Introduction to the Workforce Disclosure Initiative

What is it?

The Workforce Disclosure Initiative (WDI) is a new programme bringing institutional investors together to secure comparable workforce reporting from listed companies on an annual basis. The data requested will cover employees in companies' global operations and workers in their supply chains. The WDI is modelled on the Carbon Disclosure Project.

The initiative builds on existing reporting standards, and the data requested from companies will cover workforce composition, workforce development, and worker engagement.

The first year's pilot survey will go to the FTSE 50 and an additional 25 mega-cap firms on other global exchanges. The survey will evolve over time in response to learning that emerges from the process. The number of companies surveyed will grow substantially year on year.

What do signatories receive?

During 2017, investors are being invited to become founding signatories to the WDI. Signatories will receive special access to the data generated, along with detailed analysis of trends and sector comparisons.

Signatories wanting greater involvement are welcome to play a role in shaping the methodology and research process. The WDI will provide opportunities for knowledge-sharing and networking through newsletters, research notes, webinars and events.

The WDI team, based at ShareAction, will also support interested signatories in developing and delivering engagements with companies to address risks highlighted by the data that is generated.

Why take part?

There is a growing body of evidence supporting the materiality of companies' management of human capital.

As an example, companies listed in the '100 Best Companies to Work for in America' generated between 2.3% and 3.8% higher stock returns per year than their peers in comparable companies from 1984 through to 2011.[1]

On the flipside, the high-profile example of Sports Direct plc showcases the financial and reputational risks of poor workforce management. Failures at Sports Direct to comply with minimum wage requirements led to multi-million pound fines and settlements.[2] Following the very public exposé of poor working conditions, the company's share price fell by over 50%.[3]

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The financial risks and opportunities associated with human capital management are equally pronounced further down supply chains. The collapse in 2013 of the Rana Plaza building in Bangladesh resulted in the death of 1129 workers and injuries of a further 2500, sending shockwaves through the global garment sector. Global brands named as sourcing from the factory suffered major fluctuations in their returns, and longer-term negative impacts on revenues and costs.[4]

There is also increased regulation designed to hold firms accountable for their supply chains including the EU's non-financial reporting directive, the UK's Modern Slavery Act, and the California Transparency in Supply Chains Act.

Violations of the law can come with significant financial penalties, as in the case of Signal International LLC, which was ordered to pay $20 million in compensation for complicity in forced labour.[5] The firm later filed for bankruptcy.

Institutional investors increasingly want to integrate workforce management into their investment analysis and to engage with companies to reduce risks in this area.

However, the lack of comparable data reported by companies is a major barrier at present. An analysis of the world's 4609 largest listed companies in 2014 found that only 12% disclosed rate of employee turnover, and only 11% reported workforce injury rates.[6]

In 2015, the Pensions and Lifetime Savings Association found that less than half of FTSE 100 companies disclosed levels of staff turnover, less than a quarter reported on workforce training and development, and one in ten provided information on the composition of their workforce.[7]

Even when data is reported by companies, it is rarely comparable across peers in a sector, making it difficult for investors to incorporate into analysis.

Environmental risks and performance are today well integrated into investment analysis. This can largely be attributed to the pioneering work of CDP in mainstreaming environmental data and providing a framework for investors to analyse how companies compare to their peers.

Requesting data from companies as an individual investor is a costly and labour intensive process, for the investor and company alike. A collaborative effort such as the WDI can overcome this barrier and create an efficient process for all parties.

What does being a signatory require?

Signatories agree for the name of their institution to appear on letters to the chief executives of surveyed firms, asking for the company to complete the survey. The names of the signatories will be published.

How is this project financed?

ShareAction is funded by the UK's Department for International Development (DFID) to pilot two rounds of the survey, to prepare analysis for investors based on the resulting data, and to support collaborative engagements with surveyed companies. There is no fee for signatory investors in the 30-month pilot phase. The WDI team will use the pilot phase to work on the development of a sustainable business model that will ensure the longevity of the programme.

References

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About ShareAction

ShareAction (Fairshare Educational Foundation) is a registered charity that promotes responsible investment practices by pension providers and fund managers. ShareAction believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits.

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