental and physical wellbeing and health-related benefits.

Evolving Employer-Employee Social Contract. Fundamental changes to global labor force demographics and increasing technological advancement—alongside their associated impacts on income inequality and wage polarization—have had significant impacts on the employer-employee social contract. Widening income inequality, particularly between high-skilled and low-skilled workers, has resulted in increasing scrutiny of how employers create quality jobs, or jobs that provide a financially sustainable, fair, and engaging livelihood, for workers. This trend has highlighted the importance of the role that businesses play in supporting the economic wellbeing of employees through workforce investments, including career-building and wealth-building opportunities. Furthermore, the current generational shift in the global labor force is introducing a unique set of values and preferences with respect to work, which in turn, is impacting the ways in which companies are seeking to engage and retain their workforces, including emphasizing workplace culture as an important driver of employee engagement. These impacts have implications for SASB’s preliminary conclusions on its general issue categories, including how it defines its Employee Engagement, Diversity, and Inclusion general issue category and the extent to which it accounts for broader concepts of workplace culture. Furthermore, it highlights the importance of the concept of workforce investment, which may not be fully captured in SASB’s current standards taxonomy related to human capital management.

The Alternative Workforce. Companies are increasingly relying on alternative workers across industries and job functions, which is fundamentally changing how businesses manage various forms of human capital. Post the Great Recession, while work opportunities and employment participation has risen to record levels, wage stagnation and growing wage polarization from technology and automation, particularly for low- and middle-income workers in advanced economies, has put pressure on individual households to earn and save. As a result, alternative work, most notably part-time work, has grown with businesses benefiting from the ability to respond quickly to labor market changes and transfer the burden of certain employment protections to workers in order to reduce labor costs. Given this trend, SASB has identified the potential need to more effectively account for the sustainability implications of corporate decisions affecting their workforce structures in its standard taxonomy.

Labor Conditions in the Supply Chain. Globalization, technological advancement and adoption, and related evolving trends in international trade have increased the importance of labor conditions in the supply chain, specifically related to the human capital elements of the supply chain. Emerging regulation and enforcement of existing regulations for supply chain management, specifically related to human rights abuses in forced/compulsory labor, child labor, and other forms of modern slavery, may have implications for how SASB accounts for this issue across its standards.

Public Consultation

The Public Consultation seeks to solicit feedback from a wide range of stakeholders – investors, companies, and many forms of subject matter experts such as academics, researchers, consultants, civil society organizations, and others – to help (i) finalize the body of evidence supporting SASB’s human capital project and (ii) identify the industry-specific impacts of the themes outlined in the Framework, including how these impacts affect company strategy and financial performance.

The information gathered through the Public Consultation Period will enable SASB to (i) finalize its analysis and conclusions regarding key industry-agnostic human capital management themes that

represent relevant business issues with significant sustainability impacts across industries; (ii) analyze the industry-specific manifestations of these industry-agnostic themes; and (iii) help form the foundation for standard-setting activities across the SASB standards.

The Public Consultation consists of a set of questions for stakeholders to provide feedback to SASB as part of its human capital management research project. These questions have been prepared in the form of three stakeholder-specific surveys (for companies, investors, and subject matter experts). SASB requests that stakeholders participating in the Public Consultation refer to the relevant stakeholder survey and follow the associated guidance when preparing their feedback.

Survey respondents will have an option to attach a free-form response in the “Additional Comments & Feedback” section. In the “Additional Comments & Feedback” section, SASB will provide guiding engagement questions that ask the respondent to further elaborate on their responses in the survey.

Stakeholders seeking to participate in the Public Consultation of this research project should review the consultation materials on the [Human Capital Research Project page](#) under the “The Public Consultation” section.

In this section of the project page, SASB has provided a set of consultation materials for open feedback from the public, which include the following:

1. **The Revised Preliminary Framework:** The Revised Preliminary Framework outlines a series of preliminary conclusions regarding how this body of evidence may inform SASB’s taxonomy for human capital issues across its standards. This document is provided to solicit feedback on these preliminary conclusions, which will help guide SASBs thinking around how it defines human capital and incorporates these themes in its standard taxonomy and across its industry standards broadly.
2. **Stakeholder-Specific Stakeholder Surveys:** SASB has prepared stakeholder surveys to solicit feedback on how these themes and sub-themes presented in the Framework may have industry-specific implications for SASB’s future standard-setting activities. Three stakeholder-specific surveys will be provided with a specific version and associated questions for companies, investors, and subject matter experts (*See below note defining subject matter expert*).

Note: *A subject matter expert is any individual or organization that is not representing and/or acting in the capacity of a representative of a corporate sustainability reporter nor representing an investment firm that has fiduciary and management responsibilities over a portfolio(s) of companies. Common examples of subject matter experts include academics, consultants, and civil society organizations.*