EMPLOYEE ADVOCACY RESOURCES

re·generation

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Introduction

The Company Transition Toolkit is intended as a guide for employee activists to advocate for t ransformative change within their organizations. Using this Toolkit, employees can evaluate their employer's performance on social and environmental issues and help their companies become more sustainable and just. The Toolkit combines resources and self-assessment questions from a variety of sources that are organized into four key issue areas: ecological well-being, human well-being, business ethics, and business model and governance.

The resources available in this Toolkit are not intended just for sustainability and CSR teams, but rather any employee in any company that is interested in being a voice for change. Most importantly, the Toolkit aims to help employees understand the difference between greenwashing and genuinely impactful sustainability efforts, and hold employers accountable to their promises. As insiders, employees are uniquely positioned to determine whether a company is acting meaningfully on social and environmental issues, and gather the knowledge, resources, and support to push for more ambitious action.

Rise in Employee Activism

We are living in a time when employee activism is becoming even more powerful than CEO activism. From 4,000 Amazon workers filing a shareholders' resolution to challenge the company's position on climate issues, to 20,000 Google employees staging a walkout in protest of lax sexual harassment policies, employee voice has never been such a major factor in our culture or politics. Recent analysis finds that there was a three-fold rise in employee activism events between 2019 and 2020, and evidence from another survey indicates that as many as two in five employees of medium to large-sized firms have engaged in employee activism of some kind. Many employees are becoming more vocal about making their work reflect their values; a letter signed by more than 1,100 McKinsey employees called on the company to cut ties with fossil fuel companies, while a group of law students at Yale and Harvard have begun boycotting internships with firms that represent Exxon Mobil. It also seems as though this shift is here to stay–88% of North American executives expect employee activism to surge over the next three to five years.

According to NYU Stern Professor Alison Taylor, there are many factors which have led to this rise in employee voice, chief among which is an increase in the power of workers. There has been a wave of new unionization campaigns and strike actions, accompanied by a large increase in the number of resignations, which together signify that many employees feel more empowered to voice their values and advocate for change than they have in the past. Secondly, due to the rise of social media, whistleblowing against corporate misbehaviour has become a collective activity. Social media amplification allows information to be weaponized by activists to increase reputational risk through generating public controversy, and employers can no longer rely on confidentiality or secrecy clauses to prevent the public sharing of sensitive information. Employee activism is also driven by generational differences among younger employees, many of whom care more about social purpose and expect better from their employers. PwC's Workforce of the Future survey found that 88% of millennials want to work for a company whose values reflect their own, indicating that companies which continue to erode social and environmental value might find it increasingly difficult to recruit new employees.

Tactics and Strategies

The rise of employee activism has also led to the creation of a new type of change agent: the social intrapreneur, or someone from within a company who helps reform internal processes and identify opportunities to create change using social and sustainable innovation. As this article from the Harvard Business Review shows, it is possible for a single person to change the conscience of an organization, especially when they inspire like-minded individuals and help create a movement. To learn more about social intrapreneurship, see this portal from Yunus Social Business.

All employee activists should take the opportunity to educate themselves on social and environmental issues, and acquire a high degree of sustainability literacy in order to adequately assess their company's performance. The second stage of employee activism involves finding allies, organizing for change, and helping to spread the word through meetings, workshops, conferences, and informal channels such as internal message boards. Through organizing and building connections, activists can help work with other interested partners to develop a theory of change, or an advocacy strategy that focuses on particular concrete outcomes. Theories of change can include the goal of changing individual corporate practices, or the larger, more systemic goal of changing a company's entire business strategy from the ground up to become more purpose-driven.

Employees can begin by asking a very simple question: is there clear alignment between an organization's external rhetoric (as outlined in its sustainability or CSR reports and marketing strategy), and its actual internal operational practices? Using the resources contained in the Company Transition Toolkit, employees can analyze their company's existing sustainability reports and engage with internal sustainability teams to determine whether a corporation's sustainability efforts are leading to genuine change. Once this question has been answered, employee activists can advocate for the adoption of new targets and strategies, or the allocation of greater organizational resources (including increased budget and staffing allocations and new capital investments) towards sustainability and social impact initiatives. Employees can also advocate for the creation of a shadow board program to increase worker involvement in decision-making, and create greater engagement between senior officers and employees. Shadow boards have been proven to be an excellent source of crowd-sourcing new ideas, outside of the box thinking, and participatory innovation.

Other common techniques used by employee activists, according to this article from the Stanford Social Innovation Review, include the following activities:

- Internal coalition-building by forming new employee resource groups;
- Hosting educational events;
- Mobilization by creating new internal employee networks (i.e. sharing information on the company intranet, creating new message boards);

- Polls or data collection;
- Coordinating petition or email campaigns.
- Press conferences;
- Shareholder resolutions;
- Posting information on social media;
- Sharing information with NGOs, news media, and external organizations;
- Employee walkouts and protests;
- Coordinating with activists in other companies;

As the above article demonstrates, there is no limit to the number of actions that employees can use in the pursuit of organizational change, which range from more disruptive to more persuasive in nature. Particularly important is the formation of new Employee Resource Groups (ERGs), which are internal networks of employees with a common interest in a particular issue area. ERGs have the opportunity to be very transformative; a climate-focused ERG at the European insurance company AXA helped to generate internal educational resources, such as a Masterclass on Sustainable Finance, through the formation of an 'AXA Climate School' that has helped inform finance professionals throughout the company about climate-related risks and the need for societal transformation. The AXA ERG now has over 1,000 members, with 600 trained employees in total.

Steps for Changemaking

1. Use the Company Transition Toolkit and associated resources to analyze your company's performance.

To begin, you can seek to educate yourself using the resources and self-assessment questions outlined in the Company Transition Toolkit and other sources. It is important to get a sense of the most salient social and environmental issues that your company has an impact on or can influence, which can differ significantly by sector. Once these issues have been identified, you can review the issue-specific pamphlets contained in the Transition Toolkit to get a more granular understanding of how to measure progress on these grand challenges, whether it includes human rights, inequality, greenhouse gas emissions, or other problems.

Next, you can review your company's existing sustainability reporting and CSR strategy (if it exists) to ensure alignment with international best practices. Crucial questions to ask include:
- Strategy
    - What issues are included, and what issues are ignored?
    - What is the organization's current sustainability strategy, and is it linked with its overall business strategy? Is the company's business strategy purpose-driven, with explicit reference to social and environmental value creation?
    - What is the company's purpose or core reason for being? Is it a social purpose, and if not, why?
    - Is this world better off because your business is in it?
- Goals and Measurement
    - What targets and goals are used, and how has the company performed in relation to these goals? Are these targets specific, measurable, achievable, relevant, and timely?

    - Are targets based on outcomes (i.e. emissions reductions by a certain date) rather than actions (i.e. increasing spending on new technologies)?
    - Do transition plans include clear implementation plans with specific annual expenditure plans and explanations of potential gaps?
    - How is performance measured? What indicators are used, and are they sufficient?
    - What international reporting methodologies are used to create the sustainability report? Does the company use standards from the Global Reporting Initiative, the Sustainability Accounting Standards Board, the Carbon Disclosure Project, the Taskforce on Climate-Related Financial Disclosures, or other initiatives? What is the rationale for this choice?
    - Is the data contained in sustainability reports externally verified?
- Integration and Management
    - Is the company collaborating with external partners, including suppliers, customers, government, academia and even competitors to address its top social and environmental issues?
    - How is the sustainability strategy embedded throughout the organization? Is sustainability siloed in a particular team, or is sustainability performance a requirement of most jobs?
    - Do senior leaders have direct responsibility for sustainability management? Are senior leaders compensated on the basis of their sustainability performance, and are these targets ambitious?
    - Are there appropriate organizational resources allocated to sustainability and social impact initiatives? Are sustainability initiatives receiving the appropriate funding and staffing allocations? Are these sustainability initiatives core and material to the company's operating model?
    - Is sustainability reflected in the corporation's mainstream financial reporting, particularly in sections relating to capital expenditures and investments?
    - In your opinion, is your firm greenwashing? Is sustainability strategy seen as a business strategy, or simply a marketing strategy? Does the company publicize positive events in order to conceal negative ones?

You can research in particular whether or not a company's goals are linked to relevant external thresholds and limits, such as the planetary boundaries and minimum social safeguards outlined in the doughnut economics framework. More information about the process of contextualizing company goals is provided throughout this Toolkit, particularly in Section 4.3 on Transparency and Reporting. Sample self-assessment questions include:

- Does your company's emissions reduction plan reference the global carbon budget that is required for a 1.5 degree temperature rise, as outlined in the Paris Climate Accord? You can use the Transition Pathway Initiative to see if their company is listed as being consistent with a 1.5 degree future.
- Does your company's human rights policy reference and respect the provisions of the UN Guiding Principles on Business and Human Rights?
- Do your company's labour practices respect the stipulations of the fundamental Conventions of the International Labour Organization?

For more information about embedding sustainability in organizational culture and structure, you can review this manual for change management for sustainable development, as well as this blueprint for 'making sustainability stick'.

You can also seek to become effective advocates by reviewing these resources about becoming a change agent from the Embedding Project. There are many strategies for becoming an effective change agent, as outlined in this inventory which provides a useful self-assessment tool for employees beginning their activist journey. To become an effective climate intrapreneur, see this guide from Green America.

2. Engage with existing sustainability and CSR teams.

Following this research, you can engage with existing sustainability and CSR teams, if they exist, to better understand the existing work that is going on within the organization. You might want to consider interviewing existing sustainability and CSR teams to better understand their perspectives, as well as the frustrations they experience in their day to day jobs. Critical interview questions include:

- What do they work on, and how do they spend most of their time?
- Are there things that they would prefer to be working on?
- What are the main organizational obstacles to improved performance? Are there particular individuals or departments obstructing change?
- Do they receive support from senior management? Are they encouraged to raise concerns with existing processes?
- What resources do they need to perform their job better?
- What ideas do they have for new initiatives or policy implementation that they haven't had the time to explore yet?
- What other employees do they know that are also interested in sustainability issues, and are there resource groups or internal networks focused on sustainability that already exist?

A critically important issue to understand is whether or not the existing sustainability teams are focused primarily on driving organizational change throughout the company's internal processes and external collaborations, or whether they focus most of their time on collecting information for reporting purposes. It is often the case that sustainability teams are less capable of taking on an activist role within companies because their main job task requires the majority of their time to be spent on compiling information for reporting and compliance purposes.

3. Create an internal social network by bringing together like-minded employees and uniting existing efforts.

You might want to forge ties with other sustainability-minded individuals and build cross-functional coalitions that engage employees from all departments. Creating networks is the best way to build a movement, galvanize others, and instantiate change.

Groups should aim to set a plenary group with smaller internal working groups, to create structural cohesion and improve organizational effectiveness. These working groups can be organized according to specific tasks based on interest, and delineated according to the goals and objectives of the team. The structure of these networks should be designed concentrically, with a core group of motivated and active members who lead thematic sub-groups according to specific issue area, a larger group of employees that attend regular meetings, and an even wider community of interest. For larger firms with multiple offices, including multinational firms, local groups should be set up and linked to a wider firm-wide group to encourage the formation of local initiatives while still benefiting from centralized coordination. Groups should also aim to recruit individuals from all departments, in order to obtain buy-in from as many business functions as possible. This is necessary in order to have a truly holistic approach to change management, and ensure that all senior leaders have sustainability-minded members on their team.

In establishing a group dynamic, group leaders should take care to do the following:

- Establish regular meeting times;
- Create rotating coordinator positions;
- Develop a recruitment strategy;
- Develop a communications strategy, and create public pages that people can follow;
- Commit to core values; transparency, equal voice, respect, etc.

For more information about creating productive and energizing communities where individuals feel empowered to speak their mind and embrace organizational transformation, see the resources provided by Coworker.org, which are designed to provide resources to empower employees to advocate for change in their workplaces. Group leaders should also review these guides on how to create communities of practice, and develop and manage effective peer networks.

4. Organize events to increase access to educational resources.

To build awareness and garner a community of interest, you can aim to host events geared towards providing educational resources and sharing information with fellow employees. This can include hosting webinars, workshops, lunch break sessions, or even internal conferences. Groups should also establish a clear communications strategy, with direct communication channels such as a regular newsletter or a new webpage, to reach other employees about their work and advocacy. Groups might also want to host town halls, or large events to gather employees from a variety of business functions and management levels and talk openly about what sustainability changes should take place.

In hosting public-facing events, you might want to review the key principles of storytelling and narrative creation as a way to generate persuasive arguments that win over new adherents and create interest from a wide variety of people. To do this, see the 'storytelling for sustainability' manual from the Embedding Project, as well as this guide on shaping narrative infrastructure.

For climate-specific education campaigns, see the climate solutions at work report by Project Drawdown, as well as this report on employee climate action from planetgroups. There are a variety of other organizations which provide educational climate change resources, including the following Terra.do, planetgroups, The Climate School, and ClimateFresk. Employees can also take a look at ClimateVoice, a group which aims to mobilize the voice workforces to urge companies to improve their climate practices and become policy advocates.

5. Co-create and advance a specific agenda with tangible action items.

After convening interested parties and developing a group structure, you can organize around key agenda items that include specific and realistic proposals that can be taken to senior management and other decision-makers.

One unique approach is to crowd-source ideas for sustainability initiatives, and classify these proposals according to ease of implementation and level of expected impact. These proposals should go beyond simple, low-hanging fruit, such as implementing compost programs or energy efficient lighting, and instead focus on systemic changes like alternative business models, boycotting of unsustainable clients, new ownership structures, governance reforms, and other ideas.

Once these ideas have been generated, groups should democratically select the top two or three core ideas that can serve as the animating focus for an employee-led campaign. Ideas should be selected according to their concreteness, and must be specific, measurable, achievable, realistic, and timely. You can also seek feedback on proposed goals from issue-area experts, and from people within your company who can speak to the feasibility of the various proposals.

Following this, employees should aim to develop realistic implementation plans regarding these goals, with a clear timeline and delineation of responsibilities that cuts across all business functions, and a communications strategy for managing the campaign (including by outlining the arguments and channels used to persuade others).

6. Engage with senior executives and other company leaders.

In order to create genuine change, engagement with senior executives is crucial. While executive opposition can kill sustainability initiatives, the endorsement of an important executive can also help lead an organizational transformation. CEOs and other senior officers should support employee activism instead of opposing it, and encourage their employees to be vocal about their values and to collectively brainstorm ways to improve sustainability performance.

You can specifically identify ‘sponsors’, or senior managers who can serve as allies to employee activist groups and help introduce key ideas and criticisms to the company’s other senior leaders and board of directors. The identification of a sponsor is a crucial factor in getting sustainability initiatives to be taken seriously by the rest of the firm. In approaching senior executives, you might want to prepare precise and data-driven suggestions that show meticulous research and a high level of thought, with specific and tangible proposals for change, a realistic implementation plan, and a proposed budget if necessary.

You might also take care to craft arguments that will persuade senior executives to take sustainability reforms seriously. Such tactics often include the following:
- Identify parallels between sustainability proposals and the company’s overall purpose or strategy;
- Emphasize that improving sustainability practices can help reduce future regulatory costs, while continuing to perform poorly increases both reputational and financial risk;
- Outline that sustainability can help create a competitive advantage, and in many cases result in reduced costs (i.e. energy savings) or new business opportunities (i.e. sustainable innovation).

When approaching senior management, you can make use of this guide from the Embedding Project on ‘supporting your CEO’, which outlines a variety of key strategies, including to:
- Help them to create strong business cases;

- Create opportunities for them to experience sustainability issues first-hand;
- Help them learn from influential peers;
- Let the business ‘fail small’;
- Leverage the interests of key customers;
- Help board members to be better sustainability advocates;
- Create opportunities for them to make public commitments.

At the same time, you should be sure to remain independent of senior management and avoid being instrumentalized by senior executives who prefer to use employee resource groups as a source of positive marketing campaigns rather than actually an opportunity to implement genuine reform.

7. Engage with voices and stakeholders outside of the company

Finally, you might want to forge ties with like-minded networks outside of their company, including with employees of other companies that share similar objectives, as well as NGOs and media partners that can provide more information and resources related to goal-setting, organizational change, and key social and environmental issues. You can also forge relationships with stakeholders within your company’s value chain, including clients and suppliers, to help build supportive voices from key partners on all sides. You might also want to involve yourself in wider activist campaigns and social movements, or get involved in politics, in order to actively participate in the creation of a cultural environment that is conducive to sustainability reforms and imposes pressure on senior leaders to make decisive public commitments.

At the same time, the risk of speaking out or taking action that may seem adversarial to your employer can be daunting, and many employees might fear taking a critical position. This is a valid concern. However, resistance to change and a culture of fear are signs of a dysfunctional organization, and if employees fear being reprimanded or fired because of their desire to advance an ethical position, then it is likely that this kind of organization is not worth working for. In the age of the Great Resignation, employees have more power than ever, and employers are well aware that employees (particularly younger ones) expect their work to reflect their values. You shouldn’t be afraid to stand up for your morals, and managers should understand that the days when a culture of intimidation and secrecy could be used to conceal harmful or immoral behaviours are long over.

Ecological Wellbeing

Climate 1.1 Change

Description

The impacts of climate catastrophe are already being felt, and they are escalating. While the Paris Agreement calls on signatories to limit global temperature rise to 1.5 degrees Celsius, the IPCC indicates that this target is very likely to be significantly exceeded. The carbon budget required to limit the global temperature rise to 1.5°C will be consumed in less than a decade. Energy companies and governments currently plan to burn 120% more carbon that would be permitted in the 1.5 degree carbon budget, a discrepancy known as the global production gap. The Rainforest Action Network has determined that the world's 60 largest commercial and investment banks have provided over $3.8 trillion in funding to the fossil fuel sector from 2016 to 2020. Despite a flurry of corporate announcements on emissions reduction targets, very few major firms have made net-zero pledges that are actually credible, according to the Corporate Climate Responsibility Monitor. Current research shows that most fossil fuel companies prefer to rely on speculative carbon removal technologies, and have yet to adopt science-based targets focused on reducing the production and combustion of fossil fuel reserves. Without significant improvements, there is a distinct possibility that additional warming could trigger feedback loops that lead to warming far worse than 1.5 degrees, which will make many regions of the world uninhabitable.

Issue Summary

The global climate crisis is escalating more rapidly than scientists predicted, and it is already beginning to have massively destabilizing effects on human society. As catastrophic wildfires wreak havoc around the world, and "once in a century" storms and floods become seasonal events, it is clear that climate change is no longer a distant future threat, but a reality that is lived by millions of people every day. Prospects for averting cataclysmic climate disruption are increasingly dim: at the current rate, the carbon budget required to limit the global temperature rise to 1.5°C will be consumed in less than a decade. Even if we manage to respect the targets of the Paris Climate Agreement, it is estimated that the total cost of a 1.5°C temperature increase will be $54 trillion by the year 2100. However, because the climate is a complex non-linear system, there is a possibility that additional warming will trigger feedback loops that lead to warming far worse than 1.5 degrees, which will make many regions of the world uninhabitable and have the potential to end life on Earth. A 3.7°C temperature rise could cause up to US$ 551 trillion in damage, which is more than all the wealth that currently exists in the world. As the CEO of the insurance giant AXA declared, 4°C of warming this century would make the world "uninsurable."

According to Project Drawdown, annual private sector investments in clean technologies must increase by eightfold to match the $5 trillion required to meet the Paris Accord goal of 1.5̊C of warming. Unfortunately, international capital flows have not shifted to make this a reality. Energy companies and governments currently plan to burn 120% more carbon that would be permitted in the carbon budget allocated by the global Paris Accord, a discrepancy known as the global production gap. The future expansion and production plans of large global oil and gas firms are fundamentally incompatible with a 1.5 degree aligned scenario, as outlined in this report by Oil Change International. The Rainforest Action Network has determined that the world's 60 largest commercial and investment banks have provided over $3.8 trillion in funding to the fossil fuel sector from 2016 to 2020. Global banks continue to finance new oil and gas projects in spite of their public net-zero pledges. The Bank of England has determined that the global financial system currently supports high carbon projects that will cause a global temperature rise of more than 4°C.

At the same time, the global momentum for international climate action has never been stronger. In 2021, the International Energy Agency released a bombshell report calling for no new investment in fossil fuel infrastructure, outlining the need for capital markets to rapidly redirect funds towards a clean energy transition. In a tentative sign that a structural shift might be underway, the European oil companies Eni and BP became the first major oil and gas firms to openly commit to cutting production levels. On May 26th, 2021, three monumental announcements were made: a Dutch court mandated Shell to make an absolute cut in Scope 3 emissions, activist shareholders helped install new climate sympathetic board members at ExxonMobil, and a majority of shareholders at Chevron backed a proposal to commit the firm to Scope 3 emissions reductions. Following a period of heightened international attention, substantial new climate pledges were made in 2020, including a doubling in the total number of net-zero targets. Capitalizing on this growing movement, the UN has launched its new Race to Zero campaign aimed at galvanizing businesses and governments to play their part in building a zero carbon economy through comprehensive Climate Action Pathways.

When it comes to the strength of its climate ambition, Canada remains a laggard rather than a leader. Canada has failed to meet any of its numerous emissions-reduction targets. In fact, since setting its first target in 1992, Canada's national annual emissions have increased by 16%. Canada is the only G7 country whose emissions have increased since the signing of the Paris Agreement. Canada also continues to faithfully subsidize the industry most responsible for fuelling climate change. A recent report revealed the government announced almost $18 billion in funding to the oil and gas sector in 2020 alone–which is nearly $3 billion more than the government has committed to Canada's new climate plan for the next 10 years. Canada's projected oil and gas expansion from 2021 to 2050 will consume a staggering 16 per cent of the world's carbon budget in a 1.5 C world. The Climate Action Tracker rates Canada's climate plans as "highly insufficient", and on the Climate Change Performance Index we rank 54th out of 60, where we are below Russia and just ahead of Kazakhstan.

Key Considerations

As the stark realities of global climate change become harder to deny, emissions reporting among large corporations is being mainstreamed. Unfortunately, studies suggest that this is not happening rapidly enough. Research by Millani shows that only 66% of companies listed on the Toronto Stock Exchange are currently disclosing annual GHG emissions, while only 23% of companies are reporting in alignment with the standards of the Task Force on Climate-Related Financial Disclosures. Additionally, research by CPA Canada demonstrates that only 11% of Canadian companies include emissions reporting under the purview of their Chief Financial Officer, implying that sustainability is not seen as a strategic or financially material concern. Far more Canadian firms must begin reporting their annual emissions, along with credible plans to reduce them. To compare Canadian companies according to their targets and performance, check out the Net-Zero Leaderboard developed by Canadian Business for Social Responsibility.

Many large firms are adopting more ambitious emissions reduction plans. At least 20% of the world's 2000 largest publicly traded companies have made net-zero commitments. Unfortunately, it can be difficult to discern which of these commitments are genuine, and at worst some firms rely on net-zero announcements as a form of positive publicity without room for real reform. According to the Corporate Climate Responsibility Monitor, very few major firms have made net-zero pledges that are actually credible. Even in Europe, where climate reporting is most advanced, only 30% of firms provide sufficiently detailed information on their climate policies and risks as required in the EU Non-Financial Reporting Directive. Far too many companies rely on vague timelines without interim goals, or make excessive use of carbon offsetting techniques or other unproven negative emissions technologies in order to defer action to a later date.

Credible emissions plans must require firms to abate emissions by preventing them in the first place, rather than continuing to pollute and hoping that negative emissions technologies, carbon capture projects, or offsetting techniques will allow carbon to be removed from the atmosphere with the necessary speed and scale. The IPCC has warned that carbon removal "deployed at scale is unproven, and reliance on such technology is a major risk in the ability to limit warming to 1.5°C" owing to "multiple feasibility and sustainability concerns." Offsets are particularly problematic because natural carbon sinks are not capable of absorbing the total flow of human-made carbon emissions into the atmosphere (and global forests are beginning to become sources rather than sinks of carbon). For example, Shell's low carbon plans have been criticized for relying on the creation of an artificial forest the size of Brazil. Additionally, carbon capture and storage technologies do not yet exist at a scale that would allow large emitters to feasibly trap and sequester the majority of their emissions, and some carbon capture plants emit more carbon than they capture. This is not surprising, given that a literature review of 200 research papers on carbon capture and industrial carbon removal found them to result in net CO2 additions, not reductions. Many scholars believe that negative emissions technologies are a dangerous distraction that serve as a deterrence to genuine mitigation efforts. Current research shows that most oil companies prefer to rely on speculative carbon removal technologies, and have yet to adopt science-based targets focused on reducing the production and combustion of fossil fuel reserves. For more information on the inauthenticity of carbon offsetting schemes, check out this report by Carbon Accountability.

Emerging international best practices in sustainable finance suggest that offsets should not be used in determining a company or project's transition risk, given that if the source of offsets disappears, if the price becomes too expensive, or if the offsets turn out to be fraudulent, the company will be badly exposed. If a company must rely on carbon offsets, all purchased offsets should be verified with concrete evidence, and also must be additional (i.e. consisting only of emissions reductions that would not have happened without the specific offset project).

As Project Drawdown has written, "net-zero goals cannot be a proxy for climate action." To ensure that companies are adopting genuinely ambitious emissions reduction plans, the following criteria should be met:

1. Adopt official science-based targets, which provide emissions targets that are fully aligned with the most recent IPCC science;
2. Adopt an official low-carbon transition plan timeline with clear 2030 mid-term targets, and a plan to strengthen these goals over time;
3. Implement plans to eliminate all carbon emissions in absolute terms, not just a reduction in carbon intensity, that accounts for all past, present, and future emissions from direct operations as well as those of suppliers, employees, and customers;
4. Only use offsets for unavoidable emissions, and have a plan to phase out these offsets over time;
5. Adopt clear plans to institutionalize emissions reduction efforts throughout the organization (i.e. through a self-imposed costing method such as an internal carbon tax);
6. Adopt capital allocation processes which ensure that emissions prevention efforts receive the appropriate funding and resources;
7. Ensure alignment between sustainability strategy and firm-wide business strategy;
8. Embed climate justice throughout all plans, and have a clear strategy to approach all emission reduction targets through an equity lens.

Tools and Frameworks

For a compilation of all the most up-to-date net-zero tools and resources, see Destination Net-Zero (focusing on Canada) as well as the Net-Zero Knowledge Hub.

1. Disclosure and Reporting

Firms should begin by performing a self-assessment according to this guide for environmental action developed by the Carbon Disclosure Project (CDP), which will determine what stage they are at in the organizational transformation process. To determine where a firm is in its sustainability journey, review the Net-Zero Leaderboard developed by Canadian Business for Social Responsibility.

Following this, firms should begin their disclosure process in line with CDP standards as outlined in their annual questionnaire. For guidance about how to use the CDP's disclosure platform, review this step-by-step guide. Firms should aim to report on all of their attributable emissions as outlined by the Greenhouse Gas Protocol, whose guidelines are contained in this official corporate standard. When determining a GHG inventory, firms should begin by determining an 'organizational boundary' to assess which specific emissions are under its purview. Firms should determine this boundary by selecting a particular allocation method, which can include reporting on the basis of operational control, financial control, or equity share.

Companies can also use the emissions reporting criteria provided by the Global Reporting Initiative, which has strict guidelines for what companies should or should not be disclosing. An organization's emissions can be categorized into three categories called 'scopes':

1. Scope 1 corresponds to direct emissions directly linked to the production of the company's products or services, including, for example, the use of oil or the combustion of fuel linked to the manufacturing process;
2. Scope 2 corresponds to indirect energy-related emissions, including all energy consumption related to the manufacturing process (electricity to power plants, use of heat or cold);
3. Scope 3 includes all other indirect emissions that are not related to the manufacturing process but which occur upstream or downstream of the company's value chain: extraction of raw materials, their transport to the factories, the product's life cycle, its transport, its recycling, etc.

Calculating Scope 3 emissions can be extremely complex, given that they refer to all emissions created upstream and downstream of an organization's supply chain. The Greenhouse Gas Protocol has developed specific guidance for Scope 3 emissions calculations, as well as an accounting and reporting standard for an organization's entire value chain. When determining what Scope 3 emissions to report on, firms should consider the relative size of the activity, data availability and quality, the total cost and effort of performing the analysis, and any other criteria.

2. Target-Setting

Upon disclosure, organizations should begin setting science-based targets in alignment with the recommendations of the Science-Based Targets Initiative (SBTI), who have developed this convenient flowchart to help orient themselves within the SBTI resources. In its corporate manual, SBTI has developed specific sectoral targets that are updated on the basis of the most recent peer-reviewed research determining 1.5 degree pathways. Firms are required to release both near-term and long-term targets, reflecting milestone years of 2030 and 2050 respectively. These targets vary considerably by sector; for cement production and airlines, the 2030 near-term target is a 23% emissions reduction, while for the power sector this figure is 57%. Specific sectoral pathways are available from SBTI's website, many of which are still under development.

At a global level, SBTI finds that all firms on average should be reducing their carbon footprint by 4.2% annually until the year 2030. SBTI recommends that firms set targets reflecting both a reduction in absolute carbon emissions as well as a reduction in carbon intensity, alongside targets for renewable energy use and supplier engagement. To be SBTI-aligned, 2030 targets must cover at least 95% of company-wide Scope 1 and 2 emissions and at least 67% of Scope 3 emissions (for firms where Scope 3 emissions are at least 40% of total emissions), while 2050 targets must cover at least 95% of company-wide Scope 1, 2, and 3 emissions.

SBTI has also developed a standard for science-based net zero targets, and a list of principles by which net-zero targets should be evaluated. Corporate net-zero targets all contain three key dimensions of analysis: the boundary of the target, the mitigation strategy used to attain it, and the timeframe required to achieve it. SBTI identifies a taxonomy of carbon mitigation strategies, of which there are three types:

1. Abatement measures (i.e. actions that companies take to prevent, reduce or eliminate sources of GHG emissions within their value-chains);
2. Compensation measures (i.e. actions that companies take to prevent, reduce or eliminate sources of GHG emissions outside their value-chains, such as purchasing carbon credits or offsets);
3. Neutralization measures (i.e. that companies take to remove carbon from the atmosphere in order to counterbalance the impact of a source of emissions that remains unabated, such as employing negative emissions technologies).

Of these mitigation strategies, only abatement measures intended to prevent emissions from occurring in the first place should be prioritized, while neutralization measures should be minimized. Not all sectors have science-based target guidelines yet, although these standards are in development. To learn more about the SBTI target-setting process, see this new e-learning course.

3. Developing Transition Plans

After adopting a clear science-based target, organizations should begin developing credible transition plans that will allow them to achieve this organizational transformation in the required timeframe. The CDP's Act Initiative has a guide to help firms develop a transition plan in terms of metrics and targets, strategy, and governance criteria. Based on analysis of its own data, the CDP has outlined that a credible transition plan must:

1. Support a strategy for the transition that needs to occur for an organization to pivot towards a net-zero future, with five to ten year near-term science-based targets (SBTs), and then long-term SBTs for 2050 at the latest;
2. Contain verifiable and quantifiable key performance indicators (KPIs) which measure the success of an organization's climate transition and are tracked regularly;
3. Be succinctly integrated into an organization's existing mainstream filings (in annual financial reporting/sustainability reporting/overall business strategy);
4. Include an outline of key strategies and implementation plans related to governance, scenario analysis, financial planning, value chain engagement, policy engagement, and risk management.

Additionally, CDP outlines specific principles for all transition plans to abide by, which include that plans must be:

1. Accountable: the plan has clearly defined roles and responsibilities, where the board and C-suite executives are accountable for delivery of the plan;
2. Internally coherent: the plan is integrated into the overall business strategy of the organization and linked to the profit and loss statement;
3. Forward-looking: the plan's orientation is focused on the near-term and long-term future, trending towards 2050;
4. Time-bound and quantitative: the plan's KPIs are quantifiable and are outlined for defined timeframes;

5. Flexible and responsive: the plan is reviewed and updated regularly, with a defined stakeholder (including shareholders) feedback mechanism (e.g., AGMs) in place;
6. Complete: the plan covers the whole organization (i.e. any exclusions from the plan must not be material to the company and/or the environment).

Particularly relevant is the requirement that firms integrate emissions reductions strategies into their financial planning and reporting, specifically to ensure that capital and operating expenditures are allocated appropriately to actually implement transition plans in a feasible time frame. Climate Action 100+ has developed a net-zero company benchmark which specifically looks at capital allocation alignment as a key principle. Metrics for this indicator include whether the company explicitly aligns its capital expenditures with a 1.5 degree pathway, and discloses the methodology that it uses to do so, with specific reference to the year that the capital investments in carbon intensive assets are expected to peak. The benchmark also evaluates firms according to the percentage of their total revenue that can be labeled 'green' (i.e. that is derived from low-carbon products and services), as well as the company's plans to increase its share of green revenue over time.

For further information about specific sectoral decarbonization pathways, check out this comprehensive resource developed by the Exponential Roadmap Initiative, as well as their 1.5 Degree Business Playbook. To evaluate transition plans in particular sectors, check out the assessments developed by the World Benchmarking Alliance, particularly its resources on oil and gas, automotives, and utilities. Distressingly, no firms in the global oil and gas sector have announced credible transition plans, according to this report by Oil Change International. Progress in the global automotive sector is similarly lacking, according to this analysis by the 2 Degree Investing Initiative. To analyze the transition plans of individual companies, review these assessments by the Carbon Tracker Initiative, as well as these company profiles by Climate Action 100+.

One innovative way to improve the integration of transition plans throughout a firm's operations is through the use of an internal carbon pricing program, which can help managers when making costing and resource allocation decisions. Internal carbon prices can take the form of either a shadow price included as an avoided expense alongside energy savings, or an explicit carbon fee charged to individual stakeholders within the company to make them accountable for managing the emissions of their particular unit. Firms can determine an appropriate carbon price for their companies by dividing the total annual funding required for transition initiatives by the annual GHG emissions contained in the firm's boundary. Business unit managers can be made responsible for incorporating carbon fees into their operating budgets, and working with facility administrators to implement GHG reduction measures designed to minimize this new cost. The engineering firm WSP has a brief guide to implementing workplace carbon pricing systems.

Firms should also aim to understand what carbon regulations apply in their jurisdictions, and incorporate these rules and requirements into all transition plans. The Climate Policy Tracker has compiled a country by country list of carbon pricing systems and other regulations.

4. Engaging Suppliers

A fourth crucial component of any carbon transition strategy is a plan to engage with supply chain partners to reduce carbon emissions both upstream and downstream throughout the value chain. The World Economic Forum has created an insight report that provides a roadmap for all businesses to decarbonize their supply chain (i.e. Scope 3) emissions, as well as a brief guide on supply chain decarbonization incentives. The Carbon Disclosure Project has published a state of the supply chain report for 2021. The Exponential Roadmap Initiative also has a list of strategies for incentivizing greater supplier participation in low-carbon initiatives as outlined in its supplier engagement guide. These may include:

1. Supplier recognition: recognize supplier climate performance publically (e.g. through website) or with peers;
2. Preferential conditions: for example, improved payment terms, or locked-in longer contracts linked to climate performance;
3. Applying discount factors in contracts, linked to progress towards climate targets;
4. Direct financing of interventions: financially contribute to GHG reduction (e.g. switch to renewable energy in a supplier factory);
5. Leverage better credit rating to facilitate supplier loans;
6. Collective financing with suppliers, for example, on renewable energy installations;
7. Grouped decarbonization target with supplier.

The Comet Network is a worldwide coalition of firms and civil society leaders aiming to create a harmonized framework with universal metrics for action and attribution of emissions across all tiers of supply chains, particularly focusing on the role of industrial supply chain partners in hard-to-abate industries. For further guidance on supplier engagement, see the CDP's supplier engagement rating system and accompanying methodology.

5. Tools for Small and Medium-Sized Enterprises

The climate transition plans of small and medium-sized enterprises (SMEs) will look very different from those of major corporations. Many small firms do not have the staff or resources to take on large emissions reduction projects, or even to report on and disclose their own emissions profiles. To address this gap, the SME Climate Hub has developed, in partnership with Oxford University, a website and a suite of tools to help small firms with their low carbon planning decisions. Carbon Trust, a UK-based group, has also outlined a specific journey-mapping tool for SMEs, with a carbon footprint calculator that is specifically tailored to the needs of small businesses, as well as a series of carbon reduction tools and guides related to everything from energy efficiency to manufacturing and procurement. The CDP has also developed a specific emissions disclosure framework for SMEs, while the SBTI has created a guide for small businesses hoping to adopt science-based targets. To see examples of businesses leading the way, see the Heroes of Net Zero competition and Green Economy Canada.

6. Tools for Investors

Banks, insurers, and investors have a responsibility to ensure the alignment of their investments, lending, and underwriting with international climate goals. The Paris Aligned Investment Initiative has provided a clear implementation framework for investors to follow, which includes action items in six categories: governance and strategy, targets and objectives, strategic asset allocation, asset class alignment, policy advocacy, and market engagement.

To begin, firms should complete an assessment of their exposure to climate risk according to the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD). To do so, see these guidelines from the TCFD on metrics, targets, and transition plans, as well as this guide to scenario analysis from the Institutional Investors Group on Climate Change.

In this process, firms need to calculate the alignment of their portfolios with international climate goals. The TCFD has outlined technical guidelines for assessing portfolio alignment, and firms can also see these guidelines developed by the Portfolio Alignment Team. A helpful resource in this regard is the open source Paris Agreement Capital Transition Assessment (PACTA) tool provided by 2 Degrees Investing, which helps assess the alignment of corporate bonds, loans, and listed equities with international climate objectives. The PACTA tool is able to compare the technology mix and five-year production plans of underlying companies in a given portfolio with the required sectoral decarbonization pathways. The climate-relevant sectors currently covered by PACTA are power, coal mining, oil and gas upstream sectors, automotive manufacturing, cement, steel, and aviation, collectively accounting for about 75% of global greenhouse gas emissions. To interact with the PACTA tool, see the resources available from the Transition Monitor, which helps companies answer four key questions:

- What is your exposure to climate relevant sectors?
- How are your portfolios aligned with climate scenarios?
- Which companies are driving these results?
- What is the potential financial loss if different scenarios eventuate?

To aid in the measurement of portfolio alignment, firms should also consult the financial standard developed by the Partnership for Carbon Accounting Fundamentals, as well as the technical note on portfolio impact metrics for the financial sector developed by the Carbon Disclosure Project.

The approach that many financial actors take towards pricing climate risk into investment decisions could have the very clear consequence of increasing the costs of capital for some of the world's most vulnerable populations, and further making it difficult for them to adapt to climate damages. Equity and inclusion must be seen as sustainability issues, as sustainability cannot be disentangled from larger questions of environmental and climate justice. A climate justice lens should be applied to all policies and procedures in the public and private sectors. For more information about centring climate justice in business decisions, see this guide from B Lab.

For a guide to climate-related regulations for the financial sector around the world, see this guide from the Net-Zero Hub.

The following are a list of relevant financial industry initiatives and networks that firms should consider joining:

- Net Zero Asset Owner Alliance
- Net Zero Banking Alliance
- Climate Action 100+
- Institutional Investors Group on Climate Change
- Global Sustainable Investment Alliance
- Global Alliance for Banking on Values
- 2 Degree Investing Initiative
- Paris Aligned Investing Initiative

A variety of NGOs also provide useful information about the credibility of financial sector climate commitments:

- Bank FWD
- InsureOurFuture

- Human Impact + Profit (HIP) Investment
- Fossil Free Funds
- Coal Policy Tool

Case Studies

Given the flurry of corporate net zero pledges, it can be difficult to separate the genuine commitments from the announcements that amount to elaborate forms of greenwashing. Fortunately, there are some firms that are leading the way. Unilever in particular is one company that has committed to making absolute cuts in its Scope 1, 2, and 3 emissions without relying on offsetting or negative emissions technology. Unilever has also become one of the first companies in the world to submit its net-zero action plan for an advisory vote by shareholders, in a bid to increase transparency and accountability. Having already achieved 100% renewable electricity deployment across its businesses worldwide, Unilever has also established a $1.18 billion Climate and Nature Fund to help its brands invest in decarbonization and nature protection efforts, particularly with respect to plant-based food offerings. Unilever's climate transition plan can be found here.

SBTI includes a list of case studies on its website, highlighting certain firms that are leading the way. Colgate-Palmolive, for example, aims to reduce its Scope 3 emissions by 30% by the year 2025 from a 2018 baseline year, while also investing in 100% renewable energy for its global operations. Origin Energy, the largest energy retailer in Australia, has plans to completely exit coal-fired power generation by 2032 while significantly growing its renewable portfolio.

Perhaps the most inspiring example of a low-carbon transformation is that of Orsted, the Danish energy company that transformed itself from a fossil fuel firm into the world's most sustainable clean energy company. As early as 2009 Orsted's senior leaders formulated an '85/15 vision', which entailed moving the company from 85% fossil fuels and 15% renewables to 85% renewables and 15% fossil fuels. Nowadays, Orsted is the world's largest offshore wind provider, and it is set to produce 99% clean energy by the year 2025. For more information on Orsted's transformation, see this interview with the head of its offshore wind business.

For examples of small businesses that have begun low-carbon transformations, check out the case studies compiled by B-Corp certified Canadian consulting firm Climate Smart Business. One interesting example is Effect Homes, a green home builder in Alberta that has consistently been ranked the top choice home builder in Edmonton. Effect Homes operates as a net zero energy builder, complete with net zero building designs, solar energy rooftop installations, and energy efficient building envelopes. Another inspiring example is that of Colortec Creative, which has managed to achieve a 64% reduction in emissions since 2014 by switching to all-electric heavy equipment, while also reducing energy use by 46% and saving money in the process.

Organizations/Initiatives

Canadian companies looking to become climate leaders should aim to join this coalition of Canadian firms that have agreed to SBTI-aligned targets under the auspices of the World Business Council for Sustainable Development. Firms might also be interested in joining the Catalyst Business Alliance, as well as the investor coalition Climate Engagement Canada.

For more information about climate activism, corporate commitments, and climate action pathways, check out the following organizations:

- Climate Action Network
- The Climate Reality Project
- 350.org
- Fridays for Future
- Race to Zero
- Exponential Roadmap Initiative
- Business Ambition for 1.5°C
- The Climate Pledge
- We Mean Business Coalition
- Science-Based Targets Initiative
- Transition Pathway Initiative
- Climate Action 100+
- Carbon Tracker Initiative
- The Climate Group
- Carbon Disclosure Project
- C40 Cities
- SME Climate Hub
- Business for Social Responsibility
- Ceres
- World Resources Institute

Ecological Wellbeing

Biodiversity, Ecosystem Services and Land Use

1.2

Description

Around the world, ecosystems are in peril due to a combination of deforestation, habitat destruction, desertification and land degradation, pollution, ocean acidification, and many other threats. The current rate of species extinction is at least 1,000 times the normal background rate, leading some scientists to claim that we have entered the sixth mass extinction event in Earth's history. Natural ecosystems have declined by 47% on average, while the global biomass of wild mammals has fallen by 82% relative to prehistory. According to the Swiss Re Institute, over 50% of global GDP depends on high-functioning biodiversity and ecosystem services. Land degradation is particularly catastrophic; about 85% of global arable land is threatened by erosion, salinisation, soil compaction or pollution, resulting in costs that could rise to US$10.6 trillion per year. Despite these threats, one study found that in 2019 alone banks around the world lent $2.6 trillion that was directly linked to ecosystem and wildlife destruction. The world has failed to achieve a single one of the decade-old Aichi Biodiversity Targets, and new targets are currently being renegotiated under the Convention for Biological Diversity. To learn more about Global Goal for Nature, science-based biodiversity targets from the Global Commons Alliance, and how corporations can become better stewards of biodiversity and natural capital, continue reading this PDF guide.

Issue Summary

The collapse of the world's biodiversity receives fewer headlines than climate change, but it is no less menacing. The current rate of species extinction is at least 1,000 times the normal background rate, leading some scientists to claim that we have entered the sixth mass extinction event in Earth's history. Natural ecosystems have declined by 47% on average, while the global biomass of wild mammals has fallen by 82% relative to prehistory. While climate change and pollution are partly responsible for biodiversity loss, the main culprit is land-use change, including land degradation and other forms of habitat destruction caused by industrial agriculture, deforestation, and other impacts. These destructive patterns are being driven by an economic system that incentivizes ecological degradation; one study demonstrated that in 2019 alone banks around the world lent $2.6 trillion that was directly linked to ecosystem and wildlife destruction. Since the Paris Agreement, banks and asset managers from the EU, UK, US, and China have made over $157 billion in deals with firms directly responsible for destroying tropical forests in Brazil, Southeast Asia, and Africa. For a comprehensive list of threats to global biodiversity, see page 20 of this report by the World Economic Forum on the future of nature and business.

Global ecosystem collapse presents as great of a risk to human civilization as anthropogenic climate change. According to the Swiss Re Institute, over 50% of global GDP depends on high-functioning biodiversity and ecosystem services, and the total value of pollination and soil health is estimated at $41.7 trillion alone. It is estimated that nature provides services worth at least $125 trillion per year, and over 1.6 billion people in the Global South depend on forests for their livelihoods. Land degradation is particularly catastrophic; about 85% of global arable land is threatened by erosion, salinisation, soil compaction or pollution, resulting in costs that could rise to US$10.6 trillion per year. Pollination is another ecosystem service that appears to be in decline; at a global level, 71 out of the 100 most commonly used crops, which deliver 90% of our nutrition, are pollinated naturally. To make matters worse, climate change and biodiversity loss are interdependent problems, as climate change is one of the five main drivers of biodiversity loss, while biodiversity loss has the potential to exacerbate climate change (i.e. through land degradation that disrupts water and carbon cycles). The combination of desertification, climate destabilization, and the loss of pollinators could bring the world's food systems to the brink of collapse.

Similar to the UN Framework Convention on Climate Change, global biodiversity is regulated at the global level through a series of five treaties covering wetlands, desertification, migratory species, genetic resources, and the illegal trade of endangered animals that are collectively referred to as the Convention on Biological Diversity (CBD). The CBD convenes its 196 signatories at an annual 'Conference of the Parties', of which the 15th took place in October 2021. The strategic plan of the CBD is currently being renegotiated after the failure of the international community to achieve the Aichi Biodiversity Targets that were negotiated in 2010. Specific policies under consideration include increasing terrestrial, freshwater, and marine protected areas to 30% by 2030 (thus exceeding the existing 17% commitment), cutting nutrient runoff by 50%, limiting the introduction of invasive species by 50%, and investing in natural climate solutions, alongside an ambitious financing goal of $200 billion annually to support biodiversity protection and restoration.

In addition to the CBD negotiations, a group of Earth system scientists have collectively developed a new 'Global Goal for Nature' that identifies three overarching objectives on a clear timeline: Zero Net Loss of Nature from 2020, Net Positive by 2030, and Full Recovery by 2050. The concept of being 'nature-positive' refers to a situation in which organizations actively restore more natural environments than they harm, with the goal of fully replenishing the health of natural systems by the year 2050. Important milestones in this goal include achieving 20% native vegetation recovery in heavily transformed areas, and restoring 350 million hectares of degraded land by 2030 as outlined in the global Bonn Challenge.

Although the concept of net zero nature loss borrows from techniques developed in the fight against climate change, we must be aware that the threat of biodiversity loss is inherently more complex and thus more difficult to quantify than global GHG emissions. While climate scientists have developed significant ecological thresholds relating to global temperature rise (such as the 1.5 degree limit reflected in the Paris Agreement), many biodiversity-related thresholds remain opaque. A constellation of organizations is currently working to address this problem under the auspices of the Global Commons Alliance, particularly through the work of Earth Commission (which aims to quantify thresholds) as well as the Science-Based Targets Network (which aims to engage cities and companies in target-setting efforts).

Key Considerations

In order to better understand the issue of biodiversity loss, there are some essential concepts which are worth reviewing. Most important is the notion of 'natural capital', which refers to the total stock of renewable and non-renewable natural resources on the Earth that provide benefits to human beings. These benefits, also referred to as 'ecosystem services', can be further classified into four key categories as defined by the Natural Capital Protocol:

1. Provisioning services: material outputs from nature (e.g. water, food, timber, genetic resources).
2. Regulating services: indirect benefits generated through regulation of ecosystem processes (e.g. water filtration, pollination, erosion control, carbon sequestration, etc);
3. Supporting services: fundamental ecological processes that support the delivery of other ecosystem services (e.g. nutrient cycling, soil formation, etc).
4. Cultural services: non-material benefits from nature (e.g. aesthetic, recreational, etc).

All businesses depend to some extent on natural capital and ecosystem services, whether explicitly or implicitly. To better understand the relationship between business and nature, firms must develop a map of both their 'impacts' and 'dependencies' on ecosystem services. Impacts include all a firm's positive or negative contributions to the state of nature, while dependencies refer to all of the contributions that ecosystem services provide to businesses and human systems. For example, many businesses depend not just on natural inputs for supply chains (such as arable land, water, or raw materials), but also on key regulating services such as water filtration, waste management, and flood protection.

Developing a robust understanding of both impacts and dependencies is necessary for firms to better ascertain their 'nature-related risks', a concept that has been developed by the Network for Greening the Financial System. Similar to the concept of climate-related risks, nature-related risks can be disaggregated into both physical risks resulting from the collapse of ecosystem function (inclusive of both abrupt, acute shocks as well as longer-term chronic changes), and also transition risks related to increased liability, compliance costs, and reputational damage associated with the transition towards a nature-positive economy. NGFS has also developed the concept of 'systemic risks', which include all nature-related risks that extend beyond the boundaries of individual organizations to affect the economy as a whole and thus represent a risk to system-wide financial stability.

When developing strategies to reduce nature-related risk and restore biodiversity, some groups have developed the concept of a 'mitigation hierarchy' that outlines a list of mitigation actions in order of priority. The mitigation hierarchy begins with first avoiding negative biodiversity impacts in general, followed by restoring biodiversity wherever possible, and only using compensatory measures such as biodiversity offsets as a last resort. The Science-Based Targets Network has developed their AR^{3}T model, which includes actions to avoid and reduce impacts, restore and regenerate ecosystems, and transform organizations from within. Avoidance actions may include redesigning or canceling potentially damaging projects, introducing processes to avoid polluting substances, adopting zero tolerance supply chain policies related to deforestation and land degradation, avoiding resource extraction through circular procurement policies, and many other types of approaches. Reduction actions include sustainable production and sourcing policies, GHG reductions, while restoration and regeneration actions include a direct focus on reforestation, landscape revitalization, habitat protection, regenerative agriculture, regenerative product design, and other actions that aim to rehabilitate ecosystem function.

Tools and Frameworks

1. Disclosure and Reporting

As a first step in the journey towards becoming nature-positive, firms must commit to regular biodiversity reporting. There are a wide variety of tools and frameworks available for corporate biodiversity reporting, many of which build on the original guidelines and biodiversity indicators developed by the International Union for Conservation of Nature.

The Science-Based Targets Network (SBTN) has developed a comprehensive set of guidelines for businesses looking to report on their biodiversity impacts and dependencies and develop a plan for mitigation actions. The first step in this process is to assess impacts and dependencies through a three-level process:

1. Develop a sector-level materiality assessment by employing their materiality map available on page 21, a tool designed to help identify the biodiversity-related issues that are most salient for each economic sector;
2. Create a 'spatially explicit' value chain hotspot assessment by examining which specific locations throughout the value chain are most likely to experience negative biodiversity impacts, and which particular impacts the firm has direct or indirect control over;
3. Develop a company-level refinement of the sector-level and value chain assessments in order to produce a comprehensive list of issue areas using company-specific information.

There are a variety of materiality assessment tools that businesses can use to estimate impacts and dependencies. One commonly used tool is the ENCORE database, developed by the Natural Capital Finance Alliance, which links 21 specific ecosystem services, derived from eight kinds of natural capital, to 86 different economic production processes, with a unique scoring methodology to identify relevant dependencies. In this definition, dependency is defined as the degree of disruption to economic processes that would occur if an ecosystem service collapsed, and the associated financial losses. The Climate Disclosure Standards Board has also developed its own materiality assessment process, with steps available on page 28 of this report, as well as compre-

hensive criteria for disclosure available on page 29. The materiality assessment includes 10 steps:
1. Identify and assess biodiversity dependencies and impacts across business activities, the value chain, and their respective locations;
2. Assess links with overall business, including management, strategy and processes (e.g. risks assessment, value creation opportunities, monitoring systems);
3. Assess biodiversity-related current and future risks and opportunities and their business implications over time;
4. Consider different categories of risks and opportunities, including risks from operations, value chain and geographical context;
5. Prioritize areas of strategic relevance, including identifying priority species, ecosystems, geographic areas and products/services;
6. Assess company's biodiversity-related capacity (expertise, stakeholder engagement capacity, monitoring systems);
7. Detail resource needs and allocation (financial and personnel);
8. Define biodiversity policies, goals, contextual targets and metrics that address the main risks and opportunities and contribute to business goals;
9. Determine management responses using the mitigation hierarchy;
10. Monitor performance over time and consider likely future effects of biodiversity risks and opportunities.

In conducting a materiality assessment, it is necessary that businesses adopt a 'double materiality' approach as advanced by the newly created Taskforce on Nature-Related Financial Disclosures. This will ensure that organizations disclose not just how nature may impact their financial performance ('outside in'), but also how organizations impact nature in general ('inside out'). Businesses should be careful to report on all impacts that are ecologically significant, even if they are not found to materially alter the firm's financial position.

There is a profuse number of metrics that have developed to understand a firm's biodiversity impacts, a degree of specificity that can be overwhelming for practitioners. Specific nature-related data is available from a variety of regularly updated databases, including the IUCN Red List Index, the Living Planet Index, and the Biodiversity Intactness Index. The EU Business @ Biodiversity initiative has developed a comprehensive review of available metrics specifically for businesses, which include indicators such as the Global Biodiversity Score, Corporate Biodiversity Footprint, Biodiversity Impact Metric, Species Threat Abatement and Restoration metric, and others. In particular, biodiversity footprints are often determined through calculations of 'mean species abundance', which identifies the average abundance of native species in a given area relative to their natural abundance in an undisturbed state.

The Global Reporting Initiative has identified the primary indicators that companies should disclose to keep track of their biodiversity impacts, which include:
1. The size, location, and activity of operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value;
2. Significant impacts of activities, products, and services on biodiversity;
3. Significant direct and indirect positive and negative impacts with respect to species affected, extent of areas impacted, duration of impacts, and reversibility or irreversibility of the impacts;
4. Habitats protected or restored, including size, location, and third-party relationships.

Businesses looking to begin disclosure initiatives should start with the Integrated Biodiversity Assessment Tool (IBAT), a multi-stakeholder collaboration that aims to offer a 'one-stop shop' data search service for those seeking authoritative global biodiversity information. Firms can also make use of the Global Biodiversity Information Facility, which is a free and open-access alternative to the IBAT (which requires a subscription fee).

There are a variety of issue-specific tools that have been developed for particular ecozones. For land issues, Global Forest Watch offers granular data about the world's forest biomes, with a particular focus on tropical deforestation, while trends.earth tracks land-use change across the world. For data specific to ocean environments, Oceans+ and Global Fishing Watch provide decision-relevant data related to marine conservation and global fisheries. Other initiatives, such as InVEST, the UN Biodiversity Lab, and Resource Watch, make innovative use of spatial imaging technology to provide robust and reliable biodiversity data at a global level. For supply chain modeling, organizations can employ environmentally-extended input-output models, such as EXIOBASE, as well as trase.earth.

Because biodiversity reporting is a developing field, there is a considerable amount of fragmentation in accounting methodologies, which presents a challenge to data comparability and authenticity. There are a number of approaches aiming to consolidate existing initiatives, including the Align Project of the European Commission, which hopes to standardize approaches to global biodiversity accounting and measurement. The UN Statistical Commission has also recently adopted an Ecosystem Accounting methodology which aims to create an integrated and comprehensive statistical framework for measuring the ecosystem services.

When gathering data for biodiversity reporting purposes, firms can make use of a wide variety of techniques. Firms should collect primary data, which includes information gathered from site-assessments or remote sensing and spatial imaging technology, as well as secondary data gathered from academic studies or existing models developed by third-parties. According to the United Nations Environment Program, reporting metrics must adhere to eight dimensions of data quality:
- Relevance;
- Resolution (spatial and non-spatial);
- Temporality (i.e. time series data);
- Frequency of update;
- Geographic coverage;
- Accessibility;
- Comparability;
- Thematic coverage;
- Authoritativeness (including traceability).

For reporting purposes, the SBTN urges businesses to set a relevant baseline year (which should be as recent as possible), as well as a 'reference state' that communicates the ideal ecological conditions of an affected environment. The SBTN has also developed a set of principles for adopting measurement indicators, which includes that they must be location-specific, practical, controllable, predictable, transparent, science-based, incentivizing, and comprehensive.

Firms should also aim to conduct an 'ecosystem valuation', which is an approach that estimates the relative importance, worth, or usefulness of natural capital on a qualitative or quantitative basis. The Capitals Coalition has developed its own Natural Capital Protocol to aid businesses in ecosystem valuation, and the World Resources Institute has also created a guide for corporate ecosystem services review. The Natural Capital Protocol asks businesses to identify and measure changes in natural capital associated with business operation, and determine appropriate valuation techniques to assess specific costs and benefits.

Firms should be sure to review the guidelines and frameworks from the Taskforce on Nature-Related Financial Disclosures (TNFD). These will include tools for scenario analysis, to help businesses conduct forward-looking analyses of their exposure to nature-related risks, in alignment with the goals of the CBD Global Biodiversity Framework. The TNFD is similar in structure to the TCFD in that it focuses on four key elements: metrics and targets, governance, strategy, and risk management.

2. Target-Setting

All firms should aim to adopt targets that are in line with the Global Goal for Nature, as well as the announced goals of the renegotiated CBD framework. Similar to net zero goals on climate change, these targets should include a commitment to a nature-positive value chain by 2030, and full ecosystem recovery by 2050.

The Science-Based Targets Network is currently developing a list of nature-related targets that firms should employ when developing their nature-positive transition plans, many of which have not been quantified yet. Pages 38-39 of their initial guidelines for businesses include a tentative list of targets for land use change, resource exploitation, ecosystem health, species diversity, and a variety of other issue areas. Specific to land use change, SBTN recommends that firms adopt the goal of zero deforestation and zero conversion of natural habitats in the value chain by the year 2030, in line with recommendations by the Accountability Framework Initiative. SBTN also advocates that firms aim to regenerate ecological activity within their value chains by adopting targets for regenerative agriculture and soil health, ecosystem connectivity and integrity, species threat abatement and recovery and a variety of other indicators. Future guidance on these targets is expected to be released shortly, with a consideration for evolving research around planetary boundaries and Earth system governance.

In adopting nature-positive targets, firms should follow the mitigation hierarchy by staying away from reliance on biodiversity offsets. The concept of net-zero biodiversity loss should not mean that firms hope to 'offset' their negative impacts by simply recreating threatened ecosystems in other locations, an approach which neglects to understand the complex nature of ecosystem interactions and creates a false impression that individual ecosystems can be interchangeable or fungible with one another. Firms must limit their use of biodiversity offsetting by committing first and foremost to reducing biodiversity loss altogether, rather than attempting to recreate endangered habitats through artificial means. If biodiversity offsets are to be used, they must abide by these principles developed by the IUCN.

3. Developing Action Plans

Following the AR3T framework, businesses should begin by avoiding harmful actions altogether. The SBTN has developed a list of criteria for particular actions that should be avoided, which include activities that:

- Cause species extinction or ecosystem collapse, for example by disrupting migratory routes or polluting nesting grounds;

- Cause adverse effects on internationally recognized sensitive areas;
- Cause negative impacts on a Key Biodiversity Area (KBA) to the extent that it would no longer meet the criteria for a global KBA;
- Render land degradation neutrality goals (e.g. those under the UN Convention to Combat Desertification) infeasible;
- Cause surface or groundwater stress that exceed environmental flow limits;
- Cause species or ecosystems to be listed as threatened or to move into a higher category of threat, according to the criteria of the IUCN Red List of Threatened Species and the IUCN Red List of Ecosystems;
- Entail an insurmountably negative effect on ecosystems' abilities to generate nature's contributions to people (NCP) including cultural or spiritual contributions;
- Sever crucial ecological connectivity functions in a land/seascape, for example by converting the only remaining ecological corridor between two areas of natural habitat.

The SBTN has outlined three kinds of avoidance actions. These include spatial actions (i.e. avoiding impacts in sensitive areas by rerouting projects or forgoing development altogether), technological actions (i.e. using less impactful technologies or techniques that protect ecosystem integrity, such as wildlife corridors), and temporal actions (i.e. avoiding damaging activities during ecologically sensitive times, such as mating season or periods of water stress).

If damaging behaviours cannot be avoided, there are changes which can be adopted that work to reduce negative impacts, or to restore or regenerate damaged ecosystems. Common reduction actions intersect with circular economy models in that they aim to enhance process changes, product design changes, product stewardship or supplier engagement programs, and business model alterations that help limit negative biodiversity impacts. Companies should also seek to actively participate in the restoration and regeneration of ecosystems by:

- Supporting individual species recovery;
- Adopting regenerative agriculture, aquaculture and agroecological techniques;
- Rehabilitating degraded lands;
- Replenishing freshwater systems;
- Allowing for ecological permeability;
- Engaging in target-based ecological compensation (as a last resort).

Restorative and regenerative actions are particularly important when developing nature-positive strategies that contribute to the Global Goal on Nature. The United Nations has declared a global Decade on Restoration beginning in 2021, and the Food and Agriculture Organization has developed a list of principles for ecosystem restoration that complements these goals. Sample restoration case studies are available from the Global Partnership on Forest and Landscape Restoration, Commonland, as well as Initiative 20x20, which has developed its own Sustainability Index for Landscape Restoration. The organization Get Nature Positive has a specific call to action related to ecosystem regeneration, and a bank of specific actions that firms can adopt in their transition plans.

Businesses should also seek to transform their internal operations and governance processes to ensure alignment with nature-positive goals. Within their direct operations, firms must make sure to allocate sufficient resources to achieve goals, evaluate their business model's alignment with nature-related goals, and develop relevant training programs for employees. Within their value chains, firms can adopt supply chain policies that require partners to collect standardized data on environmental impacts, and introduce incentive systems to reward positive behaviours. At a system-level, firms should join industry-wide groups such as One Planet Business for Biodiversity (OP2B) in order to collaborate with like-minded companies and create positive pressures for suppliers.

Specific governance-related action items from the CDSB include:
- Biodiversity-related policies, strategy and management responses that are delegated to management;
- Specific roles or mechanisms in place in priority geographical areas and for priority products/services to tackle compliance with the biodiversity-related regulatory landscape, implementation of biodiversity management responses and engagement with stakeholders;
- Clear systems for accountability and incentivisation of biodiversity management throughout the business and supply chain.

5. Sector-Specific Guidance

Land-use change, primarily driven by unsustainable agricultural practices, is the largest driver of global biodiversity loss. There is an overwhelming need for firms to commit to responsible sourcing throughout their supply chains in a way that limits deforestation and habitat loss. Specific to the agriculture and forestry industries, the Accountability Framework Initiative has created a suite of tools and guidelines for firms to use in building ethical supply chains. The Initiative has compiled a list of all adjacent initiatives at a global level, including certifications and roundtables, monitoring and reporting tools, international norms and policies, and land use planning and management tools that might be relevant for agribusiness and forestry firms. The IUCN has also developed guidelines for net positive impacts on nature in the agriculture and forestry sectors.

Specifically to address deforestation, the Deforestation Risk Toolset has been created as a partnership between AFI, Trase, and Global Forest Watch to help firms ascertain their exposure to deforestation throughout their supply chains. In partnership with the Carbon Disclosure Project, AFI has also developed a disclosure framework for deforestation-free supply chains. Specific to the financial sector, the organization Deforestation Free Finance has developed a comprehensive, three-phase financial sector roadmap. The World Business Council on Sustainable Development has a sector guide for the forest products industry, and has developed a roadmap for SDG implementation in the forestry sector. The Forest Stewardship Council provides one of the most prominent certifications for responsible forestry management. Specific to the palm oil industry, Conservation International has a special project on sustainable palm oil, with specific sourcing guides for industry. For organizations specifically focused on reducing impacts from global deforestation, check out Global Canopy, Forests and Finance, the Rainforest Action Network, and Global Forest Watch.

Firms should also commit to responsible sourcing practices throughout their agricultural supply chains. The Food and Agriculture Organization (FAO) has developed a list of cross-sectoral frameworks for sustainable agriculture, with specific guidelines for land and forest management. The Sustainable Agriculture Initiative Platform has also created a list of principles and best practices for sustainable agriculture. The OECD has developed a set of responsible supply chain guidelines in collaboration with the FAO. For sustainable sourcing of agricultural raw materials, Business

Social Responsibility has developed this comprehensive practitioner's guide. In particular, firms should aim to source from producers that employ regenerative agricultural practices, or agro-ecological techniques that aim to produce food by restoring biodiversity, sequestering soil carbon, improving soil health, and treating farms as living systems. The Regen10 network, launched at COP26, aims to rapidly accelerate investment in regenerative agriculture and transform global food systems over the next decade. For regenerative sourcing practices, the Rodale Institute has developed this regenerative buyer's guide, in addition to labeling and sourcing programs such as the Soil Carbon Initiative, Land-to-Market certification, the Regenerative Organic label, and other projects. For investors, the Conservation Finance Network has a list of criteria for investors looking to direct capital towards regenerative food systems.

The extraction of resources, namely through mining or oil and gas production, is another key contributor to biodiversity loss. The IUCN engages directly with the extractives sector, and has begun a partnership with the International Council on Mining and Metals to accelerate responsible mineral sourcing. UNEP has developed a list of biodiversity indicators specific to the extractives sector, while the EU Commission has developed this set of industry best practices. For the global fashion industry, the Cambridge Institute for Sustainability Leadership has developed this framework for developing a corporate biodiversity strategy.

5. Tools for Investors

The financial sector is increasingly aware about biodiversity-related risks, and a groundswell of new commitments are being made by banks and investors to deforestation, habitat loss, and other harmful activities. The United Nations Environment Program has compiled this assessment report about the state of finance for nature-based solutions, with an explicit call for investors to commit more capital in order to close an estimated $4.1 trillion funding gap.

The Convention for Biological Diversity has developed a quick reference guide for the finance sector, with a list of finance-specific initiatives that are being developed around the world. UN-PRI has developed a guide for investors to help with investment allocation, stewardship, policy, data requirements, and a variety of other considerations. The Dasgupta Review, the landmark 2021 report on the economics of biodiversity, has also released a set of pathways for the financial sector specifically related to mobilizing capital, risk management, upskilling, and co-funding or blended finance opportunities. To aid firms in assessing the value of natural capital, the Natural Capital Finance Alliance has developed this guide on natural capital risks and opportunities. For sector-specific information on priority investment areas, check out this report by UNEP and the Natural Capital Finance Alliance on moving beyond 'business as usual'.

Financial institutions should aspire to join the Finance for Biodiversity pledge launched in 2020, a consortium of 84 financial firms committing to collaborate on biodiversity goals, share knowledge, assess impacts, set targets, and report data publicly. Together with the EU's Finance@Biodiversity Community, the pledge has developed a guide on biodiversity measurement that is specific to the financial sector. Preventable Surprises, a UK-based think tank, has also compiled this investor agenda on biodiversity action, as well as a series of recommendations for developing financial market strategies.

UNEP has recognized a clear need for financial institutions to improve the depth and scope of their biodiversity rating criteria, as there is a significant gap in quality data. The three most common metrics that firms employ to rate companies include the volume of sustainably certified produce, water volumes and usage, and involvement of companies in severe biodiversity controversies. To arrive at a more accurate picture of corporate performance on biodiversity, more granular and specific metrics will be necessary to compel greater action.

Case Studies

For case studies of successful corporate reporting on biodiversity issues, see this list of cases from the EU Commission, such as this biodiversity assessment of a LafargeHolcim mine in Spain. To see a searchable list of over 1,240 businesses taking actions to improve nature, see this list of case studies from the SHIFT community.

One interesting example of ambition comes from Unilever, which has announced the creation of a €1 billion climate and nature fund that will be used to finance restoration, reforestation, carbon sequestration, and water conservation efforts. Particularly noteworthy is Unilever's articulation of regenerative agriculture principles, its sustainable agriculture code, and its program with the Knorr food brand to accelerate investment in over 50 regenerative agriculture projects focusing on pollinator protection, soil health, and other issues. Similarly, Maple Leaf Foods has announced ambitious commitments to become the 'most sustainable protein company on Earth' by investing heavily in alternative, plant-based proteins.

Some investors have also created conservation finance funds that are specifically geared towards the funding of positive biodiversity conservation outcomes. Some examples include Mirova's Land Degradation Neutrality Fund, and the natural capital investment joint venture between HSBC and the Pollination Group.

Smaller scale examples of regenerative agriculture practices are also extremely inspiring. For the past 45 years, the Hawthorne Valley Association has been operating a network of 'biodynamic' farms that make a conscious effort to treat farms as ecological systems, while also regenerating community structures and funding local initiatives. Axten Farms is a family-owned business that operates without the use of synthetic fertilizers and practices no-till agriculture, while Y U Ranch is a sustainable farm practice from Ontario that prides itself on producing only grass-fed, ethically raised cattle.

Organizations/Initiatives

For more information about international conservation efforts, biodiversity presentation, and global goals for nature, see the following organizations:

- Conservation International
- International Union for Conservation of Nature
- United Nations Environment Programme
- UN Convention on Biological Diversity
- The Nature Conservancy
- World Wildlife Fund
- Wildlife Conservation Society

- Global Commons Alliance, which oversees the Earth Commission and Science Based Targets Network
- Center for Biological Diversity
- Biodiversity International
- Union of Concerned Scientists
- Rainforest Action Network
- Amazon Watch
- Rainforest Alliance
- Mongabay

For organizations focusing on the intersection of business and biodiversity, see the following:

- World Business Council for Sustainable Development
- Business for Nature
- Finance for Biodiversity
- Capitals Coalition
- Taskforce on Nature-related Financial Disclosures
- The ALIGN Project
- Partnership for Biodiversity Accounting Financials

Ecological Wellbeing

Waste, Materials, And Circular Economy 1.3

Description

The underlying cause of most ecosystem destruction is a culture of disposable consumerism that is putting pressure on the Earth's capacity to regenerate its natural systems. Global material flows have reached a historic peak, and show no signs of slowing. Humanity's total demand for resources is expected to reach 130 billion tons by 2050, up from 50 billion in 2014, meaning that we are overshooting the Earth's capacity by 400%. Research from the 2019 Global Resource Outlook finds that resource extraction causes 90% of biodiversity loss and water stress on our planet. In recent years many groups have begun advocating for circular economy practices that move away from linear production models by recovering waste from value chains, repairing and reusing old products, ending planned obsolescence, and restoring nature by reducing consumption. While interest in circular economy business models is accelerating, the global economy is only 8.6% circular and is becoming less so every year. By helping to reduce material consumption, it is estimated that moving towards a circular economy has the power to cut global GHG emissions by 39% and reduce virgin resource use by 28%. To learn more about circular economy business models, assessment tools, and best practices, continue reading this PDF guide.

Issue Summary

While many sustainability professionals tend to focus their concerns on carbon emissions, the underlying root cause of global biosphere collapse is what scholar Bill Rees calls 'ecological overshoot', or the extent to which humanity is extracting Earth's resources faster than they can be regenerated. Global material flows have reached a peak, and show no signs of slowing; humanity's total demand for resources is expected to reach 130 billion tons by 2050, up from 50 billion in 2014, meaning that we are overshooting the Earth's capacity by 400%. Research from the 2019 Global Resource Outlook finds that resource extraction causes 90% of biodiversity loss and water stress on our planet. A mere eight materials (steel, aluminum, plastic, cement, glass, wood, primary crops and cattle) are responsible for 20% of global greenhouse gas emissions, 88% of land use, and 95% of water use.

Additionally, thanks to a global consumer culture of disposability, pollution from consumer packaging, e-waste, food, and other byproducts is causing a worldwide crisis of unsustainable waste. Major consumer brands release products into global markets without any responsibility for waste collection or end-of-life disposal, causing the average American to generate four pounds of trash per day. More disturbingly, every 100 pounds of product results in 3200 pounds of waste, meaning that only 3% of resource inputs actually enter circulation. Single-use plastics alone are responsible for four to 12 million tonnes of plastic trash that end up in waterways every year, causing significant biodiversity impacts and disturbing marine ecosystems. The most egregious example is the issue of food waste, which alone is responsible for 7% of global greenhouse gas emissions. If food waste were a country, it would be the third-largest global emitter, while the total area of land it uses would make it the second-largest country in the world.

Ecological overshoot is driven by a model of extractive capitalism that is predicated on the overconsumption of disposable material goods. Trying to address sustainability without altering these underlying business models is a doomed approach. However, in recent years many groups have begun advocating for circular economy practices that move away from linear production models by recovering waste from value chains, repairing and reusing old products, ending planned obsolescence, and restoring nature by reducing consumption. While interest in circular economy business models is accelerating, the global economy is only 8.6% circular and is becoming less so every year. In Canada, this rate is only 6.1%, although we do not currently track material flows in a systematic way. This amount of wastage is leaving a lot of value on the table; studies show that preventable food waste in Canada has an economic value of at least $49 billion. By helping to reduce material consumption, it is estimated that moving towards a circular economy has the power to cut global GHG emissions by 39% and reduce virgin resource use by 28%, while also generating economic value through the recirculation of waste and used goods.

Key Considerations

The circular economy involves three central principles: prioritizing regenerative resources, stretching product lifespans, and using waste as a resource. With respect to resource flows, firms should aim to narrow them by refusing or reducing consumption, slow them by reusing, repairing, or refurbishing used goods, and finally close them by repurposing, recycling, and recovering all after-use byproducts.

There are a wide variety of circular economy models, which really focus on four key areas: design, processes, product use, and end-of-life recovery. Product design can embody circular principles by increasing modularity and repairability, ensuring that products can be easily restored, in order to avoid seriality and planned obsolescence, while also ensuring the use of eco-friendly materials that have a light footprint and are ideally biodegradable. Products should also be designed with maximum ease of repair, durability, and compatibility with other systems, in a way that dramatically extends their overall lifespan and utilization. In terms of process design, circular models prioritize closed loop systems that create zero waste, in addition to sustainable procurement policies and shorter, localized supply chains. Waste recovery models known as 'industrial symbiosis' can allow firms to reciprocally exchange unused waste materials which can become the inputs to other firms' processes. Circularity in product use can be expanded by improving the use of sharing economy models or other forms of secondary markets (i.e. resale) that help keep items in circulation for longer. A key element of this is the model of Product-as-a-Service, or 'servitization', in which companies rent products to customers and take them back when they are no longer needed, creating an ongoing client relationship. At end-of-life, all used products should be recovered for refurbishment, remanufacture, and reuse.

The Ellen MacArthur Foundation has identified five distinct circular business models:
1. Circular supply chains: using recycled, recyclable or renewable materials as inputs instead of non- renewable resources;
2. Product as a service: replacing ownership models with usage models, such as selling driving time instead of cars;
3. Product life extension: extending the lifecycle of products and assets through repair, upgrade, remanufacture or remarketing;
4. Sharing platforms: using digital technologies to maximize the use of underused assets and increase the utilization rate of products;
5. Recovery and recycling: reclaiming useful resources from disposed products or by-products.

Increasingly, businesses are becoming attuned to the risks of linear production models, which in an age of resource depletion and frequent supply chain shocks are becoming increasingly untenable. In particular, linear supply chain risks emanate from companies relying excessively on scarce resources, prioritizing the sales of virgin products, failing to collaborate across supply chains, and failing to adapt to changing conditions. At the same time, many firms are beginning to see circularity as a source of innovation, one that provides opportunities to recover lost value and create new relationships, both with customers and supply chain partners. The National Zero Waste Council has developed a list of five areas for businesses to consider as they move to embed circularity:
1. Linear Economy Risk: What is the risk of continuing to operate in a linear fashion? What is our exposure to resource scarcity, a rise in commodity prices and environmental regulation over 3 – 5 years and 10 – 15 years? How can we diversify away from increasingly scarce resources? What circular options will become available in the future? What would our business look like in a circular world?
2. Value Chain Opportunities: What opportunities exist for adopting circular economy approaches in our value chain? Are there inefficiencies and waste in the value chain we can minimize or eliminate? What value could we recover from products we have sold for the last 5 years? If we had to take back all the products we sold, how would that affect design and production?
3. Customer Value Creation: What's the real value of what we deliver to customers and how can we create more value while rethinking how we deliver it? Can we reimagine how customers use our products or services? Can we help our customers increase the lifetime and utilization of our

products? How does our business model need to change to capture the largest opportunities?
4. Technology and Industry Innovation: What is the potential to disrupt our business model through technology trends including science, engineering and digital technologies? If our industry standardized and shared as much non-competitive material and infrastructure as possible, how much could our industry save?
5. Business Benefit: What benefits can be realized in the short and long term? Considering the list of business benefits from the prior section, which are most relevant to our future prospects?

The Circle Economy has also developed a list of principles for businesses to consider when thinking about embedding circularity:
1. Design for the future: account for the systems perspective during the design process, to use the right materials, to design for appropriate lifetime and to design for extended future use;
2. Rethink the business model: consider opportunities to create greater value and align incentives that build on the interaction between products and services;
3. Incorporate digital technology: use digital, online platforms and technologies that provide insights to track and optimize resource use, strengthen connections between supply chain actors, and enable the implementation of circular models;
4. Team up to create joint value: work together throughout the supply chain, internally within organizations and with the public sector and communities to increase transparency and create joint value;
5. Strengthen and advance knowledge: develop research, structure knowledge, encourage innovation networks and disseminate findings with integrity.

Tools

In order to transition to a more circular strategy, firms should first start with a self-assessment process that evaluates the circularity of its existing business processes, and identifies clear areas for improvement. The World Business Council for Sustainable Development has developed metrics known as the Circular Transition Indicators (CTI) for businesses to analyze their own performance. This guide aims to assess the circularity of a firm's total material inflows and outflows (both in terms of recovery potential, and actual recovery). The CTI metrics are grouped into three categories, which are as follows:

- Close the loop;
  - Percentage circular inflow (i.e. total percentage of non-virgin or renewable inputs);
  - Percentage circular outflow (i.e. recovery potential compared with actual recovery rates);
  - Percentage water circularity;
  - Percentage use of renewable energy;
- Optimize the loop;
  - Percentage critical material (i.e. percentage of materials listed as critical by the European Commission, United States Geological Survey, or other bodies);
  - Percentage recovery type (i.e. a percentage breakdown of how recovered outflows are reused/repaired, refurbished, remanufactured, recycled, or biodegraded);
  - Onsite water circulation;
- Value the loop;
  - Circular material productivity (i.e. revenue divided by the total mass of linear flows);
  - CTI revenue (i.e. percentage of revenue that is generated from circular activities).

The Global Reporting Initiative has developed a standard which is specific to firms' reporting on total waste production and waste management efforts. Its waste reporting criteria include the composition of waste generated and its quantity, the hazardous characteristics of inputs and outputs, properties of materials that limit their lifespan or prevent recovery, negative threats associated with waste disposal, and actions taken to prevent waste generation or improve recovery efforts. Companies can even adopt a new bottom-line metric by reporting on annual profits divided by waste, creating a new reporting ratio that will not increase if additional profits are achieved by increasing waste.

Other circular economy indicators include the Circulytics methodology developed by the Ellen MacArthur Foundation, and the Circle Assessment tool published by Circle Economy.

The Ellen MacArthur Foundation, in partnership with the University of Exeter, has developed a Circular Economy Business Design Guide that aims to help firms develop a holistic vision of their risks and opportunities when it comes to implementing circular business strategies. The guide includes a series of steps for businesses to follow:

- Map existing value flows;
- Consider lost value and value at risk by identifying where value is being lost, and where there are incomplete loops in the value chain;
- Identify circular opportunities, and where value be recovered or created, particularly by thinking about:
    - Mutually beneficial exchanges of products, materials, data, and services between both customers and supply chain partners;
    - Exchanges that persist over time, extending beyond the point of purchase;
    - Customer pain points that could present an obstacle to circularity;
- Identify circular capabilities, including how to:
    - Repair and collect products;
    - Redesign products for circularity;
    - Effectively manage return and collection;
    - Employ reverse logistics;
    - Re-market products;
    - Employ data analytics management;
    - Manage flexible pricing models;
    - Manage quality standard processes;
- Identify the pricing strategies required to develop financially sustainable business models, which might include:
    - Sell and buy-back for resale and reuse (i.e. the customer owns the product until another buys it);
    - Sell and refurbish for resale (i.e. the customer owns product and receives a deposit/incentive on return of product or core component);
    - Sell and takeback for recycle (i.e. customer owns until manufacturer takes back for recycling);
    - Pay for one-off usage (i.e. consumer has access to an asset for a period of time);
    - Pay for subscription (i.e. pricing based on expected uses over lifetime and timing).

In particular, firms should consider the role of 'industrial symbiosis', or exchange programs where one firm's waste byproducts become another firm's raw materials. Forms of co-location or materials exchange can be an important opportunity to reduce disposal costs, earn new revenue from formerly valueless byproducts, divert waste from landfill, and create new partnership opportunities.

To learn more about implementing circular business models in Canada, check out this circular economy toolkit developed by the National Zero Waste Council. For more specific information about circular economy best practices broken down by sector, check out these guides from the Smart Prosperity Institute. To explore circular economy business models in jurisdictions that are more advanced than Canada (such as the EU), see this guide by the World Business Council for Sustainable Development that aims to help businesses navigate the requirements of the new EU Circular Economy Action Plan.

There are also a number of guides and frameworks that have been developed for helping companies implement circular economy product design practices. The Circular Design Guide, a project of IDEO and the Ellen MacArthur Foundation, has developed a series of guides on designing for safe and circular products, focusing in particular on materials selection processes. Cradle to Cradle, a leading circular design certification program, has developed a comprehensive list of circularity criteria in its user guide, as well as a list of materials to be included or avoided when designing new products. The concept of 'biomimicry' is an emerging design technique that involves imitating biological processes when designing products that work to restore rather than deplete natural systems, and the Biomimicry Institute has developed its own design toolkit. When it comes to designing products that reduce chemical pollution and toxic contamination, check out this compilation of green chemistry guidelines, as well as resources from the Healthy Materials Lab. Some key design principles for circular products include:

- Durability;
- Standardization and compatibility
- Ease of maintenance and repair;
- Adaptability and upgradability;
- Disassembly and reassembly;
- Reuse, remanufacturing and remarketing;
- Recyclability;
- Customer attachment and trust (to extend product longevity).

Critical to circular design is the technique of life cycle analysis, which allows designers to investigate the total environmental and social impacts of a product over its entire lifespan. There are a number of tools designed to help firms conduct life cycle analyses, including:

- OpenLCA (an open source software program)
- Open IO Canada (specific to Canadian firms)
- Impact World+
- Dynamic Carbon Footprinter
- WULCA (focusing on water use)
- Product Social Impact Assessment Handbook

There are also some experts who have begun to discuss the role of circular economy practices in manufacturing processes, such as this report on moving beyond linear production models, and this study about reverse logistics.

For investors interested in using shareholder activism to accelerate the adoption of circular practices, see this guide from the European Investment Bank, as well as this guide from Circular Economy Leaders Canada about financing the circular economy.

Case Studies

When it comes to embedding circular economy principles in business models, Patagonia is one firm that has been consistently leading the way. Patagonia has made headlines for being one of the first businesses to actively discourage overconsumption, instructing customers to avoid buying new products and instead prioritize repairability and durability. In November 2019 it opened Worn Wear, a store exclusively devoted to resale which operates mobile repair stations at over 135 locations. Patagonia has also been a leader in sustainable innovation, helping to incubate a variety of social ventures focused on developing sustainable materials, and has even created new forms of recycled insulation that have transformed its own product lines and those of its competitors (such as Adidas, Nike, and North Face).

Another prominent circular economy leader is Fairphone, a Dutch cooperative organization which produces the world's first modular smartphone that is designed for maximum repairability and longevity, while also being produced from conflict-free, ethically sourced materials. In a conscious nod to circular design principles, its phones even come with their own screwdrivers.

In the business of waste management, the company TerraCycle is redefining the recycling industry by promising to collect and repurpose any form of pre- and post-consumer waste. Through embodying circularity, TerraCycle generates economic value from surplus materials while licensing its name to over 200 manufacturers who benefit from the 'green premium' of being associated with a circular brand.

Other major firms are leading the way when it comes to expanding the sharing economy, or innovating new Product-as-as-Service business models. Renault, a French vehicle manufacturer, has cemented its leadership in electric vehicle sales by selling EV batteries as a service, helping to extend their product's lifespan and optimize overall usage. BMW Group, the luxury car company, has also launched its own car-sharing mobility service known as Share Now, which by 2017 had over one million customers and spread to over nine European countries.

To see other inspiring case studies, check out the following links:
- Ellen MacArthur Foundation - Examples
- Circle Economy - Best Practices
- Circle Lab Knowledge Hub - Case Studies
- Circular Economy Club - Organizations

For examples from small and medium-sized enterprises, check out the following firms:
- Compugen Finance
- Reids Auto
- Refficient
- Botanical Paperworks
- Diva Cup
- The Unscented Company

Organizations/Initiatives

There is a wide variety of organizations focused on accelerating the global circular economy, of which the Ellen MacArthur Foundation is the most influential and pioneering. To discover other initiatives from around the world, check out the following links:

International
- Ellen MacArthur Foundation
- Circular Economy Lab
- World Circular Economy Forum
- Cradle to Cradle
- Circle Economy
- Circular Economy Club

Canada
- Circular Economy Leadership Canada
- Circular Innovation Council
- National Zero Waste Council
- The Natural Step
- Smart Prosperity Institute
- Impact Zero

Firms interested in accelerating their own circular economy practices can join the Circular Economy Innovation Network, the National Circular Economy Working Group of the Canadian Chamber of Commerce, or the Circular Economy Club.

For industry partnerships and alliances specifically focused on plastic pollution, check out Break Free From Plastic, the Ellen MacArthur Foundation's New Plastics Economy Global Commitment, the Canada Plastics Pact, as well as the new plastic pollution scorecard developed by As You Sow.

Ecological Wellbeing

Water, Effluents, and Pollution 1.4

Description

Water scarcity is sharply on the rise worldwide, a situation which will only be exacerbated by climate change. By 2030, it is estimated that 50% of people will be living with water stress, and global demand for water will outstrip supply by 40%. At the same time, air and water pollution continue to greatly imperil the health of the biosphere and of human beings. Air pollution kills up to seven million people every year, and WHO data demonstrates that 99% of people breathe air every day that exceeds the recommended concentration of pollutants. 80% of the world's wastewater is left untreated and dumped back into the environment, and contaminated water kills more people each year than war and all other forms of violence combined. To learn more about water risk, water footprint analyses, and pollution reduction, continue reading this PDF guide.

Issue Summary

Although it receives less attention than other environmental issues, the global water crisis is a major threat to human civilization. Water scarcity is sharply on the rise worldwide, a situation which will only be exacerbated by climate change. By 2030, it is estimated that 50% of people will be living with water stress, and global demand for water will outstrip supply by 40%. Global water withdrawals have increased 50% over the last several decades, but despite this high degree of extraction it is still estimated that two-thirds of people face water scarcity at least one month every year. Agriculture alone is responsible for 70% of freshwater consumption, a sum made all the more alarming by the fact that global meat production is expected to double by 2050.

At the same time, air and water pollution continue to greatly imperil the health of the biosphere and of human beings. Air pollution kills up to seven million people every year, and WHO data demonstrates that 99% of people breathe air every day that exceeds the recommended concentration of pollutants. 80% of the world's wastewater is left untreated and dumped back into the environment, and contaminated water kills more people each year than war and all other forms of violence combined. In low-income nations, only 8% of industrial and municipal water receives treatment, leading to a context in which two billion people live without a source of water that is free from contamination. Agriculture is the leading cause of water degradation, primarily through the runoff of excess nutrients that leads to eutrophication in freshwater ecosystems, a situation which will only be exacerbated by population pressures and changing diets.

There is a growing international movement to recognize the need for water and sanitation services as a basic human right. However, the increasing scarcity of water, coupled with decades of water privatization driven by decades of neoliberal reforms, are threatening the foundations of this human right, as recognized explicitly by the UN Office of the High Commissioner on Human Rights. In a world where scarce water becomes more valuable, some speculators are beginning to invest in water as a new asset class, an insidious process that will raise the cost of water and exacerbate its unavailability for the world's poorest. At the same time, large companies like Nestle and others have spent years perpetrating 'water grabs' by stealing water from communities, while the privatization of local water supplies intended for extractive mining or agricultural projects frequently occurs at the expense of the needs of local stakeholders. Sustainable companies will be required not just to reduce their water consumption and effluent pollution, but also responsibly engage with the communities in which they operate and refrain from enclosing commonly-owned water resources.

Key Considerations

The business case for action on water issues has never been clearer. One study demonstrated that the total losses associated with water risks could be $301 billion, while the cost of mitigating these risks is approximately five times less. There is a growing movement of corporations looking to invest in greater water stewardship, or what is sometimes called 'integrated water resources management', in order to attenuate these risks. The International Union for the Conservation of Nature has written a summary of these efforts so far, developing a categorization of corporate water behaviours that range from extractive to inclusive. There is also a growing number of corporations that are reporting on their water usage and governance processes. In somewhat positive news, the 2020 CDP Water Analysis report indicated that of all companies which disclose their water use, two-thirds reported a reduction or maintenance in their overall water withdrawals. Far less reassuring, however, was the finding that only 59% of companies are reporting on the quality of their wastewater, and only 4.4% of companies are setting or reporting progress against pollution targets. The deterioration of water quality, and the lack of reporting on it, has led to the creation of an invisible crisis that is endangering human and ecological well-being.

The Future-Fit Benchmark has developed a series of questions for corporations beginning to consider taking action on water-related issues. Some of these issues include:

1. For each region the company operates in, what information is known about the availability and characteristics of the local watersheds? Are they known to be under water stress?
2. Which facilities are located in water-stressed locations? Of those, which withdraw the most water? Which consume the most water?
3. Does the company withdraw water directly from a surface water body or groundwater source? If it obtains water from a third-party supplier, where does that water originate?
4. Does the company take steps to ensure it adheres to all water-related laws and regulations in those regions?
5. Does the company have an understanding of the other users of water in the relevant watersheds, including individuals, organizations, and ecosystems?
6. How are water related risks likely to evolve over time due to population, climate, or economic trends in the area?
7. Does the company discharge water directly back into nature? If so, does the company analyze the characteristics of the water before discharging it?
8. Where water discharges are indirect (e.g. managed by third parties), and where is the discharged water ultimately released? Does this treatment take into account the state of the receiving water body or soil?
9. Do any company facilities produce other types of liquid waste besides effluents and wastewater (e.g. toxic waste generated by production processes)? If so, how is this type of liquid waste handled?
10. Do opportunities exist to collaborate with local groups or other companies to tackle shared water challenges?
11. Has the company already implemented targets and action plans to reduce water-related impacts? If so, are existing commitments sufficient? What is the expected timeframe for this transition? If the current commitments or plans are not sufficient, how might they be adjusted or supplemented?

Tools

Before beginning to develop a water conservation strategy, firms should first perform a comprehensive self-assessment to obtain a holistic picture of their own water needs and performance. The Carbon Disclosure Project has an annual questionnaire with ten modules that focus on risk assessment procedures, water dependence, accounting metrics, business impacts, governance and strategy, and other issues.

Firms are also recommended to conduct water footprint analyses to determine the embedded water usage contained in all of their products and processes. Many items have water footprints that are extremely large; a bar of chocolate requires 1,700 litres of water, while a single mobile phone requires a staggering 12,000. The Water Footprint Network has developed this assessment tool, and the Global Environmental Management Initiative has developed its own local water tool for analysis of water usage at the local level. The World Resources Institute has developed its own tool called Aqueduct, a set of geographic tools that includes information about water risks, including water stress, seasonal variability, pollution, and specific tools linking water risk to food requirements and flood risk. Another prominent risk management tool is the WWF's Water Risk Filter.

Firms should also aim to improve their disclosure and reporting on water use, water risk, and related issues. The Alliance for Water Stewardship has developed the most comprehensive disclosure standard. The Future-Fit Benchmark recommends that firms report on water consumption and water discharge, and also evaluate the number of water-stressed locations on which they depend (where water stress is defined as any source where the total annual withdrawal is 40% of the available renewable supply). The disclosure standards developed by the CEO Water Mandate include metrics relating to the:

1. Total and percentage of withdrawals located in water-stressed or water-scarce areas;
2. Percentage of facilities with a water-related regulatory compliance violation;
3. Percentage of facilities adhering to relevant water quality standards;
4. Average water intensity in water-stressed or water-scarce areas (as appropriate);
5. Number of "hot spots" where risks and impacts are most likely.

Following disclosure, firms should aim to set and implement targets according to context-based indicators that reflect the hydrological needs of local water supplies. Context-based indicators are important because, unlike with emissions targets, the capacities and requirements of specific local water basins vary significantly depending on their geography. Firms should work to establish targets based on the concept of a 'sustainable basin threshold', and adopt water consumption patterns that do not threaten the long-term viability of the source. The CEO Water Mandate has a specific target-setting guidebook, as well as a guidebook for volumetric water benefit accounting that specifically instructs firms on how to develop water replenishment targets aimed at restoring local water supplies.

Firms should aim to develop a comprehensive strategy related to water management, one that incorporates conservation techniques as well as governance approaches, stakeholder relations, data management, and other concerns. The World Business Council for Sustainable Development (WBCSD) has a guide to circular water management, as well as a new framework specific to the management of wastewater. In terms of stakeholder engagement, the CEO Water Mandate has developed a toolkit for responsible water policy, which highlights in particular the need to respect differentiated public and private roles and refrain from water grabbing privatization tactics.

There are also tools and frameworks available specific to particular sectors. The Food and Agriculture Organization released a report outlining the negative impacts of the agricultural sector, which is the most responsible for global water degradation. The WBCSD has a guide for the food and agricultural sector to improve its water management practices and reduce agricultural pollution. The Beverage Industry Environmental Roundtable also has a guide specific to bottlers and beverage companies, while the Alliance for Water Stewardship has a knowledge hub dedicated to water use in the global fashion industry.

For investors looking to minimize water risk across their portfolio, and engage with companies on water management issues, Ceres has developed an investor water toolkit which includes guides for analyzing sectoral risks using stress-testing and scenario analysis, as well as frameworks for engagement.

When it comes to tackling the issue of air pollution, there are significantly fewer resources. The Stockholm Environment Institute, in collaboration with the Climate and Clean Air Coalition, is currently in the process of developing a practical guide for businesses to develop their own air pollutant inventories, and to track pollution across entire value chains. This guide will be published in 2022. The Government of Canada has a guide to pollution reduction for businesses, while the Environmental Protection Agency in the United States also has a compilation of resources. For more information, see the World Economic Forum's Alliance for Clean Air.

Case Studies

Technological innovations, as well as smarter management practices, have allowed many companies to conserve water while also saving money in the process. The candy-manufacturer Mars has introduced a wet-dry irrigation technique for rice cultivation which has reduced water consumption by 30% and increased farmers' incomes by 30%, in addition to reducing carbon emissions. This reform helped save $60-180 million as a result of reducing supply shortages. The Brazilian company EDF has also made use of a rainwater harvesting system installed over one of its major gas turbine power plants, a system designed to recycle rainwater for use in its cooling tower, thus saving money and limiting water withdrawals in the process.

Organizations/Initiatives

For more information about the global water crisis, water scarcity, air pollution, and the role of pollution prevention in sustainable development, check out the following organizations:

- UN Water
- Charity: Water
- Water.org
- Water for People
- WaterAid
- Climate and Clean Air Association
- Pollution Probe
- International Union of Air Pollution Prevention and Environmental Protection Associations
- The Council of Canadians
- Alliance for Water Stewardship
- Water Footprint Network
- CEO Water Mandate
- Water Resilience Coalition

Human Wellbeing

Human Rights 2.1

Description

The UN Universal Declaration of Human Rights was adopted in December 1948 in the aftermath of World War II, and there are nine Core International Human Rights Instruments each with an associated monitoring body. Despite the existence of these international covenants, tens of millions of people continue to face human rights violations on a daily basis, including forced and indentured labour, war crimes, violence against women, oppression under authoritarian regimes, and many other forms of abuse. The UN Guiding Principles on Business and Human Rights are the authoritative set of guidelines developed for corporations looking to report on and improve their human rights practices. However, only a tiny minority of companies are meeting the expectations set out by the Corporate Human Rights Benchmark. To learn more about setting appropriate human rights policies, due diligence processes, grievance mechanisms, and selecting indicators and benchmarks, continue reading this PDF guide.

Issue Summary

The complexity of value chains, and the sheer number of players and geographies, makes it such that the systematic infringement of human rights is often rendered invisible. The scale of the problem, however, is immense: 40.3 million people were subjected to modern slavery in 2018, according to the Global Slavery Index. This translates to about $354 billion worth of goods imported by G20 countries every year that have been produced by slaves. In the UK, 77% of companies believe there is a strong likelihood that modern slavery occurs at some point within their supply chains.

Unfortunately, corporate reporting on human rights abuses is extraordinarily insufficient. The World Benchmarking Alliance performed an analysis of 1,000 firms, with a combined annual revenue of over $25 trillion, and found that only 1% of companies are meeting the majority of the expectations set out by the Corporate Human Rights Benchmark. Out of the highest possible score of 20, the average score was just 5.2, while 78% of all companies achieved a score of zero on all of the benchmark's due diligence indicators. Their assessment concluded that the vast majority of corporations are not complying with the basic principles of socially responsible business conduct.

Many businesses simply consider human rights compliance to be a component of their overall ESG strategy or disclosure requirements, but as Business for Social Responsibility has indicated, "human rights are not just an ESG factor." The mindset that is required to respect human rights and avoid violations is one that goes beyond simply checking a box or filling out a CSR report; it is a fundamental moral and ethical obligation imposed by a set of international norms and standards that have evolved in response to grave historical tragedies to provide a universal definition of quality of life for all human beings. The notion that human rights can be truncated to just another 'S' metric that helps companies outrank their peers in the eyes of socially conscious investors is a logic which causes businesses to see human rights purely through the lens of competitive advantage or public relations, which is a fundamentally perverse mindset that erodes the basic integrity of the human rights concept. Businesses have a responsibility to respect human rights regardless of its relationship to profit or ESG rankings.

Key Considerations

The scope of international human rights law has increased dramatically over the past five decades. A proliferation of covenants and principles have developed to encompass all forms of human rights and fundamental freedoms, from civil and political rights to economic, social, and cultural rights. The complexity of human rights principles can be overwhelming, and the UN Office of the High Commissioner on Human Rights (OHCHR) has developed a business reference guide which explains many basic human rights concepts in great detail.

The UN Universal Declaration of Human Rights was adopted in December 1948 in the aftermath of World War II. It outlines, throughout 30 articles, the basic rights and freedoms of all human individuals regardless of "nationality, place of residence, gender, national or ethnic origin, colour, religion, language, or any other status." In addition to the Declaration, there are nine Core International Human Rights Instruments each with an associated monitoring body. These instruments include:

- The International Convention on the Elimination of All Forms of Racial Discrimination
- The International Covenant on Civil and Political Rights

- The International Covenant on Economic, Social and Cultural Rights
- The Convention on the Elimination of All Forms of Discrimination against Women
- The Convention Against Torture and Other Cruel, Inhumane or Degrading Treatment and Punishment
- The Convention on the Rights of the Child
- The International Convention on the Protection of the Rights of Migrant Workers and Members of Their Families
- The Convention on the Rights of Persons with Disabilities
- The International Convention for the Protection of All Persons From Enforced Disappearances

Collectively, the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights, and the International Covenant on Civil and Political Rights are known as the International Bill of Human Rights. Beyond these core instruments is a host of other universal human rights instruments respecting a wide variety of conventions, statutes, and principles, such as the UN Declaration on the Rights of Indigenous Peoples, the Declaration on the Rights of Persons Belonging to National or Ethnic, Religious and Linguistic Minorities, and many others.

Labour rights are human rights, and they have their own set of specific instruments under the International Labour Organization, including the ILO Fundamental Conventions and the ILO Declaration on Fundamental Principles and Rights at Work. For more in-depth information related to labour rights and practices, see Section 2.4.

The UN Guiding Principles on Business and Human Rights are the authoritative set of guidelines developed for corporations looking to report on and improve their human rights practices. The Guiding Principles aim to furnish businesses with the tools and recommendations they need to respect and fulfill human rights and fundamental freedoms. At the most basic level, the Guiding Principles establish that a company's human rights policies and procedures must include the three following objects:

1. A policy commitment to meet their responsibility to respect human rights;
2. A human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights;
3. Processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute (often known as grievance mechanisms).

For more information about the implementation of the Guiding Principles, review this FAQ document as well as this interpretive guide. For the purposes of quality assurance, for either investors or auditors, review these assurance guidelines for determining the credibility and thoroughness of a company's human rights disclosures.

The OECD has also developed a list of Guidelines for Multinational Enterprises that are similar to the UN Guiding Principles, but wider in scope and with more sector-specific guidelines. They set out a list of global standards for responsible business conduct, with a particular focus on due diligence processes.

Tools

To evaluate a company's human rights record, start by reviewing the searchable database of company profiles from Business and Human Rights Resource Centre, which includes an advanced search option for more specific requests. The Shift Project has also developed a disclosure database which includes profiles of individual companies, as well as a searchable database of human rights reports.

For a global review of important developments in international human rights law and their intersection with business, see this map developed by the World Business Council for Sustainable Development. Individual country guides to human rights in business can be found at this link from National Action Plans on Business and Human Rights. To review the human rights practices of companies that are specific to Canada, see the resources compiled by Aboveground.NGO, a nation-wide non-profit focused on transparency and accountability for Canadian firms operating abroad.

For more information about integrating respect for human rights throughout business practices, review this Guide for Integrating Human Rights into Business Management developed by the UN Global Compact, as well as this guide about Embedding Human Rights into Business Practice.

The Business and Human Rights Resource Centre, in collaboration with the Danish Institute for Human Rights, has developed the Platform for Human Rights Indicators for Business, which is the world's largest compilation of human rights indicators and metrics that businesses can use to evaluate their own conduct. The Platform includes a convenient synthesis of over 80 global human rights instruments into a systematic series of checklists that companies can use, covering a wide variety of policies and procedures. The Platform covers indicators in eight categories: management, human resources, workplace health and safety, product quality and marketing practices, community impact, security arrangements, legal and governmental affairs, and contractors and supply chain. For firms looking to design their own human rights indicators, the Shift Project has also developed its own indicator design tool.

The Corporate Human Rights Benchmark, developed by the World Benchmarking Alliance, provides a comprehensive set of criteria for evaluating firms' human rights performance, with a methodology that covers five issue areas:
1. Governance and policies (including board level accountability and policy commitments);
2. Human rights due diligence;
3. Remedies and grievance mechanisms;
4. Performance on human rights practices;
5. Responses to serious allegations.

The Shift Project, the world's leading centre of expertise on the UN Guiding Principles, has developed a set of indicators that serve as red flags for when corporate human rights abuses are likely to occur. These red flags include those aspects of a corporation's business model that are likely to accentuate human rights risk, such as:
- Lowest cost goods or services in ways that put pressure on labor rights;
- High speed delivery that places pressure on warehouse workers and logistics workers in the "last mile";
- Project timelines that undermine consultation with communities;
- Privatized access to public goods with risks to quality of service;
- Algorithmic decision-making that can result in discrimination;
- Providing online platforms with potential for online and offline harm;
- Financial or advisory services that enable high-risk clients to cause harm;

- Products that harm when overused, misused, or used as intended;
- Speed in developing products or services, or delivering projects, with risks to health and safety;
- Land use in countries where ownership may be contested;
- Depleting natural resources or public goods such that it undermines access or health;
- Commodities with unclear provenance and visibility to impacts on workers or communities;
- Business relationships with limited influence to address risk to people;
- Using data such that privacy and other rights are undermined;
- Using gig workers or other precarious labor;
- Sourcing low-paid labor from labor providers;
- Sourcing commodities that are priced independent of farmer income;
- Shift inventory risk to suppliers with knock-on effects to workers;
- Automation at speed or scale that leaves workers little chance to adapt;
- Sales-maximizing incentives that put consumers at risk;
- Markets where regulations fall below human right standards;
- Aggressive tax-minimization strategies.

1. Human Rights Policy

All companies should adopt stringent and detailed human rights policies which enshrine an explicit commitment to international human rights standards. The UN Office of the High Commissioner of Human Rights has developed a list of criteria for corporate human rights policies, which include:

- An explicit commitment to respect all internationally recognized human rights standards (understood, at a minimum, as the International Bill of Rights and the ILO's Declaration on the Fundamental Principles and Rights at Work);
- Stipulations concerning the company's expectations of personnel, business partners and other relevant parties;
- Information on how the company will implement its commitment;
- An overview of the steps taken to develop the policy;
- Information on the company's key human rights priority areas;
- A description of how the company will deal with conflicts between international human rights principles and applicable host-government legal requirements;
- A commitment by the company to "support" (i.e. contribute to the positive realization of) human rights;
- A summary of those human rights (including labour rights and others) that the business recognizes as likely to be the most salient for its operations and information on how it will account for its actions to meet its responsibility to respect human rights.

The responsibility to develop human rights policies should be assigned to specific senior officers, with cross-functional support from all relevant departments (including human resources, legal, procurement, etc). Companies should aim to conduct a mapping of their key potential human rights impacts, and ensure that all policies reflect and ameliorate these gaps. The policy must be communicated both internally and externally, and embedded throughout all firm-wide policies and procedures.

The Danish Institute for Human Rights has developed a list of self-assessment questions for human rights policies, which include:

- Does the company communicate the policy commitment internally and externally?
- Does the company identify and assess the actual and potential adverse human rights impacts with which it is involved?
- Are company findings from impact assessments integrated across relevant internal functions and processes?
- Does the company understand the nature of its involvement (cause, contribute, linked to) and take appropriate action?
- When necessary to prioritize actions to address actual and potential adverse human rights impacts, does the company begin with the most severe impacts?
- Does the company track the effectiveness of its responses to adverse human rights impacts?
- Does the company communicate externally in order to account for how they address adverse human rights impacts, particularly when concerns are raised by or on behalf of affected stakeholders?
- Does the company have a trusted procedure for hearing, processing and settling internal and external concerns?

2. Due Diligence

All companies should commit to comprehensive and detailed due diligence processes to ascertain and take action on corporate human rights abuses. To assess human rights impacts and risk areas, companies should conduct country by country analyses to examine the risk of human rights abuses throughout its value chain, and consult relevant stakeholders to obtain first-hand information from potentially affected groups. Companies should also develop specific indicators and metrics to track performance using the resources provided by the Platform for Human Rights Indicators or the Corporate Human Rights Benchmark, and commit to regular tracking of human rights performance by looking at all business processes, management systems, and information and control systems.

Key due diligence recommendations developed by the Corporate Human Rights Benchmark stipulate that companies should:

- Identify human rights risks and impacts on an on-going basis, including when these are triggered by key moments of the company's activities (e.g. policy change, market entry, new projects, amongst others);
- Proactively assess potential human rights risks and actual human rights impacts for new activities and regularly review these for on-going activities;
- Integrate the findings of assessments of human rights risks and impacts into relevant internal functions and processes to identify appropriate actions to prevent, mitigate and remediate salient human rights issues;
- Track the effectiveness of actions taken in response to its human rights risks and impacts assessed and acted on to incorporate that information into improving processes and systems on an ongoing basis;
- Communicate externally on it addresses human rights impacts in a manner that is accessible to intended audiences, especially affected stakeholders who have raised concerns.

The OECD has also developed due diligence guidance for responsible business conduct. Their Due Diligence Policy Hub hosts a variety of resources for due diligence best practices, as well as a useful assessment of alignment between OECD due diligence guidelines and various international multi-stakeholder or industry initiatives. For evidence of effective due diligence strategies from five years of research, see this summary by KnowTheChain.

3. Disclosure

The Global Reporting Initiative has developed a standard for human rights disclosure, which makes clear that all companies should be able to explain how they identify severe risks to people connected with their business and what they are doing to address them. The new GRI Universal Standards have aligned their disclosure requirements with the UN Guiding Principles.

To aid companies in the process of disclosing human rights practices and performance, Shift has developed the UN Guiding Principles Reporting Framework. Companies are expected to disclose the salient human rights issues associated with their operations for the reporting period in question, as well as the process in which the salient issues were determined, including relevant input from stakeholders, and the reason for its choice of focal geographies. Salient human rights issues are defined as those human rights which are at greatest risk of severe negative impacts, where severity is defined by reference to scale, scope, and remediability. Companies are expected to identify any changes in the nature of salient human rights issues during the appropriate recording period, and take note of any notable trends or patterns in impacts related to a salient issue. Companies should also disclose their engagement with relevant stakeholder groups, the purpose of this engagement, and whether or not stakeholder opinions have influenced or altered the company's approach to human rights management.

In addition, companies are recommended to disclose information about how they are integrating human rights issues throughout their businesses practices and decision-making processes. Key self-assessment questions include:

- How does the company integrate its findings about each salient human rights issue into its decision-making processes and actions?
- How are those parts of the company whose decisions and actions can affect the management of salient issues, involved in finding and implementing solutions?
- When tensions arise between the prevention or mitigation of impacts related to a salient issue and other business objectives, how are these tensions addressed?
- During the reporting period, what action has the company taken to prevent or mitigate potential impacts related to each salient issue?
- How is day-to-day responsibility for human rights performance organized within the company, and why?
- What kinds of human rights issues are discussed by senior management and by the Board, and why?
- How are employees and contract workers made aware of the ways in which respect for human rights should inform their decisions and actions?
- How does the company make clear in its business relationships the importance it places on respect for human rights?
- What lessons has the company learned during the reporting period about achieving respect for human rights, and what has changed as a result?

The Shift Project has also produced a growing collection of publicly available resources that derive from their insight and analysis of companies' human rights reporting.

For a complete list of all publicly available human rights impact assessment resources, see this compilation by NomoGaia.

4. Remediation and Grievance Mechanisms

All companies must ensure that appropriate remediation and grievance mechanisms are set up to hear complaints from stakeholders, workers, and affected communities in order to redress any and all human rights abuses that occur during the course of business operations. These channels should be made available to all stakeholders, taking into account the accessibility needs of marginalized groups, who should be actively involved in the design, creation, and implementation of the grievance mechanism. Companies must also refrain from retaliating against complaints raised by affected stakeholders, and work to ensure that stakeholders retain access to state-based judicial procedures and other means of legal recourse available to persons making claims of human rights violations. Most importantly, companies should actively participate in remediation efforts by compensating communities involved and addressing the governance failures that led to human rights violations in the first place, incorporating lessons learned in order to prevent future infringements.

UN Guiding Principle No. 31 identifies the relevant criteria for establishing effective grievance mechanisms, which include that they are:

1. Legitimate: enabling trust from the stakeholder groups for whose use they are intended, and being accountable for the fair conduct of grievance processes;
2. Accessible: being known to all stakeholder groups for whose use they are intended, and providing adequate assistance for those who may face particular barriers to access;
3. Predictable: providing a clear and known procedure with an indicative time frame for each stage, and clarity on the types of process and outcome available and means of monitoring implementation;
4. Equitable: seeking to ensure that aggrieved parties have reasonable access to sources of information, advice and expertise necessary to engage in a grievance process on fair, informed and respectful terms;
5. Transparent: keeping parties to a grievance informed about its progress, and providing sufficient information about the mechanism's performance to build confidence in its effectiveness and meet any public interest at stake;
6. Rights-compatible: ensuring that outcomes and remedies accord with internationally recognised human rights;
7. A source of continuous learning: drawing on relevant measures to identify lessons for improving the mechanism and preventing future grievances and harms.

Corporate Accountability has developed a specific guide for NGOs and victims on recourse mechanisms for human rights abuses. Companies should be sure to review the report 'Injustice Incorporated' authored by Amnesty International, in order to identify how grievance mechanisms have failed in the past and how they should be more appropriately designed to reflect stakeholder interests. The Business and Human Rights Resource Centre has also composed a briefing on the topic of corporate legal impunity, specifically highlighting the deficient nature of most grievance mechanisms and identifying areas for improvement. For more information, see their list of barriers to access to remedy, as well as these tools and frameworks for lawyers advising affected communities.

A common industry-led response to human rights abuses is the creation of 'multi-stakeholder initiatives' (MSIs). These initiatives are collaborations between corporations and stakeholders which aim to build trust, convey information, and redress grievances for corporate infringements on human rights. Common MSIs include Fairtrade International, the Ethical Trading Initiative, the Forest Stewardship Council, Rainforest Alliance, and many other organizations. Over 10,000 corporations participate in MSIs worldwide, including 13 of the 20 largest companies in the world. After a comprehensive, multi-year research project conducted by MSI Integrity, the organization decisively concluded that "MSIs are not effective tools for holding corporations accountable for abuses, protecting rights holders against human rights violations, or providing survivors and victims with access to remedy," and that they "should not be relied upon for the protection of human rights." In particular, there are two features which obstruct the success of MSIs: they apply top-down, technocratic approaches which fail to centre the needs or rights holders (with only 13% of MSIs including affected populations in their governing bodies), and they also do not fundamentally restrict corporate power or address the root causes of the power imbalances that drive abuse. In particular, MSIs should not be relied on for any of the following: protecting human rights, closing governance gaps, providing access to effective remedy, or holding corporations accountable. Corporations hoping to participate in MSIs for the purposes of advancing respect for human rights should make sure that they:

1. Recognize that MSIs are tools for corporate-engagement rather than instruments of human rights protection;
2. Recognize that MSIs must be supplemented with public regulation;
3. Ensure that workers and/or affected communities are at the center of decision-making;
4. Ensure that benefits and ownership accrue to the workers who generate value for a business and/or to the communities and rights holders who are impacted by their behavior.

5. Civil and Criminal Liability

Although it is often difficult to charge corporations with liability for human rights abuses, there are many organizations working on tracking litigation related to the overseas conduct of multinational firms. The OECD requires all member governments to establish a government-supported office whose duty is to advance the effectiveness of the OECD Guidelines, known as a National Contact Point (NCP). The NCPs aim to raise awareness among businesses and stakeholders about the NCP grievance mechanism, and to handle specific grievances against companies who have failed to meet the Guidelines' standards.

The Corporate Crimes Project has created a database about corporate human rights abuses and a research toolbox, as well as a global map of all cases that can be searched by category of offense (ranging from forced labour to financial crime to resource theft). The Business and Human Rights Resource Centre also maintains a database of active lawsuits, of which 45% were brought against mining or oil and gas companies. An independent commission of experts convened by Amnesty International and the International Corporate Accountability Roundtable has developed a list of Corporate Crimes Principles aimed at helping regulators and litigators fight corporate rights abuses. The Business and Human Rights Resource Centre has also written a briefing on the issue of corporate legal accountability that identifies why corporations are rarely held accountable for their crimes. Accountability Counsel has developed a series of guides specifically to help redress grievances in international finance and development and guide the formation of stronger remediation mechanisms.

To aid in the investigation of corporate crimes, the Corporate Crimes Project lists its own corporate data tools as well as open-source analytical tools that are available for public use. Particularly helpful is the database from OpenCorporates, which includes data from 203 million companies in all global jurisdictions. Researchers can also use the Aleph database from the Organized Crime and Corruption Reporting Project that aims to help investigative spot connections, visualize political influence, and uncover corruption. The International Consortium of Investigative Journalists also hosts its Offshore Leaks tool with datasets from over 800,000 companies exposed in the Pandora, Panama, and Paradise papers.

6. Collusion with Oppressive Regimes

Corporate collusion with oppressive and authoritarian regimes happens unfortunately frequently, as evidenced by the New York Times' recent exposés of McKinsey's work for the Chinese and Russian governments. The organization Ethical Consumer has developed a list of 23 oppressive regimes that firms might want to avoid conducting business with on the basis of their scores on a variety of scales, including the Political Terror Scale, Press Freedom Index, Modern Slavery Index. Firms should also avoid conducting business with nations that are on major international sanctions lists; to search for sanctioned countries, see the Sanctions Explorer from the Center for Advanced Defence Studies, the United States Consolidated Screening List, and the United Nations Security Council Screening List.

For businesses operating in high-risk environments, the Security and Human Rights Knowledge Hub has developed a decision tree to help guide market decisions, as seen on page five of this document. This flowchart recommends that firms only conduct business operations that respect international sanctions, respect popular sovereignty, and do not legitimize egregious human rights violators. Companies should only do business in high-risk environments if that business concretely strengthens civil society, rather than strengthening the oppressive regimes in question. The recent Russian invasion of Ukraine has provided a salient example of the role of corporations in taking a stand against human rights abuses and oppressive regimes, with a massive number of Western corporations deciding to exit their Russian operations. The UN Global Compact has developed a business guide for the Ukraine humanitarian crisis.

Businesses should take particular care with conducting business in China, a nation which is currently operating the largest extra-judicial detention network in the world in Xinjiang province to forcibly imprison, intimidate, and 're-educate' 1.5 million Uigher Muslim people. Recent analysis finds that 83 global brands are implicated in allegations of forced labour using inmates in Xinjiang detention facilities. According to Ethical Systems, business leaders have an ethical obligation to take a stand against China's human rights abuses, and the Wall Street Journal recognizes that there is a moral cost of doing business with China. Firms should review the international advisories issued by Global Affairs Canada and other governments regarding Chinese business operations. Similarly, firms should exercise caution in doing business in Myanmar, which is ruled by an autocratic regime responsible for overseeing a genocide against its Rohingya Muslim population. Amnesty International has identified the companies that are currently profiting from human rights abuses in Myanmar. For businesses still operating there, the World Business Council on Sustainable Development has developed a human rights and business country guide focusing on Myanmar.

Companies should also avoid doing business with coercive actors in the realm of migration, refugee displacement, and border control, sometimes referred to as the 'border-industrial complex'. The New York Times has also shown that McKinsey profited from helping the US Immigration and Customs Enforcement agency enact the Trump administration's inhumane migrant deportation policies. Similarly, in Australia there are many companies profiting from the abuse of refugees on the island nation of Nauru. The think tank Preventable Surprises has written a briefing on the role of investor stewardship in the border and surveillance industries, and outlined recommendations for institutions providing funding to companies overseeing migration and detention issues.

7. Conflicts, Weapons, and Terrorism

Corporate complicity in war crimes is a large problem, as evidenced by recent cases of French multinational LafargeHolcim financing the Islamic State in Syria, or BNP Bank profiting from the genocide in Darfur. This is a relatively new frontier of international law, and as such there is no international convention regulating the role of corporations in conflict zones. According to Business for Social Responsibility, such 'high-risk areas' include "situations of armed conflict and mass violence as well as areas with weak governance or rule of law; extensive corruption or criminality; significant social, political, or economic instability." UNPRI notes that corporations operating in conflict-affected or high-risk zones have an obligation to perform particularly stringent due diligence processes, and seriously consider the risk of gross human rights violations. The UN Global Compact has developed a guide for doing business in conflict-affected regions. The Australian Red Cross has also developed a guide for responsible business in armed conflict, with a specific focus on the risk of pillaging of assets, forced displacement, military occupation, workforce conditions, the trading of weapons, and environmental damage.

Particularly problematic is the global arms trade, an extremely powerful industry that profits from the fueling of conflicts and human rights violations around the world. The definitive study of the global arms trade comes from journalist Andrew Feinstein's book The Shadow World. Major defense contractors such as Lockheed Martin and Boeing, a critical component of what President Eisenhower famously termed the 'military-industrial complex', make billions of dollars every year from funding the sale of arms, many of which have been tied to corrupt regimes and human rights abusers. To better identify the risk of government corruption in the global arms trade, see the Government Defence Anti-Corruption Index by Transparency International, as well as the Corruption Tracker from the World Peace Foundation. Amnesty International recently completed a study of 22 arms companies which concluded that not a single firm was able to explain how they planned to meet their responsibilities under UN Guiding Principles on Business and Human Rights. For more information about corporate legal accountability and arms exports, see this report from the Friedrich Ebert Foundation, as well as these resources on corruption in the global arms trade from the World Peace Foundation.

Defense and security companies must publicly disclose their due diligence practices, and become far more meticulous about tracing the global distribution of their weapons and accounting for the end user, as well as evaluating their own complicity in human rights violations. In particular, defense contractors should follow the due diligence guidelines developed by the Canadian Commercial Corporation. Major international investors also have a responsibility to either divest from war and the defense industry, or use their power as shareholders to advocate for greater transparency and reform according to investment criteria as outlined on pages 10-11 of this report.

Another problem is the issue of private military and security contractors (PMSCs), whose behaviour can often instigate complicity in war crimes and is rarely penalized appropriately. The world of private military contracting is a $200 billion industry, and is shrouded in secrecy with little accountability. Transparency International is working to increase the disclosure of PMSC contracts, and impose international quality standards. All companies should endorse the Voluntary Principles on Security and Human Rights, and disclose the details of all private security contracts.

All businesses, particularly in the extractives sector, need to investigate and disclose their sourcing of conflict minerals. Companies should use the due diligence, assurance, and reporting guidelines developed by the Responsible Minerals Initiative. This report by Global Witness includes a list of actions required to exclude conflict minerals from supply chains. Businesses should begin by mapping their entire mineral supply chains, including site, transportation, export, transit countries, smelters, and manufacturers. Supply chain maps should include information about the mines from which materials are sourced, the points at which minerals are traded, mixed or processed, the transportation routes taken, the taxes paid (including where, how much, and to whom), and the identity of all players along the supply chain. For specific guidance on assessing conflict mineral risk in the supply chain controls of mineral smelters, see Annex B of the report. The Global Reporting Initiative has also developed reporting guidelines for minerals sourcing and due diligence. Businesses should seek to join international certification schemes, such as the Kimberley Process or the Responsible Gold Initiative. For more information about certifications and standards according to actor type, see this list from the Responsible Minerals Initiative. For case studies about management of conflict mineral risk, see these resources from the Human Rights and Business Dilemmas Forum.

Businesses, and financial firms in particular, must also undertake efforts to eliminate and disclose their risk of financing or supporting terrorist activity around the world. As the OECD has outlined, terrorism, corruption, and resource exploitation often go hand in hand. Firms must abide by the stipulations of the International Convention for the Suppression of the Financing of Terrorism. Firms looking to detect money laundering for terrorist financing should review the awareness handbook developed by the OECD for auditors and examiners, as well as the comprehensive training guide published by the World Bank. For information about the changing global regulator landscape, see the agenda of the EU Commission to fight terrorism financing.

8. Sector-Specific Guidance

Human rights risks differ significantly by sector. For a more specific sectoral breakdown, check out the sectoral benchmarks developed by the World Benchmarking Alliance for high risk industries, as well as the issues by sector outlined by the UNEP Finance Initiative.

The opportunity for human rights abuses in the extractives sector is extremely significant, particularly for mining companies operating in the Global South. The top 10 human rights risks for extractive firms, as identified by Business for Social Responsibility, include environmental impacts, labour risks, economic and social disruption, security incidents, land acquisition, Indigenous rights violations, supply chains, bribery and corruption, cumulative impacts, and access to remedy. This issue is particularly salient given that the world's mineral needs will increase dramatically with the renewable energy transition; for more information about these risks, see the Transition Minerals Tracker, as well as these resources from the Business and Human Rights Resources Centre.

Extractive firms looking to ensure that their mining operations abide by the highest standards of responsible conduct should review the standards developed by the Initiative for Responsible Mining Assurance, and explore the global best practices outlined on their Responsible Mining Map. Firms are also advised to review the due diligence guidelines developed by the OECD, which include due diligence for sourcing minerals from high risk areas, and guidelines for effective stakeholder engagement.

Community relations are particularly important for responsible business conduct in the extractives sector. Disruptions to local communities can be caused by a variety of factors: an influx of workers, corporate use of essential local resources, recruitment of security staff, violations of local land tenure, and more. The presence of mining projects in vulnerable areas often creates a perfect storm of environmental and human rights risks; communities are frequently displaced against their will, local ecosystems are polluted or destroyed, and sources of food and water degraded to the point that it causes an epidemic of health and safety issues. Companies should pay particular attention to water access, community relocation, and cumulative impacts (defined as the impacts of multiple extractive projects over time on a single community). Firms should perform a self-assessment according to this questionnaire developed by the Danish Institute for Human Rights, and review these case studies. For more guidelines on community engagement for exploration and development firms, review this resource prepared for the Network for Business Sustainability.

Extractive firms should make sure to contribute to a culture of openness and transparency around how countries manage their mineral wealth and ensure that these resources benefit local populations, rather than just elites and corrupt government officials. Firms should commit to revenue transparency and the disclosure of all payments and contracts, particularly payments that might be considered politically motivated. Firms should review the standards developed in the accountable mining project by Transparency International, and participate in the Extractive Industries Transparency Initiative and the Publish What You Pay campaign.

Extractive firms should also pay special attention to security risks that arise from the use of private security contractors, who have been found in many instances to commit atrocities against local populations (and land and human rights defenders in particular). Firms should commit to the Voluntary Principles on security and human rights, and perform a self-assessment using these guidelines developed by the Danish Institute for Human Rights. For more information about case studies related to security risks, see this link.

There is much potential for human rights abuses in the agriculture and forestry sector, particularly when it comes to exploitative labour conditions and violations of local land tenure. The UNEP Finance Initiative has developed an outline of human rights risks for agriculture and fisheries as well as forestry and logging. For responsible sourcing from agricultural supply chains, review this guideline developed by the OECD.

The global fast fashion industry is another high risk sector, particularly from the perspective of the exploitation of garment workers. For a recent review of performance by fashion firms, see this report on benchmarking in the apparel and footwear industries. For more information about responsible supply chain management in the textile and garment sector, see these guidelines from the OECD.

9. Tools for Investors

Financial firms have a responsibility to use their power as shareholders and lenders to require companies to comply with global human rights standards. The Shift Project identifies the financial facilitation of high-risk clients as a red flag for human rights, and operates a financial institutions practitioner circle for more information. Financial firms should follow the investor guidelines contained in this report by the Office of the High Commissioner on Human Rights, as well as this framework developed by the Institute for Human Rights and Business. Firms should participate in the Investor Alliance for Human Rights, as well as the Thun Group of Banks which has released a series of discussion papers related to the implementation of the UN Guiding Principles. All financial firms should also abide by the Equator Principles, a credit risk management framework for managing environmental and social risk that is currently expanding its human rights focus.

Case Studies

Major multinational corporations continue to use legal means to to fight allegations of abetting modern slavery. Nestle, Mars, and Hershey are all facing lawsuits brought by eight former child slaves who claim that they were forced to work without pay on plantations in the Ivory Coast. Rather than taking responsibility for their grave rights violations and committing to reform, these companies are choosing to wage legal battles against the former child slaves by invoking the legal principle of forum non conveniens, wherein they argue that domestic laws against modern slavery cannot apply in foreign jurisdictions such as the Ivory Coast. These legal arguments, however cynical, have been accepted by the US Supreme Court in a decision reversing the lower court ruling which had allowed the lawsuit to continue. At the same time as it is waging legal warfare against former child slaves exploited in its supply chains, Nestle is publicly touting its work on "respecting and advancing human rights," and claiming that it has "raised the bar for transparency and understanding around child labor." Nestle's 2021 human rights framework mentions nothing about the lawsuit.

This case study provides only one among many examples of corporate hypocrisy on human rights. Companies often use sustainability reports to applaud themselves for small interventions or pilot projects, while neglecting to disclose crucial information related to allegations of abuse and mistreatment. Companies like Nestle and others must begin by taking responsibility for their violations, empowering true grievance mechanisms, respecting the rights of stakeholders instead of resorting to legal intimidation, and setting the bar for meaningful remediation.

Organizations/Initiatives

To learn more about human rights topics and business practices, check out the e-learning courses on human rights developed by the UN Global Compact, as well as the business peer learning centre of the UN Office of the High Commissioner on Human Rights.

For more information about corporate accountability, human rights violations, and business practices, see the following international organizations:

- United Nations Office of the High Commissioner for Human Rights (OHCHR)
- UN Working Group on Business and Human Rights
- UN Forum on Business and Human Rights
- Business and Human Rights Resource Centre
- Human Rights and Business Dilemmas Forum
- Shift Project
- Institute for Human Rights and Business
- World Benchmarking Alliance
- Investor Alliance for Human Rights
- Global Witness
- Amnesty International
- Human Rights Watch
- Corporate Accountability International
- International Council for Human Rights
- Ethical Trading Initiative
- Responsible Business Alliance
- Social Accountability International
- Aboveground.NGO
- Responsible Sourcing Network
- World Peace Foundation
- Shadow World Investigations
- Global Net Stop the Arms Trade

For human rights focused watchdogs specific to the extractives sector, see the following organizations

- MiningWatch Canada
- Oilwatch
- London Mining Network
- Mines and Communities
- Yes to Life, No to Mining
- Extractive Industries Transparency Initiative
- Publish What You Pay

To review information about corporate malfeasance and the nexus between corruption, crime, and human rights abuses, see the following watchdogs:

- CorpWatch
- CorporateWatch
- Corporate Crime Reporter
- Corporate Accountability
- Corporate Research Project
- ViolationTracker
- Transnational Corporate Observatory
- Corporate Europe Observatory
- Corporate Rap Sheets
- Dirt Diggers Digest
- Corporate Dirt Archives
- As You Sow

- OpenCorporates
- Offshore Leaks from the International Consortium of Investigative Journalists
- Aleph Project from the Organized Crime and Corruption Reporting Project

Human Wellbeing

Indigenous Rights, and Reconciliation 2.2

Description

There are over 370 million Indigenous peoples living in over 90 countries around the world, comprising a majority of the world's linguistic and cultural diversity. While they account for only 5% of the world's population, they occupy 20% of the Earth's land surface and steward an astonishing 80% of global biodiversity. However, due to a painful and enduring legacy of colonial oppression, many Indigenous populations remain marginalized in modern nation-states and face disadvantages that other groups do not. The dispossession of Indigenous lands is an ongoing process in settler colonial societies; in Canada, 76% of injunctions filed by corporations against First Nations are granted, while conversely 81% of injunctions filed by First Nations against corporations are denied. The five largest Canadian banks provided over $49 billion in funds to Enbridge from 2016 to 2020, despite consistent and vehement opposition from numerous Indigenous communities to the company's Coastal GasLink pipeline which has not received the Free, Prior, and Informed Consent (FPIC) of affected communities. To learn more about what corporations should be doing to advance reconciliation and ensure FPIC in all project developments, continue reading this PDF

Issue Summary

There are over 370 million Indigenous Peoples living in over 90 countries around the world, comprising a majority of the world's linguistic and cultural diversity. While they account for only 5% of the world's population, they occupy 20% of the Earth's land surface and care for an astonishing 80% of global biodiversity. Indigenous Peoples are often on the front lines of the fight against extractive capitalism; it is estimated that Indigenous resistance to fossil fuel projects has prevented 1.6 billion metric tons of CO2 from entering the atmosphere in the last decade alone. At the same time, due to a painful and enduring legacy of colonial oppression, many Indigenous populations remain marginalized in modern nation-states and face disadvantages that other groups do not. Indigenous Peoples make up 15% of the world's poor and one-third of the world's extremely poor, and they are much more likely to face below-average life expectancies.

Canada is a settler colonial state which continues to perpetuate systems of exploitation and oppression of the First Peoples of these lands. 89% of land in Canada is designated as 'Crown Land', a system of dispossession which gives the Canadian state sole control over Indigenous Traditional Territories. According to the Yellowhead Institute, the "state-industry complex that motivates land alienation is a major economic driver of the Canadian economy," as billions of dollars in resources are extracted from Indigenous lands every year. The Canadian state actively sanctions and cooperates in the ongoing violation of Indigenous sovereignty, as evidenced by the fact that 76% of injunctions filed by corporations against First Nations are granted, while 81% of injunctions filed by First Nations against corporations are denied. To visualize the extent of the corporate invasion of Indigenous lands in Canada, view this mine sweeper map developed by the Yellowhead Institute. To rectify these imbalances, a nation-wide 'Land Back'movement has emerged advocating for Indigenous control of Indigenous Traditional Territories, as advanced in the Institute's seminal 'Red Paper'.

Large Canadian banks and investors are complicit in this process. The five largest Canadian banks provided over $49 billion in funds to Enbridge from 2016 to 2020, despite consistent and vehement opposition from Indigenous communities such as the Red Lake Nation, the White Earth Band of Ojibwe, and Mille Lacs Band of Ojibwe to the company's Line 3 pipeline that violates their treaty rights. It is estimated that Line 3 will add 193 million tons of greenhouse gases to the atmosphere on an annual basis. Enbridge has also secretly bankrolled local police departments in Minnesota to intimidate Indigenous land defenders and activists. In British Columbia, 26 major banks are funding construction of the Coastal GasLink pipeline despite resistance from the Traditional Hereditary Chiefs of the Wet'suwet'en people, who have not consented to the development of this project through their lands. In December 2019 the UN Committee on the Elimination of Racial Discrimination called on Canada to immediately suspend construction of the Coastal GasLink pipeline in response to urgent reports filed the Wet'suwet'en, Secwepmec, and Dunne-za and Cree communities. This request went ignored.

The violation of Indigenous sovereignty is not restricted to Canada, however. Around the world, Indigenous Peoples are facing the brunt of resource imperialism and neocolonial extractivism, often reinforced by violence from local police and private security personnel. 18% of the Amazon rainforest, one of the planet's most biodiverse regions, is currently covered with large-scale mining concessions, and 20% of these concessions are known to overlap with Indigenous territories. The government of Jair Bolsonaro has adopted a conscious mission to invade as many Indigenous lands as possible. The global Environmental Justice Atlas, a global database of mining-related conflicts, has identified over 1,500 ongoing conflicts over water, land, displacement, pollution, and a variety of other issues. Similar maps are available from ResourceWatch and Global Forest Watch.

Many observers have called attention to a global land grab that is occurring driven by agribusiness and state-sponsored resource hoarding, primarily affecting nations in the Global South. As demand for resources and land rises around the world, this will exacerbate pressures on Indigenous communities and the ecosystems they steward. There is also the uncomfortable reality that the global green energy transition is likely to accelerate a worldwide boom in 'green extractivism' as the extraction of minerals required for electrification will accentuate threats to biodiversity, the integrity of habitats, Indigenous rights, and other issues. The World Bank estimates that the production of key minerals such as graphite, lithium and cobalt will need to increase by 500% by 2050 to meet the demand from clean energy technologies. Without concomitant safeguards for Indigenous sovereignty and community land rights, it is possible that the green transition will serve to accelerate the displacement of Indigenous communities.

Key Considerations

Many companies are beginning to realize that infringing on Indigenous sovereignty is not just an ethical violation, but also a poor business decision. An analysis of 370 extractive sites based on or near Indigenous land found that 92% of companies had poor or non-existent relationships with Indigenous Peoples, making them medium to high-risk investments. Due to increased media attention focused on Indigenous-led protests, the report found that 58% of companies had medium to high-risk exposure from negative media coverage. Activist investors are increasingly holding companies accountable for such violations; one example is the Canadian firm Tahoe Resources, which was accused of abetting human rights abuses at its Guatemalan mine (including multiple assassinations). Major investors in Tahoe Resources divested from the company due to ongoing opposition, and Tahoe Resources' stock plummeted from a high of $27 to $4, while the mine was ultimately suspended.

The UN Declaration on the Rights of Indigenous Peoples (UNDRIP) is the first framework at an international level to call for universal recognition of and respect for Indigenous sovereignty. As part of the process of atoning for Canada's horrific treatment of First Nations, Inuit and Métis, the Truth and Reconciliation Commission of 2015 included in its 92nd Call to Action a call for "the corporate sector to adopt the United Nations Declaration on the Rights of Indigenous Peoples as a reconciliation framework and to apply its principles, norms and standards to corporate policy." In 2021, Canada adopted Bill C-15, a legislative act which now binds the government to a process of ensuring that all of its policies and laws are aligned with UNDRIP. Although this represents a historic win for Indigenous rights, UNDRIP implementation should not be considered a cure-all. UNDRIP includes inherent limitations, such as the stipulation in Article 46 that nothing in the declaration should be "construed as authorizing or encouraging any action which would dismember or impair, totally or in part, the territorial integrity or political unity of sovereign and independent States." In effect, this clause provides Canada with the legal ammunition to claim that Indigenous self-determination threatens Canada's territorial integrity. Both federal and provincial governments in Canada have announced that UNDRIP will be interpreted in accordance with Section 35 of Canada's Constitution, which implies that domestic laws will always take precedence over international principles. Such contradictions were on display in British Columbia, which passed its own law adopting UNDRIP in 2019 and yet did not intervene to prevent the forced eviction of Wet'suwet'en land defenders from their own territory.

At the centre of the debate surrounding Indigenous sovereignty is the concept of Free, Prior, and Informed Consent (FPIC), which requires that all extractive projects occurring on Indigenous land must occur with the freely given consent of affected communities as indicated before projects begin, and only once access to all necessary information has been ensured. FPIC includes three overlapping rights: the right to be consulted; the right to participate; and the right to their lands, Traditional Territories and resources. A comprehensive definition of FPIC is provided by the Yellowhead Institute:

- Free: consent given voluntarily and without coercion, intimidation or manipulation, through a process that is self-directed by the community from whom consent is being sought, unencumbered by coercion, expectations, or timelines that are externally imposed;
- Prior: consent is sought sufficiently in advance of any authorization or commencement of activities;
- Informed: the nature of the engagement and type of information that should be provided prior to seeking consent and also as part of the ongoing consent process;
- Consent: collective decision made by the rights holders and reached through the customary decision-making processes of the communities.

The Yellowhead Institute advances on this definition by providing four additional principles that further extend the concept of FPIC and introduce new responsibilities for companies operating on Indigenous lands:

- Restorative: promotes the active and intentional centering of Indigenous models of governance and law and moving away from Western frameworks and definitions;
- Epistemic: accepts Indigenous knowledge frameworks and languages for understanding relationships to the land;
- Reciprocal: ensures that Indigenous people are not merely being asked to grant consent, but are determining the terms of consent;
- Legitimate: while community politics can be fraught, decisions about granting or withholding consent generally require representatives perceived as legitimate by the community, and with a stake in the decision (whether band council, hereditary council, youth, elders, all genders, and urban populations) to participate or be accommodated.

As the Institute has noted, existing regimes that seek to recognize Indigenous sovereignty and autonomy have so far proved insufficient to deliver on reconciliation goals. Many firms assume that merely consulting Indigenous Peoples on a proposed project is enough to prove FPIC, giving rise to the expression that "consultation is not consent." The 'Duty to Consult' requirement for all Canadian federal and provincial governments does not give First Nations an ultimate veto over government actions. Additionally, many firms are inherently biased to view Indigenous consent as a means to reduce the potential costs associated with sustained legal and political battles, rather than a means to actually recognize Indigenous agency. As such, "both states and industry actors therefore privilege a more diluted version of FPIC as a participatory right, which results in a procedural obligation to seek consent through what is often technical (and symbolic) consultation rather than as a substantive obligation to recognise the decision-making authority of Indigenous peoples."

Many firms seeking to obtain Indigenous consent to extractive projects rely on the negotiation of 'Impact Benefit Agreements' (IBAs), a form of compensation provided to affected communities, which has the effect of displacing discussion of whether a project should commence or not with discussion about the attractiveness of the compensation package. IBAs have been shown to create a highly unequal environment given the fact that access to legal expertise is imbalanced, negotiation details are kept confidential, communities are pressured to negotiate as quickly as possible, and discussions often focus on quantifiable, short-term economic benefits rather than long-term costs which tend to be more qualitative in nature. IBAs should only be used as a mechanism for securing FPIC if they are accompanied by a real and substantive deliberative process that engages the entire community, and if they do not erode the community's right to veto a project after the IBA negotiation process has begun.

who unanimously declared a moratorium on all development in the region.

4. Supporting the Indigenous Economy

Firms should also commit to advancing reconciliation goals by directly supporting the Indigenous economy through procurement policies, recruitment practices, building capacity, and other means. The National Aboriginal Economic Development Board estimates that if Indigenous Canadians were given the same education, training and employment opportunities as other Canadians, their contributions could increase Canada's GDP by $27.7 billion annually. For more information on this topic, see the Indigenomics Institute developed by Carol Anne Hilton.

According to analysis by SHARE, few firms are appropriately disclosing their contribution to the Indigenous economy. SHARE found that few companies have diversity policies or plans that address Indigenous representation among employees and corporate leadership. Of 173 companies considered, only three firms identified Indigenous heritage as a quality sought in hiring board candidates. Only 5% of companies disclosed data about their training and education activities, such as the amount of funds provided in scholarships, while only 23% of firms described specific contracting or procurement policies for Indigenous businesses. To improve this situation, more firms should make explicit plans to integrate information about diversity and leadership, employment and advancement, contracting and procurement, training and education, and community investment into their annual reporting. In addition, to attract and retain Indigenous staff, companies must consider how they need to change their corporate culture and approaches to working to best support these individuals.

Firms hoping to improve their relations with Indigenous Peoples, and advance reconciliation goals in general, should review the best practices established by the Canadian Council for Aboriginal Business in their program on Progressive Aboriginal Relations. This guide includes specific recommendations related to recruitment and retention, supply chain engagement, community investment, and customer relations.

For more information about the integration of Indigenous peoples in the economy, review this report by the International Labour Organization (ILO) on the Indigenous and Tribal Peoples Convention, as well as its work on economic and social rights for Indigenous peoples.

5. Committing to Decolonization

Beyond committing to respecting Indigenous sovereignty, all companies should partake in the ongoing work of decolonization that entails unlearning settler colonial worldviews, understanding Indigenous perspectives, and weaving decolonial practice throughout all organizations and institutions. Businesses should aim to understand the nature of settler colonialism, and the ways in which colonial legacies endure today. They should also make a commitment to genuine reconciliation practices, and engage in cultural competency training exercises for Indigenous relations. All employees should be required to engage with critical texts, including the seminal book Indigenous Relations: Insights, Tips and Suggestions, as well as this Reconciliation Toolkit for Business Leaders developed by the Council of Aboriginal Peoples.

Businesses must learn to appreciate and respect Indigenous Knowledge, and understand how this differs from that of Western culture. Firms must refrain from the theft of Indigenous Knowledge, a problem that is particularly severe in the international pharmaceutical industry as well as in the work of Indigenous engagement. For guidance on this issue, see the First Nations Principles of OCAP® (Ownership, Control, Access, and Possession) of the First Nations Information Governance Centre. Businesses should also recognize that many principles of Indigenous Knowledge, such as systems thinking, relationality, and intergenerational reciprocity are principles that must underlie all theories of change that aim for genuine sustainable development, and articulate a commitment to Indigenous environmental justice.

Above all, businesses should understand that decolonization is not a metaphor, and that genuine decolonial practice involves a commitment to prioritizing Indigenous voices, the land back movement, reparations for colonial violence, and other forms of solidarity. For more information, see this Decolonization Toolkit as well as this solidarity action guide from the Resource Generation, as well as this article which illustrates the differences between the concepts of decolonization and Indigenization.

Case Studies

Although there are far too many examples of corporate infringement on Indigenous rights, there are also case studies in which corporate-Indigenous relations involve a respect for community decision-making processes and the articulation of FPIC. One such example comes from the Woodfibre Natural Gas project that involved the building of a liquefied natural gas processing and export facility in the heart of the traditional territory of the Squamish Nation. At the same time that the Squamish Nation was helping lead vocal opposition to the expansion of the Trans Mountain pipeline project, it was engaged in a community-driven impact assessment process with Woodfibre LNG that was funded by the company, and included a legally binding private agreement to respect the outcome of the community consultation process regardless of its result. A robust deliberative process occurred with a focus on community meetings and direct dialogue, ultimately generating 25 conditions and mitigation measures that were all unilaterally accepted by the project developer. Following this productive process, the Squamish Chiefs and Council endorsed the project and consented to an Impact and Benefits Agreement. As this example shows, it is possible for companies to obtain FPIC when consultation processes are community-driven and corporations agree to respect the rights and voice of affected stakeholders in all situations.

Organizations/Initiatives

For more information about Indigenous issues, UNDRIP, FPIC, land rights, and Indigenous environmental justice, see information from the following organizations:

Indigenous Organizations (Canada)

- Assembly of First Nations
- Congress of Aboriginal Peoples
- Inuit Tapiriit Kanatami
- Chiefs of Ontario
- Union of BC Indian Chiefs
- Métis National Council
- Native Women's Association of CanadaNGOs (Canada)
- Yellowhead Institute
- Reconciliation Canada
- Indspire
- Indigenous Climate Action
- IISAAK OLAM
- Water First
- Raven Trust
- Canadian Council for Aboriginal Business
- Raven Indigenous Capital Partners
- Legacy of Hope Foundation
- Canadian Roots Exchange
- First Nations Child and Family Caring Society
- True North Aid

Indigenous Organizations and NGOs (International)

- International Indian Treaty Council
- United Nations Permanent Forum on Indigenous Issues
- ICCA Consortium
- International Working Group for Indigenous Affairs
- Cultural Survival
- Survival International
- Grassroots International
- Indigenous Environmental Network
- Forest Peoples Programme
- Coalition for the Human Rights of Indigenous Peoples
- Minority Rights Group International
- Incomindios
- Land Rights Now
- Amazon Watch
- World Rainforest Movement
- Health of Mother Earth Foundation
- Indigenous Rising
- Rights and Resources
- Save Our Roots
- Environmental Justice Foundation

Human Wellbeing

Labour Rights and Working Conditions 2.3

Description

Labour rights are human rights, and all firms have a responsibility to provide all employees with a living wage and safe and secure working conditions free from harassment and exploitation. Unfortunately, there are a multiplicity of ways that firms continue to infringe on labour rights, including through the abuse for indentured and forced labour, child labour, the exploitation of migrant workers, the harassment of union organizers, the misclassification of employees, the theft of wages and property, and other violations.

Issue Summary

Labour rights are human rights, and all firms have a responsibility to provide all employees with a living wage and safe and secure working conditions free from harassment and exploitation. Unfortunately, there are a multiplicity of ways that firms continue to infringe on labour rights, including through the abuse for indentured and forced labour, child labour, the exploitation of migrant workers, the harassment of union organizers, the misclassification of employees, the theft of wages and property, and other violations.

Forced labour in global supply chains is a complex and multifaceted phenomenon, as outlined in this comprehensive topic review by the Human Rights and Business Dilemmas Forum. The organization Walk Free maintains a Global Slavery Index tracking trends in forced labour around the world, and they find that there are currently 40.3 million slaves worldwide, of whom 71% are women. To learn more about modern forms of slavery, see this informational guide from the Council on Foreign Relations.

There are also over 160 million child labourers around the world, a figure which encompasses approximately one in every 10 human children. This number has increased significantly in recent years according to a multi-year study by the US Department of Labour. The number of children employed in hazardous work rose from 72.5 million in 2016 to 79 million in 2020. Despite the scale of this problem, only 26% of companies report on the results of their child labour policies, while only 10% have board-level accountability for child labour responsibilities.

Additionally, many important labour protections that were won after years of working class agitation have been slowly repealed by decades of neoliberal reforms. Since the 1980s, the share of labour as a proportion of national income in many industrialized democracies has declined significantly as a result of deunionization, automation, offshoring, wage stagnation, and a variety of other factors. A significant number of people are employed in forms of precarious labour that cause them to live paycheque to paycheque, while across the developing world millions of people are paid paltry wages working 12 hour days to service global supply chains (particularly in the garment industry), or remain in the informal economy where they earn barely enough to feed their families. Globally, 327 million wage earners are paid at or below the applicable hourly minimum wage, representing 19% of all wage earners.

All corporations must pay their employees a living wage, even in regions without a statutory minimum wage. Additionally, employers must respect the right of employees to form unions with the aim of obtaining collective bargaining agreements. We are currently entering a period of increased labour militancy, as evidenced by the dramatic rise in the number of unionization attempts and the large increase in the number of resignations. These changes have put more power in the hands of workers, and forward-thinking companies should respond by improving labour relations and working conditions in an effort to retain valued employees.

Key Considerations

Labour rights are governed globally by the International Labour Organization, which was founded in 1919 with the creation of the League of Nations. All labour rights are enshrined in the 189 ILO Conventions and Protocols, some of which are legally binding and some voluntary. The eight fundamental Conventions designated in the 1998 Declaration on Fundamental Principles and Rights of Work include the:

1. Freedom of Association and Protection of the Right to Organize Convention, 1948
2. Right to Organize and Collective Bargaining Convention, 1949
3. Forced Labour Convention, 1930
4. Abolition of Forced Labour Convention, 1957
5. Minimum Age Convention, 1973
6. Worst Forms of Child Labour Convention, 1999
7. Equal Remuneration Convention, 1951
8. Discrimination (Employment and Occupation) Convention, 1958

In Canada, labour rights are protected by the Canadian Human Rights Act, the Employment Equity Act, and the Canada Labour Code. The Canada Labour Code is divided into four parts respecting industrial relations, occupational health and safety, standard hours, wages, vacations and holidays, and administrative monetary penalties.

At a global level, modern slavery is governed by the Bali Process on People Smuggling, Trafficking in Persons and Related Transnational Crime, which hosts a forum on government and business. Modern slavery takes many forms, perhaps the most common of which is debt bondance and the exploitation of workers through odious financial burdens achieved by withholding wages, or charging exorbitant recruitment fees and other recruitment costs. The ILO finds that 51% of workers in situations of forced labour today experience debt bondance, particularly through abusive recruitment techniques. Modern slavery is also a product of restrictions on worker movement, often enabled by the retention of passports or other personal identification and travel documents.

Child labour is defined as any labour that is physically or psychologically harmful to children and interferes with their ability to attend school, usually occurring anywhere between the ages of 5 and 17. The worst forms of child labour, as outlined in ILO Convention No. 182, include all hazardous child labour that is harmful to a child's health, safety and morals, such as child slavery, trafficking and engagement in armed conflict, and sexual exploitation.

The right to a fair living wage is another core labour right. A fair wage is defined by the ILO as "a wage sufficient to maintain, in the circumstances of each country, an adequate standard of life." The definition of a living wage is context-dependent and should be calculated on the basis of what income will provide a decent living in a particular region, given the fact that an official minimum wage is often not a fair wage in many jurisdictions. Other crucial labour rights included in terms of employment and working conditions include:

- Fair working hours;
- Proper employee classification;
- Freedom of association and collective bargaining;
- Adequate health and safety standards;
- Freedom from harassment and discrimination;
- Privacy.

Tools

Before evaluating performance on any particular labour rights issue, corporations should begin by recognizing the value of their workforce using the Social and Human Capital Protocol developed by the Capitals Coalition, an approach which helps firms see their employees as valued partners rather than just expense items on an income statement.

1. Forced Labour

Tracing the existence of forced labour in global supply chains is an extremely complex task. To help visualize forced labour risk, businesses should use the Comply Chain, Sweat & Toil, and Better Trade tools developed by the US Department of Labour to help firms with compliance and accountability related to forced labour, child labour, and human trafficking. Firms should also review this comprehensive list of goods produced by forced or child labour when evaluating all sourcing decisions.

The Fair Labour Association standards require that workers must not be bound to their jobs by debt, must have reasonable freedom of movement at work, and must not be forced to work overtime. Know The Chain, a supply chain transparency organization, has developed a list of priority action areas for companies interested in reducing modern slavery throughout their value chains. These include developing a supplier code of conduct, establishing training programs and assigning clear managerial responsibility, conducting risk assessments, engaging with workers, suppliers, and other stakeholders, and adopting a formal grievance mechanism. In particular, they recommend that companies disclose a policy which prohibits worker-paid recruitment fees, and uses the Employer Pays Principle to require suppliers to pay for recruitment fees and reimburse worker-paid fees where they occur. The UN Global Compact also has a business reference guide for reducing modern slavery.

A database of company disclosures on modern slavery can be seen from the Business and Human Rights Resource Centre, which includes disclosures from over 18,000 firms. The most comprehensive transparency guidelines are from the UK Government, and the Global Reporting Initiative as well as the Corporate Justice Coalition have also issued guidelines on supply chain transparency.

The Danish Institute for Human Rights has developed a list of self-assessment questions for companies analyzing the risk of modern slavery throughout their supply chains. These include:

- Does the company refrain from threatening or coercing employees to work against their will, up to and including the use of violence?
- Does the company refrain from retaining the identity cards, passports, and other important personal documents of its employees?
- Does the company avoid hiring workers into bonded labour relationships involving salary advances or loans?
- Does the company refrain from withholding wages in an attempt to coerce additional labour from employees, or demanding deposits for any reason?
- Are company employees free to move around and leave the workplace and housing facilities, limited only by reasonable restrictions?
- If the company sources labour from a correctional facility or other government authority, does the company ensure that labourers have voluntarily consented to work and that the labourers are appropriately remunerated and supervised?

Other important red flags, as identified by Anti-Slavery International, include:

- Do workers feel free to refuse overtime?

- Did migrant workers pay a fee to get a job outside their hometown or country? What are the terms of repayment?
- Do workers retain complete control over their personal documents or have free access to them, if they are kept by their employer?
- Are workers paid on time, directly and in legal tender? Do they have payslips that accurately detail the hours they have worked and the rates which they are paid?
- Do you know who the workers are when you or your suppliers subcontract work? Are you aware of all subcontracting in your supply chain?
- Is prison labour used in the production of your goods?

The Business and Human Rights Resource Centre has analyzed the modern slavery statements of all the FTSE 100 companies, and issued a report identifying important gaps. For more information on industry best practices, review this document highlighting positive case studies, as well as these case studies from the Danish Institute for Human Rights. There are also many innovative ways to use new technology, such as artificial intelligence, to combat modern slavery through the increased availability of data.

For more information about modern slavery and business responsibility, see the resources compiled by Walk Free and the NGO resources developed by Corporate Crimes.

2. Child Labour

For a thorough list of products that are likely to have been produced with forced or indentured child labour, review this report developed by the US Department of Labour. The ILO has also developed a mobile app called Checkpoints which helps decision makers create checklists to ensure a child labour-free operation.

UNICEF, in partnership with the UN Global Compact and Save the Children, has developed a list of Children's Rights and Business Principles meant to ensure business practices respect the rights and needs of children worldwide. These principles stipulate that all businesses must:
1. Meet their responsibility to respect and support children's rights and commit to supporting the human rights of children;
2. Contribute towards the elimination of child labour, including in all business activities and business relationships;
3. Provide decent work for young workers, parents and caregivers;
4. Ensure the protection of children in all business activities and facilities;
5. Ensure that products and services are safe, and seek to support children's rights through them;
6. Use marketing and advertising that respect and support children's rights;
7. Respect and support children's rights in relation to the environment and to land acquisition and use;
8. Respect and support children's rights in security arrangements;
9. Help protect children affected by emergencies;
10. Reinforce community and government efforts to protect and fulfill children's rights.

UNICEF has also published a document that serves as a business reference guide to the Children's Rights and Business Principles, with a series of recommendations for decision makers. A separate document includes a list of best practices associated with each principles, and another document outlines appropriate procedures for impact assessments related to child labour, with specific self-assessment questions outlined on pages 7-11. Key self-assessment questions developed by the Danish Institute for Human Rights include:

- Does the company respect minimum age standards in its hiring practices?
- Does the company have a process in place for monitoring, reporting and managing cases where children below the minimum age are discovered?
- Does the company have clear procedures in place for identifying and addressing the worst forms of child labour, including hazardous work, trafficking, sexual exploitation, debt bondage and forced labour?
- Does the company have a formal grievance mechanism in place for receiving, processing, investigating and responding to reports of violations regarding the employment of children below the minimum age?
- Does the company have a defined approach to providing decent working conditions for young workers and student workers?
- Are apprenticeship programmes appropriately supervised, fairly administered and beneficial to the trainee/apprentice?
- Does the company have a zero-tolerance policy on violence, exploitation and abuse of children, including but not limited to sexual exploitation and is there a process in place to identify, assess and monitor risks and impacts related to non-compliance?

The ILO has also published a series of guides and tools for businesses, with recommendations related to developing a policy commitment, assessing impacts, communicating performance, and engaging with stakeholders. This document is focused on the three 'H' topics, which include fair hiring, eliminating hazards, and reducing hours. The ILO has also published a second document specifically for employers, outlining a holistic approach that includes encouraging microfinance and skills training, improving wages and hiring family members, supporting education, and paying wages while children attend school. Building on this systemic approach, businesses should review this guide from Stop Child Labour which helps businesses make community partnerships designed to create child labour-free zones.

The Global Reporting Initiative (GRI) has developed a standard for the disclosure of child labour risk and incident reporting. Companies should require disclosure of any allegations that involve hazardous work under the age of 18, child labour under the age of 15, children working excessive hours or that result in the death of a child, and child exploitation, including sexual exploitation.

3. Terms of Employment

Companies should adopt an explicit policy on living wages, and should engage their suppliers to ensure the payment of living wages throughout the value chain. Companies should also adopt policies to eradicate wage theft and ensure all wages earned are accounted for. The Danish Institute for Human Rights has developed self-assessment questions for paying a living wage, which include:

- Does the company provide all employees with a wage that is sufficient to cover food and housing expenses and all other basic needs for themselves and their entitled official dependents?
- Is the value and type of non-cash remuneration or allowances provided to employees appropriate?
- Are employees paid the appropriate premium for overtime hours or hours worked during statutory holiday periods?
- Are all workers, including home workers, informed of all essential wage information, and are

their salaries and benefits accurately calculated?
- Are all paycheck deductions properly authorised, legitimate, transparent and accurately calculated?
- Are wages paid on a regular and frequent time schedule, and in a safe manner?
- Does the company contribute to national unemployment, sickness and pension benefit schemes, workers compensation and invalidity/disability schemes, or establish such schemes if none exists at the national level?

Firms should use the IDH Roadmap on Living Wages to help generate living wage benchmarks for every region that they source from. The Vancity Credit Union has also developed a roadmap for a living wage, which includes steps to help employees gain the support of leadership, review the current employee base and supply chain, and set a budget figure. To help companies more accurately value their employees, the Shift Project has developed an accounting methodology called 'Accounting for a Living Wage'. For case studies involving fair wage claims, see these resources from the Danish Institute for Human Rights.

All employees should also be asked to work a fair amount of hours, within a maximum defined by the ILO at eight hours per day, or 48 hours per week. Client expectations, or payment based on piecework, are two common factors leading to longer working hours. In all circumstances, overtime should be purely voluntary and paid at a higher rate. Company policies on working hours should be in compliance with local laws, and communicated to all employees. Companies should also disclose any allegations involving forced or excessive overtime (defined as employees working more than 60 hours a week on an ongoing basis). Policies on working hours should include the following:
- Minimum paid holiday of at least three weeks per year;
- Maternity or paternity leave;
- Maximum working hours per day, especially for industrial and commercial sectors;
- Limits on overtime;
- Reasonable rest periods;
- Adequate weekly rest periods;
- Leave of absence for medical reasons;
- Flexible working arrangements;
- Advance notice of work schedule.

Employees also have the right to be classified appropriately, as employee classifications can significantly affect a person's benefits and responsibilities, and the legal liability the company faces with regard to the employment contract. In their contracts, employees should also not be expected to agree to unethical concealment clauses, including non-disclosure agreements or non-compete agreements (forms of concealment clauses which are becoming increasingly controversial.) Employees also have the right to be dismissed or laid off in a fair and ethical manner, with appropriate procedural safeguards and compensation, in accordance with national laws and union agreements. For further information about hiring classifications, see these resources from Workplace Fairness.

Employee classification is particularly important for workers in the 'gig economy', such as Uber drivers or other temporary and flexible jobs, who are often not classified as employees but rather 'independent contractors' to save companies both money and administrative burden. Gig work and other forms of precarious labour have been identified by the Shift Project as a red flag for human rights, given that gig work often fails to satisfy minimum standards of fair work such as living wage guarantees, protections from task-related risks, and the provision of avenues to appeal decisions. Employers should commit to classifying their employees appropriately, and not using gig labour as an excuse to disrespect basic rights associated with conventional employment. Companies should also commit to better transparency around gig work practices, and perform a self-assessment using the Fairwork protocol.

4. Freedom of Association

Unionization attempts are fought by many large corporations, who retaliate against their employees that advocate for union agreements. Union-busting is a common technique used by corporations to intimidate their employees into voting against union proposals. There are many ways that corporations attempt to disempower unionization attempts, including by harassing workers with anti-union messaging, threatening to fire employees that vote to unionize, hosting heavily biased anti-union assemblies, and other tactics outlined in this union-busting playbook. To learn more information about corporations using union-busting tactics, see this Union-Busting Tracker developed by Labor Lab.

According to the Corporate Human Rights Benchmark, companies must respect the right of workers to form a trade union of their choice and provide worker representatives with the facilities to advocate for collective bargains, while retaining from intimidation or harassment of union organizers. Importantly, companies operating in politically unstable countries must also make sure to embed a respect for labour rights defenders throughout their policies and procedures, as union activists and other labour rights advocates in countries in the Global South are often in danger from armed groups or even paid assassins.

To ensure respect for freedom of association, corporations should adopt policies that reflect the following principles:

- Workers shall not be discriminated against on the basis they belong to a trade union;
- Workers shall have the right to develop a parallel means of independent free association to protect their rights, such as forming an internal workers group, if the law restricts the right for a worker associate freely;
- Employers are prohibited to use intimidation, unreasonable searches, or police and military force to obstruct workers' right to freedom of association;
- Workers' organizations have the right to conduct their activities without employer interference, including the right for workers to convene meetings without the presence of management;
- Workers are free to meet and discuss workplace issues during breaks at work and before and after work;
- Workers are free to choose with whom they communicate their concerns;
- Workers shall have the right to freely choose representatives to organize workers;
- Workers can personally, or through workers' representatives, engage in dialogue with management, inspect working conditions and carry out other organizing activities that do not disrupt factory management;
- Employers should not prohibit or impede individual unions affiliation with larger regional, national or international unions or federations;
- Managers should be trained in freedom of association compliance.

Important self-assessment questions related to freedom of association include:

- If trade unions do not exist in the area of operation, or only state authorized organizations are

allowed, does the company facilitate or allow the establishment of alternative measures to allow employees to gather independently to discuss work-related problems?
- Does the company provide union representatives with access to company property to meet with employees, and provide them with the information required for carrying out their responsibilities?
- Does the company effectively prohibit intimidation, harassment, retaliation and violence against union members and union representatives?
- Does the company remain neutral as regards employees' membership in any particular trade union and allow trade unions to operate independently?
- Does the company recognise the elected worker representatives, and their trade unions, and engage with them in good faith in collective bargaining concerning all important workplace concerns?
- Does the company comply with the terms of collective bargaining agreements, including the mechanisms for dispute resolution?
- Does the company cooperate fully with labour inspectors, and remedy deficiencies that they identify?
- Does the company refrain from dismissing union officials during their office tenure for anything other than serious misconduct, and does it accept the burden of justifying the validity of such dismissals?

The GRI has developed a standard for disclosure on the freedom of association and collective bargaining. Corporations should disclose all allegations that involve systematic opposition to employees' unionization attempts, interferences in union activities, and refusals to recognize unions.
For case studies related to freedom of association and collective bargaining, review these resources by the Human Rights and Business Dilemmas Forum.

5. Working Conditions

All employees have the right to working environments in which they feel mentally and physically safe from harm. Harassment and exploitation in the workplace must not be tolerated, and all employees must have the ability to feel respected and empowered in their working environments. Workers should not be harassed, face sexual violence, or be disciplined with physical punishments or mental or physical coercion. Companies must adopt policies to prevent workplace harassment, and to redress grievances wherever they occur.

Special attention must be paid to the treatment of migrant workers, who frequently experience labour rights abuses given their marginalized position (often as undocumented immigrations). As outlined by Business for Social Responsibility, common violations include:
- Passport withholding;
- Incidents of bonded labor;
- Contract substitution;
- Non-payment of wages and/or illegal deductions/withholdings;
- Lack of protection under national law;
- Lack of access to functioning dispute resolution channels;
- Lack of access to organized labor and/ or civil society support networks.

Companies must abide by the Dhaka Principles for migration with dignity, which also come with implementation guidance for responsible recruitment policies. Businesses should also follow these guidelines from Business for Social Responsibility about responsible recruitment and supplier engagement, as well as these general principles for fair recruitment developed by the ILO. Migrant workers are also more likely than other groups to require company housing, in particular on agricultural projects, and many of these company facilities do not meet appropriate standards. The Danish Institute for Human Rights stipulates that all facilities must come with adequate access to water, sanitation, and basic public services, and be designed to withstand natural hazards and disease. For more information about migrant workers rights, check out the online database from Migrant Workers Rights Global.

Employees also have the right to work in environments that operate according to optimal health and safety standards. Companies must have policies in place to prevent and remediate injuries and other health damages, including by providing proper training, supervision, safety devices, and personal protective equipment. Companies should disclose all information related to rates of injury and fatality, the total number of days lost to health-related incidents, and any other major accidents within a company's operations or throughout its supply chain that involve a failure to abide by health and safety standards. The GRI has developed a health and safety disclosure standard to record all such accidents. For more information on workplace health and safety, see these self-assessment questions from the Danish Institute for Human Rights.

Employees also have the right to privacy, and should not be subject to intrusive surveillance practices. Employers should minimize their use of workplace surveillance technologies, which have been shown to significantly reduce job satisfaction and increase stress. Workers should also be permitted not to share private or sensitive personal information, without fear of retaliation.

Case Studies

Of all the industries that chronically fail to pay workers a living wage, the global textiles and garment sector is possibly the worst culprit. There are many reports of garment workers subsisting on starvation wages, while working in unclean, unsafe environments for up to 100 hours a week. Analysis by the Clean Clothes campaign has shown that 93% of major multinational fashion brands fail to pay their workers a living wage, while some brands like H&M have yet to deliver on promises to increase wages.

Companies must abide by internationally recognized minimum floor wages, such as those advocated by the Asia Floor Wage Alliance, in order to ensure that fair wages are being paid by all supply chain partners. Fairphone, the ethical smartphone company, demonstrated in 2020 that it was possible to pay a living wage for workers at one of its Chinese suppliers by raising the price of its phones by just €1.50 per unit.

Organizations/Initiatives

For more information about labour rights, modern slavery, and corporate employment practices, check out the following organizations:

- International Labour Organization
- Workplace Fairness

- Fair Labour Association
- Jobs with Justice
- International Labour Rights Forum
- Canadian Foundation for Labour Rights
- Walk Free
- Anti-Slavery International
- Save the Children
- UNICEF
- Worker Rights Consortium
- US Department of Labour
- Canadian Labour Congress
- Public Services International
- AFL-CIO

Human Wellbeing

Inclusion, Justice, and Non-Discrimination 2.4

Description

Despite the fact that social and environmental issues disproportionately affect low income and minority groups, most C-suite leadership and boards still consist of white people, mostly men, and people with privilege. In Canada, racialized women earn 58 cents, and racialized men 76 cents, for every dollar that is earned by white men. Although it became a universal convention for firms to espouse their commitment to diversity and inclusion practices, many organizations simply resort to mandatory diversity programs without understanding the fact that the majority of diversity programs fail. To learn more about what firms should be doing to advance equity and dismantle systemic racism, sexism, ableism, and other forms of discrimination within their organization, continue reading this PDF guide.

Issue Summary

While increased attention has been paid in recent years to diversity, equity, and inclusion issues, the reality is that our society is still rife with injustices that uphold systems of power and exclusion. Despite the fact that social and environmental issues disproportionately affect low income and minority groups, most C-suite leadership and boards still consist of white people, mostly men, and people with privilege. In Canada, racialized women earn 58 cents, and racialized men 76 cents, for every dollar that is earned by white men. In America, Black family wealth is eight times lower on average than the wealth of white families.

In 2020, following a series of protests over police brutality in the United States, it became a universal convention for firms to espouse their commitment to diversity and inclusion practices. However, many of these claims can be considered examples of "performative allyship", where organizations speak out against racial injustice but do not follow with robust and meaningful action. A report by Alternatives Watch finds that 70% of investment teams still have no plans to allocate funds to diverse or minority and women-owned businesses–despite the fact that 39% of companies surveyed were found to have a Chief Diversity Officer on their staff. Additionally, many organizations simply resort to mandatory diversity programs without understanding the fact that the majority of diversity programs fail. This is due to the fact that they:

1. Are not led by the people they seek to target, and actively exclude younger people;
2. Are not given adequate resources or influence within organizational operations;
3. Fail to take systemic racism into consideration;
4. Fail to address the holistic change that is required to create truly inclusive spaces.

Systemic racism is a complex issue that cannot be solved by simply imposing a diversity hiring policy. Systemic or structural racism includes complex processes such as environmental racism, or the form of racism in which patterns of pollution disproportionately affect racialized populations. Even in some of the wealthiest countries in the world, climate vulnerability and air pollution perpetuate environmental injustice. Lower income communities, who also tend to be disproportionately Black, Indigenous, and People of Colour, are more likely to suffer from respiratory diseases caused by environmental pollution. Black Americans are exposed to 56% more pollution than they cause, while white Americans breathe 17% less air pollution than they produce. In Canada, similar patterns of environmental racism exist with Indigenous Peoples and other racialized groups. At a global level, climate change is exacerbating inequalities between nations and aggravating historical inequities. While climate change disproportionately affects vulnerable nations in the Global South, these low-income nations are only responsible for 8% of historic carbon emissions (with 92% coming from the Global North). The unequal distribution of climate impacts has led some to proclaim that climate change is simply a continuation of colonialism.

Firms that seek to take action on sustainability issues must consider racial and social justice as well, otherwise their interventions will risk reproducing real world inequities. For example, the approach that many financial actors take towards pricing climate risk into investment decisions could have the very clear consequence of increasing the costs of capital for some of the world's most vulnerable populations, and further making it difficult for them to adapt to climate damages. Equity and inclusion must be seen as sustainability issues, as sustainability cannot be disentangled from larger questions of environmental and climate justice. A climate justice lens should be applied to all policies and procedures in the public and private sectors. For more information about centring climate justice in business decisions, see this guide from B Lab.

Key Considerations

Organizations seeking to advance equity in society and combat the marginalization of minorities should first familiarize themselves with some core concepts related to social and environmental justice. Racial Equity Tools has compiled a list of core concepts and definitions, while the Aspen Institute has also prepared a glossary of terms related to structural racism.

A key idea is the understanding that equity and equality, while related, are two different concepts. Equality entails providing everyone with the same resources and opportunities regardless of their needs, whereas equity entails providing everyone with the differing levels of resources and opportunities that they need in order to appropriately level the playing field. Seeking to achieve equality is often not sufficient to overcome forms of inequity, as it can fail to recognize the varied needs of different minority groups. Related to equity is the concept of intersectionality, which expresses the fact that society creates many systems of disadvantage (i.e. racism, sexism, ableism, etc) that can often overlap and reinforce one another in the lives of individuals with multiple marginalized identities.

Systemic oppression builds on the idea of intersectionality to convey the idea that there are many overlapping forms of discrimination operating at any given time, which work systematically to marginalize oppressed groups while privileging the needs of dominant groups. Systemic oppression recognizes that these forms of discrimination operate at the level of institutions and structures, but also through more tacit cultural patterns and norms. One form of systemic oppression is white supremacy, which is the underlying system of racial discrimination that continues to uphold the increased political and economic hegemony of people of European/Caucasian descent at the expense of other racialized groups. White supremacy is the result of colonialism and the subjugation of non-European races through enslavement, land theft, and an assemblage of other practices. Although diverse, multicultural democracies have made some strides in advancing racial equality, white supremacy continues to structure human society through forms of structural racism and implicit bias which operate in ways that are often invisible to dominant groups. Hidden biases are a key enabler of all systems of discrimination, and working to overcome these more implicit forms of prejudice are a key component of creating a more inclusive culture and society.

Many companies pay lip service to the idea of diversity and inclusion, but do not sufficiently commit to principles of true social justice or examine and problematize the underlying structures of systemic oppression. It is important that all organizations be held accountable to their promises to advance racial and social equity, and avoid forms of 'racewashing' that consist of virtue-signalling without real action.

Tools

1. Increasing Diversity

Firms should begin by performing a self-assessment to test their degree of inclusivity and diversity, and to identify areas for improvement. This questionnaire from Pathways to Prosperity covers eight key areas related to diversity throughout an organization: leadership and governance, service delivery, employment practices, contracting and purchasing, professional development, community relations, and monitoring and performance. Companies can also use the Diversity Tool created by Civicus, which allows firms to test themselves on culture, infrastructure, learning and accountability, project management, and other dimensions. For anti-racist practices specifically, firms should take this self-assessment test from the Coalition for Diversity and Inclusion.

To see more ideas for diversity programs that actually work, see this Harvard Business Review article. Firms should begin to evaluate the strength of their diversity strategies and identify areas for improvement by using this guide from Deloitte. This resource identifies three key steps for reform, which include:

- Conduct a needs assessment to evaluate what you currently offer the workforce for DEI. This can include:
  - Cataloging, reviewing, and rationalizing existing DEI learning and evaluation data;
  - Understanding current DEI strengths and skill gaps and compiling preliminary recommendations for tailored learning program objectives.
- Develop a holistic DEI learning strategy that aligns and activates your DEI, people, and business strategies. This can include:
  - Conducting a stakeholder workshop to align on the desired future state of DEI learning;
  - Developing learner personas and sample learner experience maps to define the desired learning experience for each learner segment (Operators, Team Members, Field, Staff);
  - Determining learning delivery modalities (e.g. web-based labs, e-learning modules, and virtual train-the-trainer toolkits).
- Stand up a DEI learning ecosystem to provide learners with multiple points of entry and forums to digitally collaborate on their learning journeys. This can include:
  - Creating a DEI learning curriculum, including learning assets and visual framework, to execute on the DEI learning strategy (e.g., learning journey for each learning persona);
  - Establishing learning governance and stakeholder alignment processes;
  - Identifying optimal type and sequence of implementation, considering resources.

Organizations should also report on their diversity metrics. The Global Reporting Initiative (GRI) has a standard for disclosure related to diversity and equal opportunity, asking firms to disclose the demographic composition of their governance bodies, as well as the ratio of base salary and remuneration of women to men for each employee category.

There are many technological solutions that have been developed to improve the granularity and reliability of diversity reporting. One such tool comes from Diversio, which uses AI to evaluate the performance of diversity strategies. The Canadian Coalition for Diversity and Inclusion also has a diversity meter, and a paid consulting practice. For more paid tools, check out this list of resources.

2. Advancing Racial Equity

Organizations should also develop specific inclusion strategies that help them advance racial equity and transform into an anti-racist organization. Firms should consult the comprehensive Racial Equity Playbook developed by the BlackNorth initiative in partnership with the Boston Consulting Group. The Playbook includes six main pillars:

1. Build and shape an inclusive pipeline and equitable hiring process across all levels and functions;

2. Create equitable development opportunities for retention and promotion;
3. Reduce and eradicate any like-for-like racial compensation gaps;
4. Build a diverse procurement and vendor network that supports and promotes equity;
5. Include minority groups with an equitable company portfolio and brand;
6. Support organizations and communities advancing racial equity through communication, financial contributions and actions.

Firms should also urge their senior leaders to join the CEO Pledge hosted by the BlackNorth initiative, which includes a commitment that 3.5% of executive and board roles be held by Black leaders, that Black students need make up at least 5% of the companies' student workforce, and that 3% of donations and sponsorships be directed to Black communities.

The Harvard Business Review has identified ten commitments companies must make to advance genuine racial justice. These include:
1. Commit to anti-racism personnel policies and racial-equity training.
2. Commit to pay equity.
3. Commit to giving employees a voice.
4. Commit to supporting full participation in democracy.
5. Commit to lobbying for good.
6. Commit to paying a living wage.
7. Commit to paid parental and sick leave.
8. Commit to full health care coverage for all employees and support national health care.
9. Commit to an employee emergency relief fund or low-cost loan program.
10. Commit to democratize employment applications.

Racial Equity Tools has compiled many resources to help firms in this transition, assisting organizations to plan and act upon diversity strategies, and then evaluate their results. The National Equity Project also has a series of frameworks and tools for this purpose. Firms should begin by performing an impact assessment of their existing impacts on racial equity by using this framework and this tool, both developed by Race Forward.

Firms should aim to build community-wide support for racial equity through community agreements that are mutually agreed upon and reflect the organization's core values. The National Equity Project also has tools for developing and implementing community agreements. As discussions about race can often be contentious and politically challenging, facilitators should use this guidance from the National Equity Project, as well as this resource about how to talk effectively about race.

For more information about advancing racial equity, check out the work of the NAACP in the United States, as well as this suite of e-learning courses developed by the Government of Canada.

3. Advancing Gender Equity

Firms also have a responsibility to advance gender equity and reduce gender-based discrimination. The UN Global Compact has also developed women's empowerment principles for businesses to abide by, and developed a framework for corporate action on women's health and empowerment. Firms can begin by performing a basic gender gap analysis using this tool based on the women's empowerment principles, and also perform a social audit with respect to gender equality using this framework developed by Business for Social Responsibility. The OECD has also developed guidelines for responsible business conduct on gender issues, which include a requirement for firms to adopt policies related to equal pay, eliminating sexual harassment, and other concerns.

For more information about gender equity issues, check out Equileap, the world's largest provider on gender equality data, as well as these case studies from the Human Rights and Business Dilemmas Forum. More tools are also available from the Business and Human Rights Resources Centre.

4. Advancing Disability Equity

Diversity and inclusion initiatives must necessarily include concern for the rights of disabled persons, and efforts to increase workplace accessibility and improve opportunities for people with disabilities. The UN Global Compact has developed a Guide for Business on the Rights of Persons with Disabilities that focuses specifically on alignment with UN core human rights instruments. RespectAbility has developed a detailed guide for including people with disabilities that focuses on culture, staffing, communication, and event planning. Firms should also review the complete guide to disability developed by Diversity for Social Impact, which includes a list of all possible workplace accommodations for persons with disabilities. Firms should pay particular attention towards reviewing their hiring practices, and make specific policies for the hiring of people with both physical and mental disabilities.

5. Fighting Discrimination

Businesses have a responsibility to eliminate all forms of discrimination and harassment throughout their organization and value chains. The Danish Institute for Human Rights has developed a series of self-assessment questions related to workplace discrimination, which include:

- Does the company apply only relevant and objective criteria when making decisions related to hiring, promotions, compensation and benefits?
- Does the company refrain from favouring or discriminating against employees on the basis of their opinions, expression, thoughts, conscience, or religion?
- Does the company ensure that managers do not discriminate against employees, and particularly women, based on their marital status, pregnancy, maternity/paternity leave, or parenthood?
- Does the company make reasonable accommodations to provide disabled applicants and workers with equality of treatment and opportunity at the workplace?
- Does the company make reasonable efforts to accommodate the expressive conduct and religious and cultural practices of its employees?
- Are workers able to freely exercise worker rights and report suspected violations or abuses of their rights and entitlements by the employer without fear of retaliation, discipline or termination?
- Has the company implemented measures to prevent and address harassment, violence and other forms of discrimination in the workplace?
- Does the company have a responsive grievance mechanism for receiving, processing and resolving the grievances of its workers?
- If the company offers benefits (such as health insurance or pension schemes) to spouses and

dependents of employees, does it extend the same benefits to employees with non-traditional families, such as those with same sex couples and adopted children?
- Do part-time workers have employment benefits, protections, and working conditions comparable to those of full-time employees?

Firms should report on incidents of harassment according to this GRI disclosure standard, as well as remediation actions taken to prevent future abuses. For actions related to LGBT rights and issues, firms should evaluate themselves according to the Corporate Equality Index developed by the Human Rights Campaign.

For more information about workplace discrimination, see this discussion by Workplace Fairness, and these case studies from the Danish Institute for Human Rights.

6. Enhancing Well-being

Firms should make an effort to enhance the well-being of their employees by contributing to a work culture that makes people feel valued and fulfilled. Corporations should recognize the inherent limits of corporate wellness programs, which have been unsuccessful thus far, and engage directly with employees to develop initiatives that are tailored to their needs. Corporations should also use this comprehensive toolkit from the Mental Health Commission of Canada to help them develop workplaces that promote positive mental health and increase employee well-being. Corporations should also use the WELL Building Standard to develop interior design and workplace layouts that are conducive to employee well-being and overall mental and physical health.

Case Studies

For success stories of Canadian firms that have improved their diversity and inclusion practices, see this list of case studies developed by the Canadian Coalition for Diversity and Inclusion. An inspiring case of organizational change comes from McCarthy Tétrault, an influential Canadian law firm, that hired its first Chief Diversity and Engagement Officer in 2013. Since then, the organization has increased the share of women on its board to 45% (exceeding its 2017 target of 25%), developed a Parental Support Program to help new parents juggling work and taking care of children, and also launched a Pride Network, the first of its kind in a major Canadian law firm.

Organizations/Initiatives

For more information on diversity and inclusion issues, anti-racism, social justice, and the fight against oppression and discrimination, check out the following organizations:
- NAACP
- Black Lives Matter
- Colour of Change
- BlackNorth Initiative
- Canadian Race Relations Foundation
- UN Women
- Plan International

- Global Fund for Women
- Womankind Worldwide
- Equality Now
- Canadian Women's Foundation
- Human Rights Campaign
- PFLAG
- GLAAD
- Inclusion Canada
- International Disability Alliance
- Council of Canadians with Disabilities
- Disabled Peoples' International
- Rehabilitation International

Human Wellbeing

Consumer Welfare 2.5

Description

Whether it is through the sale of unsafe products, predatory practices related to customer acquisition, or the exploitation of customer information, there are many ways that businesses can infringe on consumer welfare. Consumer protection regimes have been installed in many jurisdictions, but they are not always effective. A particularly egregious example of the violation of consumer welfare occurred in the US mortgage sector before the 2008 financial crisis, in which banks and other institutions coerced consumers into signing up for adjustable rate mortgages without their knowledge. Similarly, the undisclosed use of customer's data, particularly its sale to unidentified third parties, is an unethical violation of consumer welfare and individual privacy. To learn more about what firms should be doing to protect consumer welfare and promote transparency in all transactions, continue reading this PDF guide.

Issue Summary

Whether it is through the sale of unsafe products, predatory practices related to customer acquisition, or the exploitation of customer information, there are many ways that businesses can infringe on consumer welfare. Consumer protection regimes have been installed in many jurisdictions, but they are not always effective. A particularly egregious example of the violation of consumer welfare occurred in the US mortgage sector before the 2008 financial crisis, in which banks and other institutions coerced consumers into signing up for adjustable rate mortgages without their knowledge, and caused an epidemic of home foreclosures and evictions that disproportionately affected racialized communities. Similar scandals occur with alarming regularity in the financial sector, as evidenced by the recent Wells Fargo account fraud scandal. The Business and Human Rights Resources Centre has identified aggressive sales-maximization tactics as a threat to human rights.

Similarly, the undisclosed use of customer's data, particularly its sale to unidentified third parties, is an unethical violation of consumer welfare driven by fundamentally extractive surveillance capitalist business models. The accumulation and manipulation of personal data poses great risks to our society, as it facilitates the commodification of human nature, an increase in mental health issues and addiction, political polarization and fake news, and many other problems. The use of artificial intelligence for facial recognition technology is a particularly outrageous privacy violation, and Facebook recently announced plans to shut down its controversial facial recognition system in a rare capitulation to public backlash.

Key Considerations

The Danish Human Rights Institute has generated a list of self-assessment questions related to product quality and marketing practices, which include:

- Does the company ensure that its products meet the highest health and safety standards?
- Does the company attempt to mitigate inappropriate uses of its products, which violate the privacy of others?
- If the company provides a utility which is a basic public service, does it provide access on a non-discriminatory basis and comply with the highest international and national standards regarding the provision and quality of the service?
- Does the company ensure that military, security or police equipment it produces are not used for torture or other cruel, inhuman or degrading treatment or punishment?
- Does the company take appropriate measures to prevent dual-use products from being used for acts of torture and other cruel, inhuman or degrading treatment or punishment?
- Does the company refrain from researching, manufacturing or selling equipment that is banned under international humanitarian law, or which is especially designed to commit torture or other atrocities against humans?
- Does the company refuse to manufacture, sell or distribute deadly or life-threatening products, and take adequate measures to prevent harm in use or consumption of its other products?
- Does the company refrain from using or encouraging the dissemination of discrimination, hate speech or incitement to violence in its advertising and marketing campaigns?
- Does the company protect customer data by obtaining customers' consent before it shares their customer data with other companies or business partners, and by disposing of customer

information properly?
- Does the company respect the right to privacy in its marketing practices?

Tools

For information pertaining to ongoing consumer protection issues, see the Consumer Watchdog and its research on the nexus between consumer issues, corporate misbehavior and political corruption. For information about product safety issues, see Shep the Consumer Watchdog, as well as resources from the Consumer Product Safety Commission.

The Global Reporting Initiative has released several disclosure standards related to consumer protection, which include standards on customer health and safety, customer privacy, marketing and labelling, and fines and sanctions.

The OECD has released a set of guidelines for responsible business conduct in the context of digitalization. For more information about data privacy options and consumer protection, see this comprehensive guide to best practices related to customer privacy and consent, as well as this guide from the US Federal Trade Commission. For more information on compliance with privacy law in Canada, see this privacy guide for businesses compiled by the Office of the Privacy Commissioner of Canada. The Business and Human Rights Resources Centre has also developed a knowledge hub related to digital freedom.

The OECD also has a knowledge hub related to financial consumer protection. For more information about best practices in consumer protection for the financial sector, see these guidelines from the Financial Services Commission of Ontario, as well as this report from the Financial Consumer Agency of Canada.

Case Studies

The recent decision by Apple to introduce new App Tracking Transparency features to its iPhones that are designed to limit the unsolicited sharing of customer data without explicit consent is a positive step in the right direction. This decision had the consequence of eroding $10 billion in revenue for major social media firms, as well as precipitous declines in market capitalization. More firms in the technology sector should implement similar measures to protect customer data, and to innovate new business models that do not depend on the extraction and sale of data without consent.

Organizations/Initiatives

For more information about consumer protection, data privacy, and other issues, see the following organizations:
- Consumer Watchdog
- Shep the Consumer Watchdog
- Consumer Financial Protection Bureau
- Consumer Product Safety Commission

- Consumer Protection Ontario
- Financial Consumer Agency of Canada
- Office of the Privacy Commissioner of Canada
- Privacy International
- Electronic Frontier Association
- Electronic Privacy Information Center
- Center for Democracy and Technology
- European Data Protection Board
- European Digital Rights

Business Ethics

Corporate Lobbying 3.1

Description

Corporate lobbying, when left unchecked, can impede the functioning of democratic systems and lead to regulatory capture. In the United States, campaign finance laws have been rewritten to allow for the unlimited corporate funding of elections, with the result that enormous pools of 'dark money' have been used to influence election outcomes and advance an anti-labour, anti-environment agenda. Influential donors, such as Charles and David Koch of Koch Industries, have spent decades developing sophisticated networks of think tanks, lobbying coalitions, and fake grassroots advocacy groups in order to eliminate consumer or environmental protection laws and undermine democratic accountability. While the situation in Canada is not as dire, DemocracyWatch has summarized over 100 loopholes in Canadian law that allow for secret donations and conflicts of interests. Particularly troubling are the lobbying activities of the Canadian fossil fuel sector, an industry that is highly organized, well-connected, and often opposed to robust climate action. To learn more about how firms should be disclosing their political activities, continue reading this PDF guide.

Issue Summary

Far too often, concerns about corporate political activity are isolated from discussions of sustainable development. Many corporations show a discrepancy between their public-facing rhetoric, which aim to convey the image of sustainability leadership, and the private political positions they adopt when attempting to influence policymakers. Groups such as the Business Roundtable, the largest corporate lobbying group in the United States, have faced accusations of hypocrisy for voicing their opposition to President Biden's 'Build Back Better' agenda, despite issuing statements ostensibly in favour of the bill's goals. Their logic is simple: they oppose the tax increases that would be required to fund these proposals.

Research shows that corporate lobbying is a lucrative endeavour with a high return on investment. One study demonstrated that for each dollar spent lobbying for tax cuts, firms receive returns of more than $220.15, while another demonstrated that firms with the highest lobbying intensities significantly outperform their peers. Additionally, without transparency or accountability frameworks in place, lobbying can have seriously adverse social and environmental consequences, even representing a threat to the integrity of democratic systems. In the United States, campaign finance laws have been rewritten to allow for the unlimited corporate funding of elections, with the result that enormous pools of 'dark money' have been used to influence election outcomes and advance an anti-labour, anti-environment agenda. Influential donors, such as Charles and David Koch of Koch Industries, have spent decades developing sophisticated networks of think tanks, lobbying coalitions, and fake grassroots advocacy groups in order to eliminate labour laws and environmental protections, lower taxes, reduce public spending on healthcare and education, and dismantle voting rights in order to benefit their bottom line. Investigative journalist Jane Meyer has demonstrated how corporate-backed groups are currently advocating for the voter suppression laws and electoral reforms that may succeed in restoring Donald Trump to the presidency in 2024.

While the situation in Canada is not as dire, DemocracyWatch has summarized over 100 loopholes in Canadian law that allow for "dishonesty, secret donations to some candidates and to political party trust funds, conflicts of interest by policy-makers, excessive government secrecy, secret, [and] unethical lobbying." 2020 marked the largest ever increase in the number of lobbying encounters between corporate agents and federal politicians in Canada. In its campaign to end the influence of money in politics, DemocracyWatch has compiled a list of political donation systems in Canada that show ample evidence of corruption within the Canadian government. Particularly troubling are the lobbying activities of the Canadian fossil fuel sector, an extractive industry that is highly organized, well-connected, and systematically opposed to robust climate action. Canadian oil and gas firms habitually position themselves as leaders in 'sustainable' or 'clean' energy, even while participating in industry associations like the Canadian Association of Petroleum Producers that frequently adopt anti-climate positions.

At a global level, lobbying against climate action is a pervasive and well-documented phenomenon. Research by Naomi Oreskes has demonstrated how fossil fuel firms such as ExxonMobil spent decades funding public disinformation campaigns to slander climate scientists and proposed legislative reforms, even while privately recognizing the scale of the problem. Climate Action 100+, an investor coalition, has found that only 10% of companies they target have fully aligned their lobbying practices with the demands of the Paris Agreement, and from 2010 to 2016 firms fighting against climate legislation outspent environmental groups by a factor of ten to one. Fossil fuel lobbyists were the largest delegation to appear at the COP26 conference in 2021, making it no surprise that large polluters are able to attain back-door access at major climate talks. The organization InfluenceMap has performed extensive research on the number of companies obstructing climate progress through their lobbying activity, and identified the strategies that the fossil fuel industry employs to prevent action on the goals of the Paris Agreement.

The OECD has recognized the issue of corporate lobbying as a fundamental threat to democracy, and published a set of principles and an implementation guide for governments to use in countering it. Unfortunately, many sustainability standards-setting organizations have not recognized the importance of corporate political activity as it relates to sustainability and social issues. The Sustainability Accounting Standards Board (SASB) removed “Regulatory Capture and Political Influence” from its list of issue categories in 2018, as analysis of their Materiality Map indicated that regulatory capture was among the “least material” of the 30 issue areas the organization currently covers. This is problematic because it both fails to account for the insidious effects of lobbying activity, and also highlights the inherent barriers of relying excessively on a materiality focus when judging the salience of sustainability problems. However, new research by the Conference Board indicates that public pressure to increase the transparency of corporate political activity has never been larger, and two-thirds of government relations professionals are experiencing a higher degree of scrutiny regarding their work. As consumers and the general public move to demand that corporations align their political activities with their stated values, it is likely that campaigns to influence democracy and increase political dysfunction will become increasingly untenable.

Key Considerations

Analysis by RobecoSam in their 2017 Corporate Sustainability Assessment demonstrated that the state of disclosure on corporate political activity is extremely insufficient. Very few companies broadly disclose their spending in this area beyond what is legally mandated, nor do they publicize trade association memberships (despite contributions to these associations being by far the largest spending area). Companies rarely disclose the actual content or policy positions on which they advocate, but the 2017 report found that positive engagement on pro-social or environmental views is far outweighed by negative engagement.

The UN Research Institute for Social Development has developed a list of questions and principles to guide the interpretation of corporate political activity, which include:

- Legitimacy: Are the means of influence proper uses of corporate power? What policies do companies have on topics like political donations, sponsorship and bribery?
- Transparency: Do companies disclose their positions on key public policy issues? Do they reveal their external memberships, donations, and methods of influence?
- Consistency: Do companies have systems in place to ensure that lobbying activities and positions are aligned with their environmental, social, and ethical principles, policies and commitments, and that they are consistent across borders and functions?
- Accountability: Do companies take responsibility for the impacts they have on public policy–through their lobbying, memberships, donations, and other activities?
- Opportunity: Do companies proactively attempt to influence public policy to support the societal transition towards sustainable development? Have they fully explored how more effective public policy on sustainability issues could be a source of competitive advantage?

To improve granularity in data regarding lobbying transparency, corporations should commit to disaggregate their political spending according to the following indicators:

- Spending by recipient (i.e. lobbying organizations, political campaigns);
- Indirect expenditures (i.e. trade association memberships, non-profit organizations);
- Group-wide and subsidiary expenditures;
- Country-by-country expenditures;
- Expenditures by sub-state jurisdictions (i.e. local, state or provincial level);
- Total and disaggregated spending over the last four years;
- Spending by top five recipients;
- Three largest recipients per issue area;
- The normative or regulatory intent of all political interventions.

To disclose the existence of a 'revolving door' between the public and private sectors, corporations should also report on the number of job changes between the organization and the public sector, and the level of organization at which this mobility has occurred. Relevant indicators include:

- Number of staff seconded to and from the public sector;
- Number of new staff that worked in the public sector during the previous two years;
- Number of days that staff participated in expert group meetings organized by the public sector.

Tools

The Washington-based Center for Political Accountability has developed the CPA-Zicklin Index that uses 24 specific metrics to analyze a corporation's approach to political and electoral spending. To search for the lobbying disclosures of individual companies, check out the database available at Track Your Company, as well as this ranking of firms by sector according to their total political expenditures. The CPA has authored a report to help leaders understand how money in politics has reshaped American democracy over the last ten years, as well as a comprehensive report that identifies the corporations most responsible for bankrolling voter suppression laws. (Note that this resource is biased towards firms that are headquartered in the United States).

The Center for Political Accountability has developed a model code of conduct for corporate political spending, with the following 12 principles:

1. Political spending shall reflect the company's interests, as an entity, and not those of its individual officers, directors, and agents.
2. In general, the company will follow a preferred policy of making its political contributions to a candidate directly.
3. No contribution will be given in anticipation of, in recognition of, or in return for an official act or anything that has the appearance of a gratuity, bribe, trade or quid pro quo of any kind.
4. Employees will not be reimbursed directly or through compensation increases for personal political contributions or expenses.
5. The company will not pressure or coerce employees to make personal political expenditures.
6. All corporate political expenditures must receive prior written approval from the appropriate corporate officer.
7. The company will disclose publicly all direct contributions and expenditures with corporate funds on behalf of candidates, political parties and political organizations.

8. The company will disclose dues and other payments made to trade associations and contributions to other tax-exempt organizations that are or that it anticipates will be used for political expenditures. The disclosures shall describe the specific political activities undertaken.
9. The board shall require a report from trade associations or other third-party groups receiving company money on how it is being used and the candidates whom the spending promotes.
    - The board of directors or an independent committee of the board shall receive regular reports, establish and supervise policies and procedures, and assess the risks and impacts related to the company's political spending.
    - The company shall review the positions of the candidates or organizations to which it contributes to determine whether those positions conflict with the company's core values and policies. This review should be considered by senior management and the full board of directors annually.
    - The board of directors shall, independent of this review, consider the broader societal and economic harm and risks posed by the company's political spending.

A consortium of civil society organizations has also developed the Responsible Lobbying Framework based on recommendations and guidelines from various public sources, including Transparency International, UN PRI, and others.

The New America Foundation has developed its own lobbying framework that aims specifically to deal with the problem of incoherent data sources and information overload.

The International Corporate Governance Network has created a framework guide on political lobbying and donations, with specific recommendations regarding board oversight and shareholder approval.

The Corporate Political Responsibility Taskforce, based out of the Erb Institute at the University of Michigan, has also developed guidelines for corporate political engagement that aim to help executives develop an integrated view of their firm's political activity. Their website includes a list of tools and frameworks designed to promote greater transparency and accountability.

Specifically for investors and asset managers, the UK-based organization Preventable Surprises has created a Corporate Lobbying Alignment Project that aims to help activist investors prevent regulatory capture and improve political accountability practices through shareholder engagement. For specific information related to regulatory capture in individual sectors, check out their frameworks on transportation, healthcare, fossil fuels, utilities, chemicals, the border-industrial complex, the financial services sector, and financial services regulators.

Their flagship report includes a series of principles for investors to adopt when taking action to improve political accountability:
1. Support or lead the filing of shareholder resolutions demanding systematic lobbying disclosure.
2. Publicly advocate for better disclosure and accountability on political spending.
3. Advocate with financial regulators and ESG data standard setters for consistent corporate disclosure standards on lobbying and influence conduct and spending.
4. Develop and publish a shared set of investor expectations, consistent with ESG objectives, on corporate lobbying and influence that address the full scope of corporate and trade association conduct.
5. Engage with portfolio companies on political spending issues across jurisdictions.

6. Revise ESG screening criteria to include information on all forms of lobbying conduct, political finance, and influence spending.
7. Incorporate lobbying questions into new and existing stewardship activities. Investors should focus on how company and trade association lobbying can either help or hinder the real world change that companies say they are committed to supporting.
8. Request board-level engagement on lobbying, both externally and internally for asset managers.
9. Engage in targeted dialogue with credit rating agencies regarding the incorporation of ESG risks into ratings methodologies.

Specifically regarding corporate political activity related to climate change legislation, the organization InfluenceMap has developed a comprehensive methodology for evaluating corporate political engagement on sustainable finance policy according to this set of metrics and criteria. Ceres, a prominent investor coalition, has also developed a blueprint for responsible policy engagement.

When it comes to advancing climate policy solutions, there is an opportunity for firms in all sectors to participate in lobbying for progressive pro-climate reforms. The Global Standard on Responsible Climate Lobbying has outlined an international framework for corporate political advocacy on climate issues. In addition to scrutinizing bad actors, InfluenceMap publishes a list of the most prominent corporate leaders advocating for ambitious climate policy. The organization ClimateVoice aims to help workforces motivate companies to adopt pro-climate stances throughout their advocacy efforts. The 1 in 5 for 1.5 Initiative aims to compel large technology companies to allocate lobbying dollars towards climate solutions. Firms should join corporate political action coalitions, such as Ceres, The Climate Group, We Mean Business, or other networks in order to participate in responsible policy engagement on climate issues.

Case Studies

Public backlash to corporate political spending has occasionally been successful in influencing major corporations to pull funding from dark money groups. Back in 2013, widespread outcry over firms' donations to the Koch-backed American Legislative Exchange Council led to a significant decrease in funding. Similar outrage to corporate supporters of Republican legislators who voted against the certification of President Biden's election sparked an exodus of funds–although it's important to realize that when public pressure subsided, many corporate donations often covertly reappeared.

There are some notable standouts, however. Microsoft in particular has been very open about its commitment to reduce political giving, and has held firm in its pledge not to support Republican legislators. IBM, another outlier, has never given money to political candidates, and sets a promising model for what the future of corporate political responsibility could look like.

Shareholder activists are increasingly interested in improving corporate political accountability, and there have been significant efforts in recent years to use shareholder resolutions to pressure firms into disclosing their expenditures. One example includes a successful campaign by shareholder activists to induce Chevron to fully disclose its spending on climate-related lobbying.

Organizations/Initiatives

For further information about corporate political activity and its social and environmental effects, check out the organizations listed below, which include watchdogs, independent media centres, investor coalitions, and more.

International:

1. CorpWatch
2. OpenSecrets
3. LittleSis
4. Corporate Accountability
5. Corporate Europe Observatory
6. Transparency International
7. FinanceWatch
8. InfluenceMap (and FinanceMap)
9. Alliance for Corporate Transparency
10. Accountability Framework Initiative
11. As You Sow
12. Accountable.US
13. Sum of Us

United States:

1. OpenSecrets - US Federal Lobbying
2. PRWatch
3. SourceWatch
4. ALECExposed
5. Sunlight Foundation

Canada:

1. DemocracyWatch
2. Canadian Network on Corporate Accountability
3. Corporate Mapping Project
4. Council of Canadians
5. Justice and Corporate Accountability Project
6. Office of the Commissioner of Lobbying of Canada
7. Ombudsperson for Responsible Enterprise

Business Ethics

Corporate Taxes 3.2

Description

Researchers at the International Monetary Fund estimate that overall losses to governments as a result of corporate tax abuse amount to well beyond $1 trillion per year. Although the sum is difficult to calculate, the estimated total of global wealth that is held privately in offshore tax havens numbers a staggering $24-36 trillion as of 2015, a quantity which grows at a rate of 14% per year. As the leak of the Pandora Papers demonstrated, a global tax avoidance industry of banks, law and accounting firms, and specialist providers have designed a complex labyrinth of secret offshore structures and low-tax jurisdictions that compete with one another to facilitate the private hoarding of wealth by corporations and high net-worth individuals. Glaring loopholes in the law have made tax avoidance a significant problem for Canada; analysis by the Canada Revenue Agency of 2014 corporate taxes suggested that Canadian corporations avoid paying between C$9.4 and C$11.4 billion in tax each year, which is almost 30% of the total corporate tax bill. To learn more about how firms should be disclosing their tax payments, and reforming their accounting practices to ensure fair taxation, continue reading this PDF guide.

Issue Summary

When it comes to the issue of corporate action on sustainability, tax avoidance by major multinational corporations can be seen as an elephant in the room. Large businesses routinely espouse prosocial goals regarding worker's rights, education, and climate action, and yet remain unwilling to pay their fair share of taxes in order to enable public investment in common sense solutions. In fact, some research shows that companies with higher CSR ranking pay less taxes on average, highlighting the fact that many firms do not see paying corporate taxes as complementary to CSR activities.

Researchers at the International Monetary Fund estimate that overall losses to governments as a result of corporate tax abuse amount to well beyond $1 trillion per year. Although the sum is difficult to calculate, the estimated total of global wealth that is held privately in offshore tax havens numbers a staggering $24-36 trillion as of 2015, a quantity which grows at a rate of 14% per year. As the leak of the Pandora Papers demonstrated, a global tax avoidance industry of banks, law and accounting firms, and specialist providers have designed a complex labyrinth of secret offshore structures and low-tax jurisdictions that compete with one another to facilitate the private hoarding of wealth by corporations and high net-worth individuals. By secretly sheltering these illicit financial flows, such 'treasure islands' are complicit in enabling "a criminogenic hothouse for multiple evils including fraud, tax cheating, escape from financial regulations, embezzlement, insider dealing, bribery, money laundering, and plenty more."

Glaring loopholes in the law have made tax avoidance a significant problem for Canada. Analysis by the Canada Revenue Agency of 2014 corporate taxes suggested that Canadian corporations avoid paying between C$9.4 and C$11.4 billion in tax each year, which is almost 30% of the total corporate tax bill. During the 1950s, corporations and individuals contributed roughly equal amounts in tax, as compared with the 2015 fiscal year, when Canadians paid $145 billion in income tax and corporations paid only $41 billion. The financial sector accounts for more than two-thirds of this tax avoidance; pre-tax profits in the banking sector as a whole soared by 60% from 2010-2015, and Canada's banks benefit from the lowest tax rate in the G7. In total, the corporate abuse of tax havens has risen 634% since 1999.

Influential lobbying groups in Canada, such as the Canadian Chamber of Commerce, consistently advocate for tax cuts on the spurious premise that they will increase innovation and economic growth. However, analysis by Statistics Canada shows that drastic cuts to the corporate income tax rate over the last 20 years have not stimulated new investment. Between 1997 to 2016, Canada's corporate income tax rate was cut almost in half, from 43% to 26.7%, and yet investment in machinery and intellectual property is still below the 1997 level as a percentage of GDP. Instead, there has been an explosion in activities that are hard to classify as 'productive', such as share buybacks, large increases in executive compensation, and a huge increase in merger activity. At the same time, tax decreases caused enormous social externalities, including a 40% cut in hospital beds between 1952 and 2018, social housing units being cut by the thousands, and underinvestment in public infrastructure.

By far the biggest losers of this offshore scam, however, are the world's least developed countries, many of whom face egregious degrees of capital flight as the wealth of their resources is appropriated by multinational actors without proper remuneration. A system of unfair bilateral tax treaties, negotiated by nations of the Global North, disproportionately benefit multinational corporations by constraining the ability of developing nations to crack down on tax avoidance.

The UN Convention on Trade and Development estimates that curbing illicit financial flows could reduce the continent's annual financing gap of $200 billion by half. In India alone, the annual sum lost to tax avoidance could cover the cost of hospital treatments for 55 million low-income patients every year. The scale of tax theft from developing countries is so large that it represents one of the largest obstacles to the achievement of the Sustainable Development Goals, and should be viewed as a major human rights issue.

Fortunately, there has been significant progress in the global movement for tax justice in recent years. 2021 in particular was a landmark year, with the publication of the FACTI Panel report that advocated for unitary taxation, a global minimum tax rate, the establishment of a Centre for Monitoring Tax Rights, and most significantly, the creation of a global UN Tax Convention which would effectively move the responsibility for setting global tax rules away from the OECD to a separate UN body. In April of 2021, the UN tax committee finalized revisions to a model tax treaty, while the G77 group tabled a proposal for an intergovernmental tax body. Perhaps most promising was the news in June that the G7 had reached an agreement for a global minimum corporate tax of 15%. With all of these proposals currently in the works, it is likely that stricter rules on base erosion and profit-shifting and corporate tax policy are just around the corner, implying that prudent corporations should consider revising their tax practices in an effort to pre-empt regulations and avoid future fines.

Key Considerations

Analyzing tax dodging by corporate entities is made more complex by the fact that there is a significant legal grey area between what constitutes tax evasion (i.e. illegal behaviours that deliberately conceal assets or income in violation of the law) and tax avoidance (i.e. ostensibly legal behaviours that minimize the amount of taxes payable, also known as 'aggressive tax planning', in a way that violates the spirit of the law, if not the letter of the law). Although these are treated as separate legal categories, the distinctions are often quite blurred. Canada has yet to prosecute a single individual for tax evasion.

The process whereby corporations exploit gaps and mismatches in tax rules to shift profits to low or no-tax locations is known as 'base erosion and profit-shifting', or BEPS. The OECD has developed an Inclusive Framework on BEPS that includes a list of 15 actions governments should take to reduce this form of tax dodging, accompanied by an annual progress report. One key strategy by which firms engage in BEPS is price manipulation, a process by which prices are inflated at one point in a supply chain in order to reduce the profits that are eligible for taxation in the next jurisdiction. Another strategy involves companies diverting profits to affiliates in low-tax jurisdictions by selling intangible assets, the use of which can be charged back to affiliates in high-tax countries in a way that reduces the taxable profits they appear to earn on paper.

The Tax Justice Network has identified three core principles according to which all tax systems, and all corporate tax policies, should be organized in order to reduce the propensity for profit-shifting and tax avoidance:

1. Automatic exchange of information;
2. Beneficial ownership registration (i.e. registering the identity of all individuals that de facto control or receive profits from a particular company or legal vehicle, even when the legal owner is de jure another entity);

3. Country by country reporting (i.e. disaggregating tax expenditures according to jurisdiction in order to illuminate aggressive tax planning strategies).

The third principle is of the highest importance when it comes to firm-level accounting. According to the final report of the panel on Financial Accountability, Transparency, and Integrity, in order to improve disclosure on tax expenditures all multinational enterprises should publish country-by-country breakdowns of where their business model generates value, where that value is taxed, and the taxes paid accordingly. These metrics must include disclosures of revenue, profit and loss, taxes paid, and number of employees, all disaggregated by jurisdiction.

Critical self-assessment questions when evaluating corporate tax policies include:
1. Does the firm in question pay its fair share of taxes?
2. Does the firm exploit offshore ownership structures and tax havens to reduce its overall tax burden? If so, how?
3. Does the firm use transfer pricing or the sale of intangible assets to take advantage of low-tax jurisdictions?
4. Does the firm publish public-facing records of its annual taxes paid on a country-by-country basis?
5. Does the firm disclose the beneficial owners of all of its associated legal entities?
6. Does the firm participate in lobbying activities, either directly or indirectly, that aim to reduce the overall corporate tax burden?
7. Does the firm disclose the extent to which it benefits from subsidies or any other form of industry support funded by the public?

Tools

Recognizing the inherent relationship between corporate tax policy and the UN Sustainable Development Goals, the B Team has developed a set of Responsible Tax Principles that outline key indicators for businesses to implement related to accountability, transparency, and the need to support effective tax systems.

In 2021, the organization Fair Tax Mark released its first ever Global Multinational Business Standard for tax disclosure, which contains a list of 19 relevant questions, including:
1. Does the business make freely available, on an annual basis, a full set of financial statements (including profit or loss, financial position and cash flows)?
2. Is clarity provided on the nature of business activity?
3. Is clarity provided on the primary trading address (as opposed to a registered office address)?
4. Are the beneficial owners* of shareholdings of 5% and above disclosed? Are all related party transactions transparent?
5. Are the names and addresses of all directors provided? Is the country of residence of directors discernible?
6. Does the business publish a tax policy?
7. Has the business nominated a named board director to have responsibility for its tax policy?
8. Does the business report annually on its effective compliance with its tax policy? Does the business have a whistle-blower policy (and / or procedures) in place that explicitly covers the area of 'tax'?
9. Does the business's public tax policy explicitly embrace the following commitments:
    a. seek to declare profits in the place where their economic substance arises?

   b. not use tax havens artificially and for the purposes of tax reduction?
   c. follow the spirit as well as the letter of the law, and not structure transactions and operations artificially for the purpose of avoiding tax?
10. Does the business utilise tax havens as locations for either incorporation, subsidiaries or operations?
11. Does the business disclose a full list of subsidiaries, stating their name and place of incorporation? Is the country of tax residence of each subsidiary transparent? Is the nature of business activity of each subsidiary made clear?
12. Does the business disclose data on the net asset value for each country in which it operates? Does the business breakdown the net asset figure and disclose data on the gross assets and gross liabilities for each country in which it operates?
13. Is data on the revenue and net profit / loss before tax provided for each country in which it operates?
14. Does the business disclose the total tax charge, current tax charge, deferred tax charge and cash taxes paid for each country in which it operates?
15. Does the business disclose the number of employees, together with a note on the basis of calculation used, for each country in which it operates? Is the aggregate gross remuneration of employees disclosed, together with a note on the basis of calculation used, for each country in which it operates?
16. Does the business provide a numerical reconciliation of its actual current tax charge, and compare this with the current tax provisions that might be expected if the headline tax rate in the parent entity's local jurisdiction were to be applied to the business's accounting profits? Does the business reconcile its actual current tax charge with its total tax charge for the year, by offering a reconciliation that explains the deferred tax provision for the year and other items that make up the difference?
17. Does the business provide a narrative explanation as to why its actual current tax charge differs from the provisions that might be expected if the headline tax rate in the parent entity's local jurisdiction were to be applied to the business's accounting profits?
18. Does the business provide a deferred tax note that:
    a. explains the deferred tax balance with significant precision such that the cause of at least 75% of the underlying asset and / or liability is clearly described?
    b. states clearly when the underlying assets and / or liabilities are likely to have an impact on the business's tax bill, or a statement that this is not known because it is more than five years after the balance sheet date?
    c. discloses the existence and numerical value of any uncertain tax positions that may exist, and the process of determination?
19. What was the business' average tax rate (in terms of cash taxes paid) over the last five years?

The UN Principles of Responsible Investment identifies corporate tax policy as a relevant ESG issue, and has developed a framework for disclosure that highlights relevant indicators relating to policy, governance, risk management, and performance. It includes, among other criteria, a requirement for country-by-country reporting details, including a list of all subsidiaries and their business nature, as well as the primary drivers of the gap between the effective tax rate and the weighted average statutory rate based on the firm's geographic sales mix. The framework expects businesses to provide an explicit overview of their tax structure and strategies, including how transfer prices are set within the group and how tax havens are used, if applicable.

In 2019, the Global Reporting Initiative (GRI) released its first ever global standard for tax transparency, one that requires organizations to disclose their tax strategies, the governance body that formally reviews the strategy, the frequency of this review, their approach to regulatory compliance, and the relationship between their tax strategy and their overall sustainable development strategies. As with the PRI framework, the GRI expects businesses to provide transparency into tax havens, transfer pricing, and other tax incentives. The GRI expects firms to disaggregate their tax expenditures according to the following criteria:

1. Names of resident entities;
2. Primary activities of the organization;
3. Number of employees, and the basis of calculation of this number;
4. Revenues from third-party sales;
5. Revenues from intra-group transactions with other tax jurisdictions;
6. Profit/loss before tax;
7. Tangible assets other than cash and cash equivalents;
8. Corporate income tax paid on a cash basis;
9. Corporate income tax accrued on profit/loss;
10. Reasons for the difference between corporate income tax accrued on profit/loss and the tax due if the statutory tax rate is applied to profit/loss before tax.

The Shift Project has recognized aggressive tax minimization strategies as a risk to human rights around the world, particularly with respect to corporate operations in developing nations. They have developed a framework for due diligence that identifies relevant questions to ask when evaluating the impacts of tax policy on human rights and sustainable development. Particularly regarding the role of extractive firms in resource-rich developing nations, the Publish What You Pay campaign has developed a set of principles for revenue transparency that aims to help governments calculate the royalties they should be receiving from foreign-owned firms. For information about the implementation of the Extractive Industries Transparency Index, see this link.

Case Studies

There are a few standout examples of corporations that have become leaders in tax transparency. Allianz, a major international financial services company, aims to be a responsible taxpayer by refusing to engage in aggressive tax planning or artificial structuring, refraining from exploiting tax havens, and avoiding 'discretionary tax arrangements'. Additionally, Allianz has adopted a comprehensive Standard for Tax Management which stipulates that the corporation's tax planning must be premised on valid business reasons.

Similarly, Vodafone has been a leader in publishing tax reports on a country-by-country, actual cash-paid basis, since at least 2013. The Danish company Maersk began including taxation in their sustainability report as of 2016, and has initiated implementation of the B Team Responsible Tax Principles.

Organizations/Initiatives

For further information about the globally pervasive problem of tax dodging (including both evasion and avoidance), check out the following organizations:

- TaxCOOP
- Canadians for Tax Fairness
- Publish What You Pay Canada

- Tax Justice Network
- Global Alliance for Tax Justice
- Global Financial Integrity
- Resource Movement
- Americans for Tax Fairness
- Financial Accountability, Transparency, and Integrity Panel

Business Ethics

Excessive Compensation 3.2

Description

Excessive executive compensation has been one of the central factors leading to increased income and wealth inequality in North America. Between 1965 and 2000, CEO compensation in the United States grew by about 2500%, while average worker compensation increased by only 30%. According to the High Pay Centre, the ratio of CEO pay to the wages of the average worker rose from 42 to 1 in 1980 to an astonishing 347 to 1 by the year 2017. In Canada, executive compensation is at one of its highest levels in history. However, most research shows that the relationship between bonus increases and profit growth is non-existent, and that there is no link between long-term incentive plans and shareholder returns. At the same time, one study found that companies with higher CEO-to-average-worker pay gaps perform worse than those with greater pay equity. To find out what firms should be doing to advance pay equity and limit excessive executive compensation, continue reading this PDF guide.

Issue Summary

Around the world, income and wealth inequality is reaching a historic peak. According to Oxfam's 2020 report on inequality, the world's richest 1% now has more than twice as much wealth as 90% of the world's population. In Canada alone, the top 1% own significantly more wealth than the bottom 70%, and the 87 wealthiest families own as much wealth as the lowest-earning 12 million Canadians.

Although there are many complex factors that lead to income and wealth polarization, such as globalization, automation, and de-unionization, one key contributor has been the staggering rise in executive pay over the last five decades. Between 1965 and 2000, CEO compensation in the United States grew by about 2500%, while average worker compensation increased by only 30%. According to the High Pay Centre, the ratio of CEO pay to the wages of the average worker rose from 42 to 1 in 1980 to an astonishing 347 to 1 by the year 2017. Considering this trend, it is no surprise that from 1980 to 2005, more than 80% of the total increase in Americans' incomes went to the top 1% of earners. In Canada, CEO pay is at one of its highest levels in history.

The dramatic rise in executive compensation is one component of a broader shift towards a corporate governance regime focused on shareholder primacy, a system that rewards an elite cadre of owners and managers at the expense of workers and other stakeholders. Leading conservative academics such as Michael Jensen influentially argued for executive compensation to be paid in stock in order to improve the alignment of interests between a firm's shareholders and its managers. Over time, stock-based compensation grew to account for 75% of the average CEO's compensation, contributing to a 'tragedy of the horizons' in which many executives choose to prioritize stock buybacks, dividends and other short-term profit-generating measures while neglecting long-term value creation and systemic risks like climate change.

This problem is so pervasive that an entire meta-industry known as executive compensation consulting has been created, operating under the unspoken premise that every year executives should be earning more than they did the year before. There is strong evidence that CEOs who employ executive compensation consultants receive higher pay than those who don't. Interestingly, however, there is no evidence that performance-based pay incentives, such as stock compensation, have any relationship to firm performance. One study found that the relationship between bonus increases and profit growth is non-existent, while another identified no link between long-term incentive plans and shareholder returns. Even more perversely, one study found that companies with higher CEO-to-average-worker pay gaps perform worse than those with greater pay equity, while research from Harvard Business School actually identified a negative relationship between firm performance and CEO compensation. It is very possible that these negative correlations are a result of the fact that an excessive managerial focus on short-term performance can make companies less competitive in the long-run, particularly by dampening spending on innovation and reducing other long-term strategic investments.

In an age of rampant social destabilization and political unrest, excessive executive compensation is increasingly being seen as an issue of public concern, one that significantly undermines private sector social impact goals. As reported in the Financial Times, at many large companies a $1 million reduction in CEO remuneration in 2020 would have increased the pay of other employees by more than 10%. There has also been public outrage over exorbitant executive pay in the face of widespread job losses due to the COVID-19 pandemic; many observers were outraged when the CEO of AMC Entertainment doubled his annual pay package to $20.9 million in a single year, at a time when 25,000 of AMC's staff had been furloughed. There is a growing body of evidence which demonstrates that economic inequality serves to increase political polarization and raise poverty while reducing economic growth, contributing to poorer health outcomes, and undermining democratic participation. Countering inequality is critical to the achievement of global sustainable development goals, and combating excessive executive pay is a key lever of change.

Key Considerations

Although executive compensation is thought to be based on merit and tied to performance, in reality it is nothing of the sort. According to French economist Thomas Piketty, the situation has evolved such that "top managers by and large [have had] the power to set their own remuneration." Many large firms have compensation committees, typically composed of other highly paid executives, who calculate CEO based on a benchmark of peers. This peer list is supposedly chosen at random, but is often cherry-picked to include companies that are larger and have executives that are paid more. Because most firms are biased to assume their own managers are above-average, they will set pay rates to exceed this benchmark, and as a result executive pay continues to climb upwards year after year. Additionally, most board directors serve on each other's compensation committees, creating a quid pro quo environment in which escalating pay is the norm. Executive compensation consultants, meanwhile, are often bidding on other contracts with the same firms for whom they are determining executive pay. This problem is so pervasive that there is actually a positive correlation between CEO pay rates and the extent of a consultant's conflicts of interest.

On a comparative basis, companies that use compensation consultants end up disguising more of their pay in stock options and retirement deals, a strategy to shield their executives from tax liability or board scrutiny. By exercising forms of 'stealth compensation', such as generous retirement plans and stock-based performance measures, firms are able to obfuscate the terms of employment and make the real pay value appear more opaque. While performance-based pay is theoretically subject to shareholder approval, shareholder votes are purely advisory, and it is only in rare cases that they have overturned executive pay decisions.

There are many things a firm can do to improve pay equity, in particular by limiting the use of executive pay consultants, changing the structure of compensation committees, or imposing caps or limits on overall pay levels. Instead of using horizontal benchmarking relative to peers, firms should use vertical benchmarking in order to link executive pay to the pay structure of the company as a whole, most importantly by tying CEO pay to the pay of average workers. The High Pay Centre has developed a list of proposals for firms to crack down on excessive pay, which include:

1. Paying in cash rather than stock, and requiring executives to purchase shares with their own money;
2. Linking pay to non-financial targets (i.e. productivity levels, ESG and corporate purpose metrics) in order to limit the incentive for stock buybacks, short-term cost-cutting, or other forms of financial engineering;
3. Broaden the diversity of remuneration committees, and impose rules to reduce conflicts of interest created by interlocking compensation committees;
4. End 'golden hello' payments (i.e. generous introductory payments meant to attract high-performing managers) when recruiting for unadvertised positions.

To read more about living wage policies and ensuring a decent living for all employees, see Section 2.3 on labour rights and working conditions.

Tools

The main metric to determine if a company's executives are overpaid is the ratio of CEO compensation to the annual pay of the average worker at the firm. In the United States, the SEC has mandated the disclosure of CEO-to-worker pay ratios, although Canada has failed to adopt similar rules. The AFL-CIO, the largest consortium of labour unions in the United States, publicizes an executive paywatch program that maintains a database of company pay-ratios, as well as a list of the highest-paid chief executives. The UK-based High Pay Centre hosts a research team that is fully dedicated to the study of executive pay.

Excessive pay has increasingly become a concern among activist shareholders. There is an emerging norm towards 'Say on Pay' votes, which have been implemented across a majority of the TSX Composite Index and give company shareholders the opportunity to provide advisory votes on fair executive pay. Institutional Shareholder Services, the world's leading provider of corporate governance solutions, recommended that shareholders vote against 10% of CEO pay packages at S&P 500 companies during the 2018 fiscal year. Some investors have even requested that companies justify their executive compensation plans in light of broad-based lay-offs or employee pay cuts. For more information on executive compensation best practices, see the indicators listed on pages 46-72 of this report by Institutional Shareholder Services.

The Canadian Coalition for Good Governance has a model Say on Pay policy, which stipulates that boards should hold advisory votes on executive compensation reports contained in annual proxy circulars, and give shareholders an opportunity to provide their input on the structure of executive compensation plans. SHARE, a Canadian investor coalition, has developed a framework for activist investors looking to improve equity and fairness in compensation strategies. The UN PRI has authored a series of broader guidelines for investors aiming to reduce income inequality specifically through targeting high CEO-pay.

As You Sow, another major activist coalition, encourages shareholders to use their proxy power to target unjustified executive pay. Their CEO pay initiative aims to:

1. Engage shareholders and helping them hold money managers accountable for their votes;
2. Push companies to develop new social and environmental performance criteria, and work with them to do so;
3. Identify the most overpaid executives, the money managers that approved the compensation plans, the consultants that proposed them, and the compensation committee board directors that approved their compensation packages;
4. Encourage foundations and public funds to adopt stringent voting guidelines to address specific disconnects between pay and performance, as well as the systemic issues that drive the increases, such as peer group selection and inflationary ratcheting up of compensation.

The Net Positive World Readiness Test includes specific questions related to a company's use of share buybacks and dividends, which often benefit shareholders in the short-term at the expense of long-term value creation. It asks:

1. Is the firm spending more on stock buybacks and special dividends than investing in people, R&D, and long-term value creation?
2. Has executive pay at the firm risen faster than average pay over the past 5 years (i.e. have workers been left behind)?
3. Are there employees living at or below the poverty line?

For information about linking stakeholder relations and sustainability incentives to executive compensation packages, please see Section 4.2 on Leadership and Governance. For further information about wages, automation, and layoffs, see Section 2.4 on Labour Practices.

Case Studies

The regulatory context regarding executive pay levels is slowly changing, with new norms evolving around the world. As of 2019, UK firms are required to disclose and explain their CEO-to-average-worker pay ratios. Israel has gone further by instituting an upper limit on the compensation of executives in the financial sector, ensuring that no individual can make over 2.5 million shekels (CAD$905,000). Canada has yet to adopt any rules that restrict executive pay, make say on pay votes mandatory, or improve disclosure requirements.

There are a number of examples of investors using their voting power to take aim at excessive executive compensation. In the UK, 70% of shareholders voted against the pay report of the supermarket chain Morrisons, and 60% of Rio Tinto shareholders voted against the pay package of CEO Jean-Sébastien Jacques, who resigned after a scandal. The Norwegian sovereign wealth fund, the largest such institution in the world, has also made headlines for announcing its intention to call for caps on executive pay at the companies in which it invests, opening a window of opportunity for other large asset managers to make similar commitments.

Organizations/Initiatives

For further information about pay equity, income inequality, and corporate power, check out the following organizations:

- High Pay Centre
- Fair Economy
- Oxfam
- DirectorWatch - Centre for Economic and Policy Research
- Hedge Clippers
- Economic Policy Institute
- Demos
- Institute for Policy Studies
- London School of Economics International Inequality Institute
- Columbia University Center for the Study of Wealth and Inequality

Business Ethics

Corruption 3.4

Description

Corruption, fraud, and other forms of malfeasance are a major issue for all businesses, particularly among firms operating in jurisdictions with weak governance regimes where bribery and other forms of illicit payments are often considered a discreet cost of doing business. There are many types of corruption, which can include bribery, extortion, cronyism, kickbacks, fraud, nepotism, insider trading, money laundering, patronage, graft, and embezzlement. There is evidence that corruption costs developing governments $1.26 trillion every year. Despite these risks, data by Transparency International has demonstrated that the state of corporate reporting on corruption risk remains extremely weak, while half of the world's exports originate from countries that fail to punish foreign bribery. Corruption is regulated by the UN Convention Against Corruption (UNCAC), which is overseen by the UN Office on Drugs and Crime. To learn more about what firms should be doing to eliminate corruption risk and adopt anti-corruption policies, continue reading this PDF guide.

Issue Summary

Corruption, fraud, and other forms of malfeasance are a major issue for all businesses, particularly among firms operating in jurisdictions with weak governance regimes where bribery and other forms of illicit payments are often considered a discreet cost of doing business. Despite these risks, data by Transparency International has demonstrated that the state of corporate reporting on corruption risk remains extremely weak; out of 100 companies surveyed, the average transparency score was 3.4 out of 10. Moreover, only 19 companies declared a commitment to prohibiting facilitation payments, and only 34 companies indicated that they extend their anti-corruption policies to associated third parties. Half of the world's exports originate from countries that fail to punish foreign bribery, and 34 countries in the OECD demonstrate little or no enforcement of bribery laws despite comprising 46% of all global exports.

Key Considerations

There are many types of corruption, which can include bribery, extortion, cronyism, kickbacks, fraud, nepotism, insider trading, money laundering, patronage, graft, embezzlement, influence peddling, and lobbying that results in regulatory capture, among others. Corruption is regulated by the UN Convention Against Corruption (UNCAC), which is overseen by the UN Office on Drugs and Crime. Article 12 of UNCAC deals with corruption in the private sector, and aims to encourage transparency and robust auditing standards while preventing bribery, conflicts of interest, and off-the-books accounting. For more information about UNCAC, review this briefing by the Chr. Michelsen Institute.

The G20 has developed a series of high-level principles on private sector transparency and integrity, which cover a range of anti-corruption provisions. The OECD has also developed an anti-corruption ethics and compliance handbook for businesses, including recommendations related to policy development, internal controls, communications, and stakeholder relations. The UN Office on Drugs and Crime has published a detailed anti-corruption ethics and compliance program for businesses, which includes recommendations for businesses to develop an anti-corruption policy against the following violations, among others:

- Bribery of foreign public officials and officials of public international organizations;
- Bribery in the private sector;
- Embezzlement of property in the private sector;
- Trading in influence;
- Abuse of function;
- Illicit enrichment;
- Laundering of proceeds of crime;
- Concealment of proceeds of crime;
- Obstruction of justice.

Companies should conduct due diligence on their corruption risk, and report on the elements contained in their anti-corruption programs by listing the areas of potential risk and describing procedures to attenuate that risk. The UNODC specifically recommends that businesses make specific policy commitments to eliminate facilitation payments, which are defined as "unofficial, improper, small payments made to a low level official to secure or expedite the performance of a routine or necessary action." Moreover, businesses should aim to extend their anti-corruption policies across all business relationships, including those with subsidiaries, affiliates, joint ventures, agents and intermediaries, and contractors and suppliers. Elements of a robust anti-corruption program will include that:

- The anti-corruption programme is consistent with all applicable laws;
- The anti-corruption programme is adapted to specific requirements of the company;
- The implementation and ongoing improvement of anti-corruption policies and procedures is based on a participatory approach, involving employees and external stakeholders;
- Compliance with the anti-corruption programme is mandatory to all levels, functions and areas of the company;
- Information on the anti-corruption programme and supporting material is easily accessible;
- The policies and procedures of the anti-corruption programme are easy to understand (e.g. avoidance of acronyms and technical terms);
- The anti-corruption programme aims to promote a trust-based and inclusive internal culture;
- The anti-corruption programme is directed at employees as well as relevant business partners;
- The anti-corruption programme is continuously adapted to changing business environments and internal learning;
- The company publicly reports on its anti-corruption programme to counter corruption.

Tools

To ensure maximum alignment with international best practices, firms should follow the due diligence guidelines from the OECD, and specifically the guidelines on responsible business conduct in the financial sector. The OECD also hosts a due diligence policy hub for further information.

Key self-assessment questions related to corruption policies from the International Corporate Governance Network include:

- Is there a zero-tolerance regime in place?
- Does the policy cover payments of gifts or services to public officials as well as commercial counterparties? Does the company engage in open contracting?
- Does the policy address facilitation payments and detail the safeguards the company has taken to avoid abuses in this area?
- Does the policy address potential associated conflicts of interest, including related party transactions and political lobbying or donations?
- Does the policy extend to third parties, such as agents of the company?
- Does it extend to the supply chain of the company and to other affiliated parties or partners, such as joint ventures?
- To what extent is "anti-corruption" embedded within the culture of the company? What sort of actions will prove "counter cultural"?
- Is the anti-corruption policy part of the selection process for new contractors?

To evaluate the corruption risk of particular jurisdictions, Transparency International hosts a regularly updated Corruption Perception Index as well as its Global Corruption Barometer. The UNODC has also published a list of country profiles which detail corruption risk in every nation. To perform your own assessment of corruption risk in different jurisdictions, review the methodology outlined by Transparency International in its National Integrity System Assessments, as well as its Business Integrity Country Agendas which outlines its own indicators and assessment processes.

Transparency International has developed a variety of other toolkits for businesses, and hosts a knowledge hub on anti-corruption efforts as well as a help desk for people wanting to learn more.

All businesses should disclose their corruption risk, as well as the extent of their employee training related to anti-corruption policies and procedures, according to this standard developed by the Global Reporting Initiative. Best practices for disclosure developed by Transparency International include the need to publish exhaustive lists of subsidiaries, affiliates, joint ventures and other related entities, and also publish financial accounts for every country of operation, including all payments to governments and public officials on a country-by-country basis. Similar to the procedures for fair tax disclosure, disclosure of corruption risk benefits from beneficial ownership registration; for more information, see this resource from the Basel Institute on Governance, and this report from Transparency International. For anti-corruption training programs available to employees and other partners, see these courses and resources available from the UN Global Compact and Global Affairs Canada. To better understand the role of organizational culture in anti-corruption policy, see this article by Ethical Systems.

Bribery is a particularly common form of corruption in business dealings, one which is covered by a specific anti-bribery convention developed by the OECD. The OECD recommends in its good practice guidance that businesses develop anti-corruption programs which apply to all the following areas that could be abused for the purposes of bribery: gifts, hospitality, entertainment and expenses, customer travel, political contributions, charitable donations and sponsorships, facilitation payments, and solicitation and extortion. To help organizations evaluate bribery risk around the world, Trace International has developed its own Bribery Risk Matrix covering 194 jurisdictions. Transparency International has also developed a list of business principles for countering bribery that should be reflected in all corporate anti-corruption policies. Transparency International also recommends that program reviews of the anti-bribery and anti-corruption programs be regularly delivered to the organization's Audit Committee, and they have developed an assurance framework to support this effort.

Money laundering is another major problem related to corruption, particularly the laundering of funds that are criminally acquired and associated with human rights violations or the theft of public assets. Financial firms in particular should be sure to abide by the Wolfsberg Principles against financial crime in all business dealings, and perform due diligence according to these criteria developed by the Bank for International Settlements. These criteria stipulate that banks must document and enforce policies for identification of customers, with special attention to customers from the following categories:

1. Trust, nominee and fiduciary accounts;
2. Corporate vehicles;
3. Introduced business;
4. Client accounts opened by professional intermediaries;
5. Politically exposed persons;
6. Non-face-to-face customers;
7. Correspondent banking.

For more information about money laundering risk, see resources from the International Money Laundering Information Network, as well as their policies against the criminal use of the banking system.

Fighting corruption in relations with governments is another important issue area, as the awarding of public sector contracts often comes with a high risk of bribery, kickbacks, or other forms of cronyism. The OECD has developed guidelines for businesses related to public procurement, and specific recommendations for the governance of infrastructure projects. The privatization of public assets, and also the formation of public-private partnerships, are another area of concern where the needs of special interests can trump the welfare of the general public and override principles of democratic accountability. The G20 has released a list of high-level principles for promoting integrity in privatization and private-public partnerships, which includes provisions to ensure clear governance, promote transparency, and promote stakeholder involvement. For further information about operating in weak governance zones, see this toolkit developed by the OECD.

In order to implement strong anti-corruption programs, whistleblower protections are of vital importance. Employees need to feel comfortable to speak out against unethical actions without fear of retaliation, such that violations can be caught early and dealt with appropriately. Transparency International has outlined the UNCAC provisions that deal with whistleblower protection, and Ethical Systems has emphasized the importance of creating a 'speak-up and call-out culture'. For more information about whistleblowing, see this discussion by Workplace Fairness.

Corruption is an extremely complex topic, and as a result incidents of corruption can often go unrecognized for years at a time. To get a better understanding of corruption and how to identify it, the Basel Institute on Governance has developed a suite of courses that includes introductions to open-source intelligence, operational analysis of suspicious transactions, financial analysis using Excel, visualizing money flows, and other topics. Particularly relevant courses include resources on 'following the money' and tracing financial assets.

Case Studies

For more information about positive case studies and stories of change, see this report from Transparency International. A particularly inspiring story comes from the Indonesian state electricity provider, Perusahaan Listrik Negara, which had a deeply entrenched history of corruption that culminated in the jailing of several senior officers in 2011, including the organization's president. Since then, Transparency International has piloted an anti-corruption program by working with over 1,000 staff members across PLN to assess and mitigate corruption risks and implement whistleblower protections and appropriate channels of communication. As of 2017, PLN ranked as Indonesia's fifth most transparent state-owned enterprise according to the Central Information Commission.

Organizations/Initiatives

To review information about corporate malfeasance and ongoing cases of corruption and crime, see the following watchdog organizations:

- CorpWatch
- CorporateWatch
- Corporate Crime Reporter
- Corporate Accountability
- Corporate Research Project
- ViolationTracker
- Transnational Corporate Observatory

- Corporate Europe Observatory
- Corporate Rap Sheets
- Dirt Diggers Digest
- Corporate Dirt Archives
- As You Sow
- OpenCorporates

For information specific to corporate corruption, see the following organizations:

1. Transparency International
2. Center for International Private Enterprise - Anti-Corruption and Governance Center
3. Maritime Anti-Corruption Network
4. Offshore Leaks from the International Consortium of Investigative Journalists
5. Aleph Project from the Organized Crime and Corruption Reporting Project
6. Basel Institute on Governance
7. International Anti-Corruption Academy
8. The International Corporate Accountability Roundtable
9. UN Office on Drugs and Crime
10. World Economic Forum Partnering against Corruption Initiative
11. International Money Laundering Information Network
12. Stolen Asset Recovery Initiative
13. Extractive Industries Transparency Initiative
14. Construction Sector Transparency Initiative
15. Financial Action Task Force
16. Caribbean Financial Action Task Force
17. Basel Committee on Banking Supervision

For watchdogs specific to the global financial sector, see the following organizations:

1. FinanceWatch
2. Fair Finance Watch
3. Fair Finance International
4. Reclaim Finance
5. Facing Finance
6. BankTrack
7. Global Financial Integrity
8. Hedge Clippers
9. Private Equity Stakeholder Project

Business Ethics

Coercive 3.5 Litigation

Description

There are many ways that corporations weaponize the law, and particularly processes of private adjudication, to intimidate and take advantage of weak governments and silence opposition. One way that multinational corporations use litigation to take advantage of weak governments, particularly in the Global South, is through the exploitation of stabilization clauses in bilateral investment treaties which allow them to sue host governments for lost profits associated with the passage of social or environmental regulations. Such lawsuits often take place through the use of Investor-State Dispute Settlement (ISDS) mechanisms, whereby foreign investors are entitled to sue a national government for both real and perceived financial damages. In a similar fashion, predatory investors known as 'vulture funds' have made a practice of purchasing distressed sovereign debt from low-income nations on secondary markets and then using litigation to intimidate cash-strapped governments into paying the full face value. Companies also often strategically employ litigation to obstruct accountability and intimidate or silence critics, particularly community activists such as environmental or human rights defenders. These forms of judicial harassment are called 'strategic lawsuits against public participation' (SLAPPs), and they have been used to great effect. To learn more about how to recognize and prevent abusive litigation practices, continue reading this PDF guide.

Issue Summary

There are many ways that corporations weaponize the law, and particularly processes of private adjudication, to intimidate and take advantage of weak governments and silence opposition. The radical expansion of free trade agreements around the world over the last 30 years has disproportionately benefited the owners of multinational enterprises, who are the clear beneficiaries of trade regimes designed to benefit foreign investors over people and the environment.

One way that multinational corporations can use litigation to take advantage of weak governments, particularly in the Global South, is through the exploitation of stabilization clauses in bilateral investment treaties which allow them to sue host governments for lost profits associated with the passage of social or environmental regulations. This often has the effect of coercing governments into capitulating to the demands of corporations and investors, at the expense of people and the environment. Such lawsuits often take place through the use of Investor-State Dispute Settlement (ISDS) mechanisms, whereby foreign investors are entitled to sue a national government for both real and perceived financial damages. Complications arise when, for example, a government banning harmful chemicals, or restricting mineral extraction near vulnerable ecosystems may be seen as expropriating private capital. ISDS arbitration suits related to mining have rapidly increased in frequency since the late 1990s, and are often used by transnational corporations to coerce poorer governments into allocating resource concessions. Countries are often sued for sums that represent sizable portions of their annual GDP. In some cases, the threat of arbitration can pressure governments to reverse environmental protections, as was generally regarded to be the case when Indonesia exempted several foreign investors from a ban on open-pit mining in protected forests.

In much the same vein, companies often strategically employ litigation to obstruct accountability and intimidate or silence critics, particularly community activists such as environmental or human rights defenders. These forms of judicial harassment are called 'strategic lawsuits against public participation' (SLAPPs), and they have been used to great effect from 2015 to 2018 by polluting firms seeking $904 million in damages from activist defendants as young as 15 years old.

There are also ways that investment funds use coercive litigation to take advantage of distressed debt in developing nations. At a global level, a system of economic inequality is maintained through debt instruments and unfair trade rules that create a global extractive economy predicated on patterns of unequal exchange between nations in the Global North and Global South. Export-oriented growth policies, often imposed as loan conditionalities through structural adjustment programs, compel resource-rich nations to turn to extractive projects as a means to generate the foreign reserves to service debts owed to international creditors. In such 'debt traps', governments are required to remove barriers to growth in an effort to attract the foreign direct investment that will generate funds to pay increasingly expensive interest payments. Such exploitative patterns are generated because lending institutions like the International Monetary Fund are pursuing the interests of the international financial community. The resulting 'Dutch disease' directly impedes local development in order to generate profit for transnational firms. These relationships are particularly evident today in Latin America as well as Africa, a continent where for every dollar of loan inflows there are 80 cents of capital flight. For more information about the neocolonial aspects of the international financial system, see materials from the Bretton Woods Project. Hedge funds or private equity firms known as 'vulture funds' have made a practice of purchasing distressed sovereign debt on secondary markets, where it trades significantly below its face value, and then recover the full amount through litigation and legal intimidation. According to an IMF report on vulture funds, eleven heavily indebted poor countries (HIPCs) have been targeted so far in forty-six lawsuits, and the amounts demanded often represent a significant portion of the relevant national gross domestic product (GDP). As such, such lawsuits represent a significant risk to social and environmental well-being given the public expenditures that they displace.

Key Considerations

The Business and Human Rights Resource Centre has identified ISDS lawsuits as a threat to human rights. The Danish Institute for Human Rights, in its assessment tool on legal and governmental affairs, maintains that stabilization clauses should not be used for "exemption from or compensation for compliance with improved social and environmental laws of general application, legislation enacted to reasonably implement the host state's international human rights obligations, or reasonably foreseeable changes in the law." There are three main types of stabilization clauses, which include:

- 'Full-freezing clauses': clauses that freeze the law of the host state with respect to the investment project over the life of the project;
- 'Economic equilibrium clauses': clauses that require that the investor complies with new laws but also require that the investor be compensated for the cost of complying with them;
- 'Hybrid clauses': clauses that require the state to restore the investor to the same position it had prior to changes in law. If used, it is essential that potential human rights implications of any stabilization clauses are carefully considered.

SLAPP lawsuits are used in similar ways to obstruct social and environmental reforms. The Business and Human Rights Resource Centre recorded over 3,100 attacks worldwide against community leaders, farmers, workers, unions, journalists, civil society groups and other defenders, of which 40% consisted of judicial harassment in the form of SLAPPs. The largest number of SLAPPs took place in Latin America (39%), followed by Asia and the Pacific (25%), Europe & Central Asia (18%), Africa (8.5%), and North America (9%).

The issue of commercial abuse of sovereign indebtedness for private gain is extremely problematic. Vulture funds operate with impunity, and impose significant costs on nations that are already facing fiscal crisis. Vulture funds prey on the desperation of highly indebted poor countries by refusing to participate in debt structuring designed to ease the burden on cash-strapped governments, and instead pursuing the full face value of the sovereign debt plus any additional interest and penalties through litigation. Vulture funds can earn anywhere from 300% to 2000% returns on their initial investments, and they are an example of neocolonial exploitation that should not be tolerated in any instance.

Tools

To find ongoing ISDS lawsuits, see the ISDS database provided by the UN Conference on Trade and Development, which can be navigated using their advanced search tool. The watchdog Bilaterals.org provides resources about the corporate abuse of free trade and investment agreements, and they have a specific subsection discussing the role of ISDS mechanisms. There is also a worldwide Tax Treaties Explorer that allows users to identify how investment treaties between countries permit corporations to take advantage of loose tax rules and undermine public investment.

The UN Office of the High Commissioner for Human Rights has developed a list of principles for corporations to pursue in the negotiation of contracts with states which ensure that human rights provisions be respected throughout the execution of all proposed projects. These principles include that:

1. The parties should be adequately prepared and have the capacity to properly address the human rights implications of projects during negotiations;
2. Responsibilities for preventing and mitigating human rights risks associated with the project and its activities should be clarified and agreed before the contract is finalized;
3. The laws, regulations and standards governing the execution of the project should facilitate the prevention, mitigation and remedy of any negative human rights impact throughout the life cycle of the project;
4. Contractual stabilization clauses, if used, should be carefully drafted so that any protections for investors against future changes in law do not interfere with the State's bona fide efforts to implement laws, regulations or policies, in a non-discriminatory manner, in order to meet its human rights obligations;
5. If the contract envisages that investors will provide additional services beyond the scope of the project, this should be carried out in a manner compatible with the State's human rights obligations and the investor's human rights responsibilities;
6. Physical security for the project's facilities, installations or personnel should be provided in a manner consistent with human rights principles and standards;
7. The project should have an effective community engagement plan through its life cycle, starting at the earliest stages of the project;
8. The State should be able to monitor the project's compliance with relevant standards to protect human rights, while providing the necessary assurances to business investors against arbitrary interference in the project;
9. Individuals and communities that are affected by project activities, but not party to the contract, should have access to an effective non-judicial grievance mechanism;
10. The contract's terms should be disclosed, and the scope and duration of exceptions to such disclosure should be based on compelling justifications.

The Business and Human Rights Resources Centre also hosts a database of ongoing SLAPP cases, as well as materials about legal defences against SLAPP lawsuits. Companies should not abuse SLAPP lawsuits to silence their critics, and must commit to redressing grievances of communities and affected stakeholders wherever appropriate.

The United Nations Human Rights Council has adopted a resolution to oppose the activities of vulture funds. For more information about vulture fund activity, see this report by the Committee for the Abolition of Illegitimate Debt, as well as this handbook on how to stop vulture fund lawsuits from the UK Commonwealth Secretariat.

Case Studies

The case of Vancouver-based Eco Oro Minerals suing the state of Colombia over a protected wetland is a salient example of this kind of predatory behaviour. For several years, Eco Oro has planned to mine for copper and gold in Colombia's Santurban Paramos, a high-altitude wetland which provides the drinking water for two million people in the surrounding area. The World Bank's private finance arm divested from Eco Oro in 2016 due to ongoing opposition from the local community, led by groups such as the Committee in Defense of the Water and Paramos of Santurban. Despite the ecological and social risks posed by the project, Eco Oro has sued the state of Colombia through an investor-state dispute mechanism in the bilateral Canada-Colombia Trade Agreement, claiming damages of $750 million USD. This arbitration is funded by Tenor Capital, a financial firm aiming to turn a profit from the compensatory payments for perceived lost profits. All companies, particularly in the extractives sector, have a responsibility to use stabilization clauses in non-coercive ways, and make sure that social and environmental consequences are considered in all state-investor relations.

Organizations/Initiatives

For more information about ISDS mechanisms, SLAPP lawsuits, and other forms of corporate weaponization of the law, see the following organizations:

- Bilaterals.org
- UNCTAD - Investment Dispute Settlement Navigator
- Tax Treaties Explorer
- World Bank - Database of Bilateral Investment Treaties
- Business and Human Rights Resources Centre

For information related to odious debt, underdevelopment, and global economic justice, see the following organizations:

- Global Action for Debt Cancellation
- Asian Peoples' Movement on Debt and Development
- Jubilee South
- Jubilee Debt Campaign
- Committee for the Abolition of Illegitimate Debt
- Global Justice Now
- African Forum and Network on Debt and Development
- Latin American Network for Economic and Social Justice
- The Bretton Woods Project
- The Third World Network
- The South Centre

Business Ethics

Economic 3.6 Inequality

Description

Throughout the industrialized world, economic and wealth inequality has been rising for several decades. Although there are many drivers of economic inequality (including excessive compensation and offshore tax havens, as mentioned above), another key factor has been financialization, defined as the process by which the power and size of the financial services sector increases relative to the real economy. New research by the Bank of International Settlements has proven that, beyond a certain point, financial sector growth tends to crowd out real economic growth and thus contributes to wage stagnation and inequality. The increased power of finance capital, in its prioritization of short-term stock performance, has helped aid the rise of predatory practices like corporate raiding, asset-stripping, widespread layoffs, and an explosion of merger activity that greatly increased the concentration of wealth and the power of monopolies. To learn more about financialization, and how to recognize the warning signs of aggressive merger activity or predatory practices, continue reading this PDF guide.

Issue Summary

Throughout the industrialized world, economic and wealth inequality has been rising for several decades, largely as a function of a prevailing neoliberal economic ideology that privileged 'trickle-down economics', or the debunked theory that a combination of privatization, deregulation, and trade liberalization would increase overall economic prosperity. In 1970, Chicago school economist Milton Friedman wrote an influential New York Times article stating that "the only social responsibility of business is to increase its profits." Friedman's argument, and the neoliberal theories he espoused, would go on to launch a new age of shareholder primacy in which the sole purpose of business was to make profits regardless of any negative social and environmental externalities. Friedman's dictates, spread across the industrialized world by an army of disciples, instigated a fundamental change in corporate governance regimes. After the neoliberal paradigm shift, corporate behaviour became more extractive and short-term in nature, focused on maintaining shareholder value at the expense of workers and communities. Economic inequality rose sharply across the Western world during a long period of downsizing, cost-cutting, offshoring, deunionization, automation, deindustrialization, tax-cutting, and rising executive pay, all driven by the desire to increase shareholder value. This was accompanied by a fundamental attack on social democratic institutions through a process of privatization, tax-cutting, and deregulation designed to unravel labour and environmental protections believed to be shrinking the bottom line.

A major strategy in the shift towards shareholder primacy has been a massive increase in financialization, seen through both the increasing dominance of the financial services sector as well as the more insidious way that regular corporations come to behave more and more like banks. The increased power of finance capital, in its prioritization of short-term stock performance, has substituted value extraction for value creation, leading to the rise of predatory practices like corporate raiding, asset-stripping, widespread layoffs, and an explosion of merger activity that greatly increases the concentration of wealth and the power of monopolies. As share-based compensation rose as a proportion of managers' overall pay, they began focusing on short-term stock performance at the expense of other activities (see Section 3.3 on excessive compensation). Activist hedge funds routinely intervene in companies to prevent long-term strategic investments that might be seen to temporarily depress share prices, while firms reduce spending on innovation and employee reskilling in favour of stock buybacks and exorbitant executive compensation. New research by the Bank of International Settlements has proven that, beyond a certain point, financial sector growth tends to crowd out real economic growth, indicating that not only are corporations unable to address intersecting social and environmental crises, but they are also increasingly unable to even generate basic economic prosperity.

Key Considerations

There are many mechanisms by which economic inequality has increased over the last 40 years, including in particular the expanding power of the financial sector and the increasing monopolization of the economy. This toolkit has already addressed some major drivers of inequality (including Section 3.2 on unfair taxation, and Section 3.3 on excessive compensation), while this section aims to address some others.

In both Canada and the United States, weak enforcement of antitrust laws combined with an exponential increase in the power of the financial sector has led to a period of aggressive merger and acquisition activity that has increased market concentration, worsened income and wealth inequality, and led to the creation of new monopolies. In addition, many firms in the private equity industry have found ways to use deal structures like leveraged buy-outs to profit from the dismantling of underperforming companies, a predatory practice sometimes referred to as 'corporate raiding'. In many examples, firms believed to be underperforming are taken over by activist investors who seek to improve profitability through aggressive cost-cutting programs (which often include laying off thousands of employees), only to profit from the resale of the firm at a higher value down the road.

The growth of the private equity industry has been staggering, and there is significant evidence that private equity has substantially exacerbated economic inequality, particularly during the COVID-19 pandemic. There are many examples of the destructive social consequences of private equity ownership in a variety of industries, from healthcare to retail to home ownership. In 2020 alone, private equity deals helped result in 500,000 job losses in the American retail sector. But the income-polarizing effects of private equity long predate the pandemic; in a particularly egregious example highlighted by journalist Nicholas Shaxson, private equity mogul Wilbur Ross gained effective control of the US steel industry in the early 2000s, and pocketed $4.5 billion from its 'restructuring'--an amount roughly equal to the sum that steelworkers and retirees lost in health and pension plans. Wilbur Ross then went on to become the Secretary of Commerce for President Donald Trump. For more information about this issue, see The Buyout of America by Josh Kosman.

In coming years, it is also very likely that advances in artificial intelligence will displace many workers from the economy, lead to widespread unemployment and prompting the creation of a 'useless class'. Research by McKinsey finds that half of the activities people are currently paid to do could be automated, representing approximately $15 trillion in wages. The Shift Project has identified automation as a threat to human rights, specifically in the form of automation at a speed or scale that gives workers little chance to adapt.

Tools

1. Monopolistic Practices

Companies engage in a variety of monopolistic practices that have the potential to violate antitrust laws or provisions against price-fixing, collusion, and other forms of anti-competitive behaviour. The Global Reporting Initiative has developed a disclosure standard for monopolistic practices, which include the total number of legal actions pending or completed regarding anti-competitive behavior and violations of antitrust legislation.

Strafford Publications has compiled a list of red flags in business dealings that may lead to antitrust violations; while the recommendations are specific to the US, the underlying principles are similar for Canadian law. The National Contract Management Association has also published an article identifying red flags related to a variety of anti-competitive practices, including price fixing, bid rigging, and market allocation agreements.

For more information about competition law in Canada, review this briefing from the Competition Bureau of Canada, this primer from Fasken Partners, or this resource from McCarthy Tetrault.

2. Corporate Raiding

The negative consequences of private equity ownership are a direct result of short-termism in corporate governance. While some firms may see higher profits after a process of restructuring, this is often at the expense of long-term value creation, and many of these firms collapse in the years following their eventual resale. To better understand how the private equity industry works and worsens economic inequality, see this blogpost from impact investor David O'Leary. For more information about private equity practices from affected stakeholders, see the work of the Private Equity Stakeholder Project.

Private equity firms must ensure that the social and economic consequences of potential deals are considered in all investment decisions as a matter of due diligence. Most importantly, employees working in the private equity industry have an ethical responsibility to raise these questions, and speak against the existence of predatory practices wherever they exist. If a potential deal appears likely to exacerbate economic inequality through cost-cutting culminating in significant job losses, investment analysts should not be afraid to voice opposition.

3. Automation and Reskilling

The ILO has done comprehensive research on the threat of automation, and for more information check out these resources from the Business and Human Rights Resources Centre. To avoid the unequal distributional effects of AI-related automation, employers should provide their employees with the opportunity to retrain themselves to work alongside new digital tools, rather than be replaced by them. Employers should ensure that they make optimal use of opportunities for reskilling of employees, while reminding themselves of the fact that digital technologies cannot replace the value of face-to-face interaction. Managers must consider the impact of their decisions on the communities they operate in while also investing in digital literacy training for employees. The Global Reporting Initiative has also developed a disclosure standard for training and education of employees, which includes provisions for training required to adapt to changing technologies and work requirements.

Case Studies

The corporate pillaging of Toys "R" Us is a classic instance of the exploitative nature of leveraged buy-out practices. The bankruptcy of Toys "R" Us was driven by unsustainable levels of debt accrued as a result of the deal; by 2017, Toys "R" Us had a debt burden of $5.2 billion, and was paying up to $517 million in interest every year. The ultimate collapse of the company resulted in 33,000 employees losing their jobs. This is far from an isolated example; as the bankruptcy of Hahnemann Hospital in Detroit indicates, the intrusion of private equity into the healthcare industry has caused a crisis of mismanagement driven by corporate short-termism and a structural inability to consider the needs of patients and employees. To provide a Canadian case, the gutting of Sears had devastating impacts for the pension plans of Sears Canada employees. For a comprehensive list of predatory examples of private equity practices, see this fact sheet on the proposed Stop Wall Street Looting Act from Americans for Financial Reform.

Organizations/Initiatives

For watchdogs specific to the global financial sector, see the following organizations:

- FinanceWatch
- Fair Finance Watch
- Fair Finance International
- Americans for Financial Reform
- Reclaim Finance
- Facing Finance
- BankTrack
- Global Financial Integrity
- Hedge Clippers
- Private Equity Stakeholder Project

Business Model and Organization

Business Model 4.1 Transformation

Description

Recognizing the abysmal failures of the shareholder primacy model, there has been a global movement of purposed-oriented businesses emerging from the grassroots. Often smaller in scale, these social enterprises are focused on integrating social and environmental purpose into their very reason for being, turning their business models into ones that inherently strive to make the world a better place. Mainstream corporations have caught on to this language of purpose, and many large corporations are adopting purpose statements of their own that serve to orient their firms in a time of social upheaval. A growing movement for 'stakeholder capitalism' has emerged that, on paper, obliges firms to consider the needs of all stakeholders, not just shareholders. Businesses should aim not just to release new purpose statements replete with vague platitudes and empty promises; instead, they must fundamentally transform their business models and governance practices from the ground up to prioritize social and environmental well-being and achieve the promise of their purpose. To learn more about corporate purpose and the creation of transformative business models, continue reading this PDF.

Issue Summary

As the frailty of democracy becomes increasingly apparent in an era of increasing political polarization, social antagonism, and class resentment, business leaders around the world have paid lip service to the need for change. A growing movement for 'stakeholder capitalism' has emerged that, on paper, obliges firms to consider the needs of all stakeholders, not just shareholders. However, there is scant evidence that this trend has moved beyond sloganeering and catchy rhetoric, even leading some to characterize it as an 'elite charade'. The Business Roundtable, the largest corporate lobbying group in the United States, adopted a new 'Statement on the Purpose of a Corporation' even as it lobbied for corporate tax breaks under President Trump and advocated against President Biden's social spending bill. This hypocrisy is not new; for decades, the doctrine of 'corporate social responsibility' has failed to address the problems of shareholder primacy. At best, CSR serves to marginally reduce a firm's negative impacts, while at worst it amounts to little more than an elaborate form of marketing and positive publicity.

Recognizing the failures of the shareholder primacy model, there has been a global movement of purposed-oriented businesses emerging from the grassroots. Often smaller in scale, these social enterprises are focused on integrating social and environmental purpose into their very reason for being, turning their business models into ones that inherently strive to make the world a better place. The United Way Social Purpose Institute defines social purpose as where the purpose of the business is to create a better world, while the British Academy Future of the Corporation program defines the purpose of business as "producing profitable solutions to the problems of people and planet and not profiting from creating problems." The global B Corp movement has grown exponentially, leading more and more companies around the world to aspire to become a certified 'benefit corporation'. A global 'Social and Solidarity Economy' is developing around principles of economic democracy, social well-being, and ecological restoration, aiming to serve as a genuine alternative to neoliberal capitalism. At the foundation of this movement is a growing ecosystem of cooperative-owned, community-focused organizations aiming to create a more just and equitable economy that works for everyone, not just an elite class of owner-managers.

Mainstream corporations have caught on to this language of purpose, and many large corporations are adopting purpose statements of their own that serve to orient their firms in a time of social upheaval. The movement towards a more conscious capitalism is long overdue, and should be applauded. However, it is equally important to ensure that the language of 'purpose' does not become another form of vacuous virtue-signaling tailor-made for a new age of socially aware consumers. Businesses should aim not just to release new purpose statements replete with vague platitudes and empty promises; instead, they must fundamentally transform their business models and governance practices from the ground up to prioritize social and environmental well-being and achieve the promise of their purpose. This means actively undermining shareholder primacy by sharing power with stakeholders, giving voice to workers and affected communities, tying executive pay to prosocial goals, allocating substantial resources to organizational change, and investing for the long-term, in addition to many other necessary reforms. Instead of focusing on incrementally reducing negative harms, firms must focus on creating positive social and environmental value as their reason for being, and redefine the very meaning of the concept of 'value' in the process.

At the same time, undermining shareholder primacy will never happen without the creation of new laws and regulations that oblige corporations to care for the interests of groups other than shareholders. Substantial policy change will be required for firms to move towards a fundamental reinterpretation of fiduciary duty, and to implement forms of integrated reporting that do not require translating non-financial issues into the language of enterprise materiality. In the United Kingdom, reporting on corporate purpose has been enshrined in the corporate governance code since July 2018, legally requiring firms to align managerial interests with action on corporate purpose. We need to go much further than just disclosure, however. When running for President in 2020, Elizabeth Warren developed a proposed 'Accountable Capitalism Act' that was full of ideas to institutionalize corporate purpose, including the notion of mandatory corporate charters, worker representation on boards, constituency statutes for corporate directors, and other transformative clauses. As the fundamentally hollow nature of the shareholder primacy model becomes more clear over time, ambitious proposals like these will become increasingly commonplace.

Key Considerations

The notion of social purpose cannot simply be superficially applied on top of the existing model of short-term, profit-maximizing neoliberal capitalism if it is to have a real effect. Existing language around corporate purpose often positions purpose as the best way for firms to make money, which can paradoxically cause firms to pursue ethical or purposeful action only when it is profitable to do so (while ignoring it otherwise). For a firm to adopt a corporate purpose that has genuine meaning, this must involve much more than copy-pasting the language of social purpose onto its existing business strategy. In fact, it requires a complete and total transformation of a corporation's underlying business model, as well as its organizational structure, culture, and governance processes.

To illustrate this difference, consider the case of corporate purpose in the oil and gas industry, a sector that is experiencing significant disruption. For a fossil fuel firm to adopt a new corporate purpose in the age of climate action, it would need to restructure itself as a clean energy company by transitioning away from high-emitting fuels, shifting capital expenditures towards renewable energy generation, and wind down existing reserves. What this would not look like is the firm releasing a new purpose statement to brand itself as the world's leading "sustainable, responsible clean fuel company" by announcing vague plans to use carbon capture or offsets to disguise the harm it creates. In the first case, the firm has genuinely recognized the need to reform and fully martialled its resources in the direction of organizational transformation; in the latter, the firm hides behind appealing language and positive PR to avoid investing in real change.

The British Academy, in its report on the future of the corporation, has developed a set of principles for purposeful business that address many of these systemic problems, and pave a way forward for a new era of purpose driven businesses. These principles include:

1. Corporate law should place purpose at the heart of the corporation and require directors to state their purposes and demonstrate commitment to them;
2. Regulation should expect particularly high duties of engagement, loyalty and care on the part of directors of companies to public interests where they perform important public functions;
3. Ownership should recognise obligations of shareholders and engage them in supporting corporate purposes as well as in their rights to derive financial benefit;
4. Corporate governance should align managerial interests with companies' purposes and establish accountability to a range of stakeholders through appropriate board structures. They should determine a set of values necessary to deliver purpose, embedded in their company

culture;
5. Measurement should recognise impacts and investment by companies in their workers, societies and natural assets both within and outside the firm;
6. Performance should be measured against fulfillment of corporate purposes and profits measured net of the costs of achieving them;
7. Corporate financing should be of a form and duration that allows companies to fund more engaged and long-term investment in their purposes;
    - Corporate investment should be made in partnership with private, public and not-for-profit organizations that contribute towards the fulfillment of corporate purposes.

See the Academy's report on 'Policy and Practice for Purposeful Business' for further elaboration on these principles.

Tools

Forward-thinking firms must see the creation of social and environmental value as their very reason for being. This involves taking a systems approach to value creation by considering the parameters outlined in Kate Raworth's Doughnut Economics framework; firms should examine both external environmental thresholds (i.e. the planetary boundaries), as well as social foundations (i.e. the minimum social safeguards necessary to achieve human flourishing) when making all decisions related to strategy and capital allocation. Firms wishing to adopt this approach should first view this video from the Doughnut Economics Action Lab on 'When Business Meets the Doughnut', which outlines strategies for enterprise design that helps firms structure themselves as intentionally regenerative and redistributive. For more information about doughnut economics, check out the Doughnut Economics Action Lab, as well as their community-driven tools and stories for interesting case studies.

Before applying the doughnut economics model to firm-level business models, however, please read this FAQ from the Doughnut Economics Action Lab which stipulates that the doughnut model "cannot be used publicly by businesses (including consultants in their work with business clients), whether for branding, on a website, in presentations, or in publicly available materials." Firms are advised not to attempt to create their own scaled-down 'company doughnuts', and should wait until the publication of the official Doughnut Economics toolkit and guidance (date TBD).

Corporations should also take inspiration from the B Corp movement, which is a global network of purpose-led businesses that are embedding social and environmental value into their core business model. Stories of successful B Corp businesses can be seen at B the Change, as well as the B Corp 'Best for the World' ranking which identifies the top-performing companies in all issue categories from the environment to labour rights to corporate governance. It is not currently a requirement to have a social purpose to be considered a B Corp, but they are now working to address that gap.

The Embedding Project has created a list of embedded strategies for the sustainability transition, which is an exploration of all the ways firms can create social and environmental value through a systems thinking lens to help drive resilience and well-being. This toolkit provides an introduction to elementary concepts of systems thinking, including ideas such as resilience, thresholds, and regeneration, and helps businesses select strategies and set goals for delivering on social and environmental purpose. Pages 21-27 of the toolkit identify many of the most important social and environmental indicators for businesses to consider when evaluating goals and strategies for their business model transition. For a guide about creating regenerative business models, see this guide from nRhythm.

Companies hoping to transform themselves into purpose-driven businesses should evaluate themselves according to the Social Purpose Continuum developed by Coro Strandberg. According to this continuum, the most ambitious purpose-led businesses select their corporate strategy on the basis of tackling complex social challenges, thus embedding social and environmental value into their very reason for being. In such organizations, long-term value creation is prioritized over short-term performance, and leadership on purpose is driven directly by the CEO and all senior officers. Purpose-driven firms frequently participate in innovation labs and learning communities with other organizations, with the intent of driving systemic change in society as a whole. Coro Strandberg has also helped the Social Purpose Institute develop a Social Purpose Assessment tool, which is a scorecard companies can use to assess the depth of their purpose integration. It provides insights into the practices companies must deploy to become authentically purpose-driven.

Governance Professionals of Canada has released a report on purpose-led governance structures, which articulates the importance of ensuring board-level oversight of purpose strategy. Responsibility to oversee the firm's social purpose should be embedded into every board committee, and expert advisory boards should be appointed consisting of stakeholders and relevant experts to inform senior leaders on how to deliver on corporate purpose. Boards should evaluate their own performance on social purpose strategy according to the ISO 37000 standard, the newest standard on corporate governance from the International Standards Organization, and release audited purpose disclosures to demonstrate how social purpose is embedded throughout an organization's structure and culture.

Case Studies

Perhaps the most inspiring example of a purpose-driven corporate transformation is that of Orsted, the Danish energy company that transformed itself from a fossil fuel firm into the world's most sustainable clean energy company. Orsted's senior leaders formulated an '85/15 vision', which entailed moving the company from 85% fossil fuels and 15% renewables to 85% renewables and 15% fossil fuels. Nowadays, Orsted is the world's largest offshore wind provider, and it is set to produce 99% clean energy by the year 2025. For more information on Orsted's transformation, see this interview with the head of its offshore wind business.

Inspiring examples of social purpose also come from outside of traditional corporate business structures. Cooperatives, and other forms of economic democracy, represent an alternative way of doing business that is often better for workers and the environment. Vancity Credit Union, the largest community-based credit union in the world, is an excellent example of one such company. Vancity shares profit with its customers, who are also its members, and has adopted a living wage policy while also maintaining a fixed ratio between average worker and CEO pay. The Mondragon Corporation, the largest network of cooperative businesses in the world in Spain's Basque region, provides another interesting example of the benefits of cooperative ownership. For case studies about the transformation of corporations into employee-owned cooperatives, see this report by the Democracy at Work Institute, as well as the work of American Working Capital on employee stock ownership plans. For more information about community wealth-building and cooperative ownership, see resources from Community Wealth, the Next System Project, and the New Economy Coalition.

Forward-thinking companies are finding ways not just to reduce social and environmental harm, but actually build social purpose into their innovation practices and competitive strategies. Examples about sustainable innovation for organizational transformation are outlined in this report by Deloitte. Interesting case studies cited include Volkswagen's decision to radically expand its electric vehicle product lines, with plans to increase EV purchases to 40% of its sales by the year 2028. The $100 million Danone Ecosystem Fund is an interesting example of a large multinational firm allocating capital to opportunities in regenerative farming, supporting projects that are co-designed by Danone subsidiaries and not-for-profit partners.
Additional case studies of social purpose businesses in action can be found in this report, and another three are profiled on the Social Purpose Institute website. For other examples of purpose-driven businesses, see the B Corp Directory, the B Corp Best for the World ranking, and the certified social enterprises listed by Buy Social Canada.

Organizations/Initiatives

For organizations advancing a new way of looking at purpose-led business, and alternative economic structures designed to embed social and environmental value, see the following organizations:

- B Lab
- Doughnut Economics Action Lab
- The Capital Institute
- The Embedding Project
- Social Purpose Institute
- Centre for Social Innovation
- Social Enterprise Institute
- Social Value Lab
- S4ES
- Social Enterprise Council of Canada
- Community Wealth
- The Next System Project
- The New Economy Coalition
- Democracy Collaborative
- Seed Commons
- Common Future

Business Model and Organization

Leadership and Governance 4.2

Description

There is a growing recognition that corporate executives and directors have an explicit fiduciary responsibility to take action on sustainability issues. However, as much as climate risk and ESG disclosures are becoming mainstream, there is a profound gap in the capacity of leaders to take action on ESG issues and integrate sustainability considerations throughout organizational decision-making processes. Heidrick and Struggles recently conducted a survey of a large sample of corporate directors, and found that 46% of respondents indicated that their board has no knowledge of the financial implications of climate-related risk, while 49% said that climate issues are not integrated into any investment decisions. Similarly, a study by Deloitte of 1,1888 Fortune 100 board members determined that just 6% of corporate directors had any kind of environmental credentials. To learn about how firms should improve sustainability management and governance to increase the integration of sustainability criteria across all organizational decision-making processes, continue reading this PDF guide.

Issue Summary

Despite the deluge of rhetoric indicating that climate change and other sustainability factors are quickly becoming boardroom issues, the reality is that most modern boards lack the requisite ESG competencies and skills to properly design and implement sustainability strategies. As much as climate risk and ESG disclosures are becoming mainstream, there is a profound gap in the capacity of leaders to take action on ESG issues and integrate sustainability considerations throughout organizational decision-making processes. Heidrick and Struggles recently conducted a survey of a large sample of corporate directors, and found that 46% of respondents indicated that their board has no knowledge of the financial implications of climate-related risk, while 49% said that climate issues are not integrated into any investment decisions. Distressingly, 69% of respondents admitted that climate knowledge is not a formal requirement for board hiring processes nor is it included in their board's competency matrix, while 74% said that ESG issues are not integrated into executive compensation packages. Similarly, a study by Deloitte of 1,1888 Fortune 100 board members determined that just 6% of corporate directors had any kind of environmental credentials. For all the positive sustainability discourse, there is an enormous governance gap which limits the ability of firms to plan for the green transition.

Key Considerations

The reason that the sustainability governance gap exists is partially because many corporate leaders have until now viewed environmental and social issues as primarily a marketing and reputational concern. Many firms' CSR or ESG strategies lack credibility for the reason that they remain siloed from business strategy and other functions, and are not reflected in core business decisions. Sustainability teams are often not provided with enough resources or organizational power to affect change, and are often housed under marketing departments where they serve as an extension of a firm's PR efforts. For most organizations, sustainability reporting is not integrated with mainstream financial reporting, meaning that ESG concerns are still not considered material issues (and therefore not worthy of attention from senior officers). As a result of these obstacles, sustainability plans and strategies are often vague and ambiguous, contain few concrete or near-term targets and goals that are quantifiable and realistic, and lack the appropriate capital allocation and organizational resources to be truly transformative. Many sustainability teams spend all their time collecting data for reports, rather than actually advancing organizational change, resulting in the awkward fact that sustainability reporting becomes a substitute for real action. Firms frequently highlight positive success stories in their sustainability reports, while failing to disclose major controversies or ESG failures (i.e. avoiding taxes, or facing fines and sanctions for violations of the law), and in those contexts sustainability reports amount to little more than elaborate forms of greenwashing.

However, the limits of a business-as usual approach to sustainability are becoming apparent. There is a growing recognition that corporate executives and directors have an explicit fiduciary responsibility to take action on sustainability issues. Around the world, a legal consensus is growing that climate-related risk in particular represents a fundamental threat to business operations and thus creates a compulsion to act. In November 2020, the IFRS Foundation published guidance titled 'the Effects of climate-related matters on financial statements', stipulating that material climate-related financial information should be included in companies' annual reports. In Canada, an influential legal opinion was published by corporate lawyer and governance expert Carol Hansell, which recognized that corporate directors have a fiduciary responsibility to consider the long-term interests of their company, which directly includes a consideration for environmental and climate-related risks. Regulators such as the Canadian Securities Administrators have followed suit by issuing proposed directives covering mandatory climate risk disclosures for firms, along with the stipulations for audit committees and boards to be provided with appropriate information relating to sector-specific climate-related concerns. Given these new rules, it is very likely that the robustness and specificity of sustainability reporting efforts will improve over time as scrutiny from regulators and investors increases exponentially.

At the same time, institutional short-termism remains a major problem that is obstructing the creation of credible sustainability strategies. Modern corporate governance regimes are characterized by a fixation on short-term stock performance, with a reduced capacity to invest in long-term investments and plan for the long-term. According to a study by Morgan Stanley, 80% of managers said that they would consciously prioritize short-term value metrics even at the expense of long-term shareholder value. Companies are increasingly motivated to spend money on short-term quick wins which often don't contribute to the real economy, such as share buybacks or dividends. In order to improve governance for sustainability, it is imperative that firms move beyond short-term value metrics and begin to adopt planning and reporting cycles that allow them to plan for the long-term. One immediately obvious solution is to encourage the development of long-term accounting performance measures, while ending the requirement for quarterly earnings reports. Many of today's most innovative companies, such as Google, already refuse to issue quarterly earnings guidance. Businesses must also be willing to achieve lower short-term returns in order to gain long-term resilience and prosperity. It is only by slowing down corporate culture and shifting to long-termism that corporations today will be able to take action on climate change and other complex, system-wide challenges. This begins with creating systems to embed consideration for ESG risks, which tend to be long-term in nature, throughout organizational structure and culture, and also within institutional planning and capital allocation processes.

Tools

1. Corporate Governance (General)

The OECD has developed a list of corporate governance principles which should ideally serve as the basis for all governance-related decisions. These principles specifically identify disclosure requirements related to all relevant governance matters, which include material information on:

1. The financial and operating results of the company;
2. Company objectives and non-financial information;
3. Major share ownership, including beneficial owners, and voting rights;
4. Remuneration of members of the board and key executives;
5. Information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board;
6. Related party transactions;
7. Foreseeable risk factors;
8. Issues regarding employees and other stakeholders;
9. Governance structures and policies, including the content of any corporate governance code or policy and the process by which it is implemented.

The Canadian Coalition for Good Governance has a comprehensive list of policies that cover all aspects of corporate governance. In general, there are five priority areas for good corporate governance: board effectiveness, audit risk and external accountability, remuneration and rewards, stakeholder relations, and shareholder relations. Each of these issue areas has metrics and indicators that are designed to measure the integrity and effectiveness of a company's governance protocols.

The effectiveness of a board is often determined by its structure, including the level of independence of its members and the manner in which board members are compensated. Independent board members are those which do not have a material relationship with the company, and are neither part of the executive team nor are involved in day to day operations. The practice of 'overboarding' (i.e. board members who serve on too many boards) should be minimized, and the positions of Chair and CEO should be kept separate and distinct. Board diversity is of high importance, particularly with respect to gender, age, race, geography, and tenure, to ensure a wide variety of perspectives are considered in important decisions. Board effectiveness should also be evaluated according to the proportion of meetings that directors actually attend. Other indicators of board effectiveness, as identified by Institutional Shareholder Services (ISS), include:

- Independent nominating and compensation committees;
- Disclosure of policies requiring an annual performance evaluation of the board;
- Disclosure of board or governance guidelines;
- Disclosure of related-party transactions and conflicts of interest;
- Mechanisms to encourage director refreshment;
- Standard deviation of director age and tenure (in years).

For further information on increasing board diversity, review these guidelines from the International Corporate Governance Network, as well as this sample diversity policy from Governance Solutions. Forward-thinking firms are also advised to consider including worker representation on boards, especially given the robust evidence that companies with worker representatives on the board have a 16-21% increase in labor productivity, lower outsourcing and 40-50% larger capital stock invested in fixed assets. Firms with worker representation help reduce income inequality by distributing income more equally on average and paying wages 18-25% higher than companies without worker representation, while also creating 9% more wealth for shareholders and investing twice the amount of other firms.

ISS has developed a list of five principles for compensation policies, which include that:

- Pay should be aligned with performance, with an emphasis on the long term;
- Firms should avoid "paying for failure," by avoiding guaranteed compensation and excessive severance packages;
- Firms should create an independent compensation committee for effective oversight;
- Firms should ensure transparent and comprehensive compensation disclosures;
- Firms should manage payments made to non-executive directors, and avoid overpaying.

For more information about proper compensation policies, see Section 3.3 on Excessive Compensation.

A firm's audit committees must be as independent as possible. Companies should disclose the percentage of audit committee members that are independent, the size of the committee, the number of committee meetings, the proportion of meetings actually attended, as well as the ratio of fees for non-audit/audit work. Insider trading, market manipulation, and all forms of abusive self-dealing must be prohibited.

In a firm with good governance practices, the rights of shareholders should be protected, in particular the rights of minority shareholders to be protected from the actions of controlling shareholders, with an appropriate means of redress. Companies should abide by the 'one share, one vote' policy, and adopt specific policies to facilitate shareholder engagement and adopt shareholder resolutions. The OECD defines a basic list of shareholder rights, which include the right to:

1. Secure methods of ownership registration;
2. Convey or transfer shares;
3. Obtain relevant and material information on the corporation on a timely and regular basis;
4. Participate and vote in general shareholder meetings;
5. Elect and remove members of the board;
6. Share in the profits of the corporation.

Shareholders are also entitled to be adequately informed of the following:

1. Amendments to the statutes, or articles of incorporation or similar governing documents of the company;
2. The authorisation of additional shares;
3. Extraordinary transactions, including the transfer of all or substantially all assets, that in effect result in the sale of the company.

Most importantly, all firms should undertake efforts to ensure that the rights of all stakeholders, including employees, communities, and the environment, are respected through mutual agreements and explicitly referenced in policy. Where stakeholder rights are protected by law, companies must provide the opportunity for redress through appropriate grievance mechanisms. Firms should undertake efforts to actively ascertain the opinions and attitudes of stakeholders, including through mechanisms to encourage employee participation or consult with affected communities. Companies and their boards should also have clear objectives regarding their intent to collaborate with their stakeholders on their purpose and fulfillment of mutual goals. Companies that do are more likely to generate greater stakeholder value, foster loyalty and inspire innovation. Above all, stakeholders should be able to access reliable and effective conduits for relaying their concerns about illegal or unethical practices to the board of directors, and should be free of intimidation or fear or reprisal when doing so.

Companies should be advised to create their own governance scorecards to help evaluate their own performance, using these templates from the International Finance Corporation. For more information related to corporate governance, review these governance principles from the International Corporate Governance Network, as well as materials from the Board Institute.

2. Sustainability Management

Proper sustainability management is impossible without good corporate governance practices. For sustainability transitions to take place, sustainability needs to be embedded throughout all aspects of an organization: its culture and hiring practices, strategy and vision, leadership and executive profiles, risk management and information systems, procurement and supply policies, and many others. The following are frameworks for embedding sustainability into a company's management practices.

The UN Global Compact has developed a general management model for firms to employ in planning for more sustainable futures. These steps include:

1. Commit: leadership commitment to mainstream the Global Compact principles into strategies and operations and to take action in support of broader UN goals, in a transparent way;
2. Assess: assess risks, opportunities, and impacts across Global Compact issue areas;
3. Define: define goals, strategies, and policies;
4. Implement: implement strategies and policies through the company and across the company's value chain;
5. Measure: measure and monitor impacts and progress toward goals;
6. Communicate: communicate progress and strategies and engage with stakeholders for continuous improvement.

The Embedding Project has developed a comprehensive list of general strategies for the sustainability transition. The steps in their list include:

1. An environmental scan of all political, social, economic, technological, legal, and (PESTLE) issues that might be relevant for a firm and its stakeholders, according to the thorough list of indicators outlined on pages 21-27;
2. Develop an understanding of all the firm's impacts, according to four distinct lenses:
    - System needs (i.e. the health and wellbeing of environmental, social, and economic systems);
    - Strategic relevance for business risks and opportunities;
    - Operational and value chain impacts;
    - Systems influence (i.e. points of intervention through which a business can contribute to positive systems change);
3. Prioritize by selecting the most relevant issues to take action on;
4. Articulate a clear position statement that explains the issue (including the company's understanding of the relevant system limits), links the issue to the firm's strategy, and outlines a commitment to take appropriate actions;
5. Set goals and interim targets at the system, value chain, and operational levels.

For the purposes of evaluating the ambition and stringency of corporate sustainability efforts, the Embedding Project has also developed a self-assessment questionnaire that covers all aspects of organizational change management, and is crucial for any sustainability transition effort. Key self-assessment questions from their questionnaire can be grouped into the following four categories:

- Agenda-setting and transition plans:
    - Do you envision future sustainability scenarios in order to inform what you do today?
    - Have you set organizational and business unit goals and targets that address environmental limits and enhance social foundations?
    - Do you integrate sustainability into your core strategy-making process?
- Organizational structure, culture, and leadership:
    - Have you established roles and responsibilities within the organization to allocate sustainability responsibilities?
    - Do you seek opinions and ideas from employees about how to approach and solve sustainability issues?
    - Do you proactively seek senior and mid-level management's opinions about how to improve your sustainability performance?
    - Do you implement voluntary initiatives and adopt more stringent practices than mandated by regulation or common standards?
    - Do your frontline managers regularly follow up with employees to monitor and enquire

    about the status of sustainability tasks in your organization?
    - Do you collaborate with other organizations to try and achieve shared sustainability goals that benefit the environment and/or society?
    - Do you include sustainability as an element of the recruitment process?
    - Do you allocate the responsibility for delivering on the sustainability agenda to senior leaders?
    - Do you translate organizational sustainability goals and targets into employee responsibilities and expectations?
    - Do you link employee compensation to the achievement of set sustainability objectives?
    - Do you move people with sustainability values and skills into higher positions in the organization through incorporating sustainability criteria into decisions about advancement?
- Collecting information:
    - Do you make efforts to understand and improve the sustainability performance of your products and services?
    - Do you benchmark your sustainability processes and performance against those of other organizations?
    - Do you exchange sustainability knowledge with other organizations?
    - Do you routinely revisit your efforts towards sustainability to determine whether you are meeting your goals and commitments and whether changes in approach are needed?
- Control systems and evaluation:
    - Do you integrate sustainability into your risk assessment process?
    - Do you create and make use of organizational policies, codes of conduct, and management standards related to sustainability?
    - Do you integrate sustainability into your business planning process?
    - Have you undertaken a process to ensure that your existing business processes and systems are in alignment with delivering on your sustainability commitments (for instance, project management systems; design processes; and accounting or financial management systems)?
    - Do you measure your sustainability impacts and contributions?
    - Have you developed information systems to support your sustainability efforts?
    - Do you use analytics and algorithms to combine and display sustainability data in meaningful ways to generate new insights?

Role-specific guidance is also available for individual C-Suite positions. For general counsels and other senior legal professionals, check out the UN Global Compact's Guide for General Counsels. For Chief Financial Officers, review resources from the CFO Taskforce, as well as this Harvard Business Review article about approaching CFOs about sustainability concerns. The Accounting for Sustainability project provides useful tools and insights for CFOs. CEOs are advised to review the CEO guides developed by the World Business Council for Sustainable Development.

Sustainability considerations should also be integrated throughout all human resources policies and procedures, in order to ensure integration throughout organizational culture. For a guide to the implementation of ESG criteria throughout HR management, review this guide developed by Coro Strandberg for Industry Canada. Key considerations for HR sustainability practices include:
- Vision, mission, values and CSR strategy development;
- Employee codes of conduct;
- Workforce planning and recruitment;
- Orientation, training and competency development;

- Compensation and performance management;
- Change management and corporate culture;
- Employee involvement and participation;
- Policy and program development;
- Measurement and reporting.

Stakeholder relations is another key component of sustainability management. Engaging directly with key stakeholders, and consulting them about key decisions and strategies, is critical to the development and success of sustainability transition plans. For more information, see this stakeholder governance framework from the Cranfield School of Management. Key self-assessment questions include:

- Have you identified which stakeholder groups are essential to value creation that drive and deliver your business model?
- How well do you understand the expectations of and impacts on your material stakeholders?
- To what extent do you consult with your stakeholders to understand their views and to ensure good quality information?
- How formalized is stakeholder engagement in your governance systems and processes?
- How well embedded are stakeholder discussions into the board agenda?
- Are you confident that you are getting a fully representative view of your stakeholders' opinions?
- Do the views of stakeholders materially influence the board's strategic long-term decisions?
- To what extent is stakeholder engagement integrated into existing business practices or decision-making activities, for example materiality and risk management assessments?

3. Sustainability Governance

Company boards are central to stewarding an organization to long-term success in fulfillment of its purpose and in achievement of its sustainability objectives. The Canadian Coalition of Good Governance has developed a specific E&S handbook for corporate directors when considering the integration of environmental and social factors into strategy and decision-making. Coro Strandberg has also published a comprehensive list of considerations for embedding sustainability in corporate governance. For even more comprehensive indicators and metrics of board performance on ESG issues, review Coro Strandberg's roadmap for sustainable boards.

Corporate boards should make sure that environmental and social factors are considered in the organization's long-term, core strategic objectives and embedded throughout all organizational purpose, mission, and value statements. The board must make an explicit commitment to sustainability, agree on the most material social and environmental issues (both for the firm and for stakeholders), and ensure these issues are reflected in all strategic plans and business plans, while also allocating regular discussion time to the consideration of ESG issues. Boards must make sure that there is clear accountability and ownership for particular social and environmental factors among senior officers, in particular by integrating ESG responsibilities within its standing committees or creating a designated ESG committee. The CEO's mandate should include a responsibility to address sustainability risks and opportunities and sustainability should be embedded throughout all recruitment processes for board members and senior executives. The orientation of new board members should include ESG, and continuing education efforts should be provided to ensure ESG knowledge is kept up to date. Efforts should be made to increase board diversity in terms of demographic composition, with a specific priority to recruit directors who represent key stakeholder groups relevant to a company's sustainability impacts.

Boards should ensure that ESG factors are integrated through all decision-making processes and considered in all strategic discussions, especially decisions related to corporate strategies, annual budgets, and major capital allocation decisions including annual capital expenditures and merger and acquisition or divestiture plans. Boards should actively confirm that management has integrated ESG considerations throughout all corporate policies and manuals, particularly with respect to finance and procurement. Boards should ensure that ESG factors are integrated across all enterprise risk management (ERM) systems and frameworks, including a statement of relevant assumptions, and mandate integration of ESG factors throughout all information systems and evaluation and control protocols. Boards should ensure that executives and senior officers have internal controls, processes, and audit trails to record, monitor, and communicate ESG performance metrics. Boards should ensure ESG disclosures are integrated in the firm's financial reports, including in its Management Discussion and Analysis, annual report and/or proxy circular. A high-level discussion of ESG strategies should be provided, and key ESG metrics should be independently verified.

Most importantly, board compensation committees must make sure that ESG priorities are captured in all performance management processes and compensation plans. Firstly, boards must remove performance incentives that harm or erode stakeholder value; analysis by Carbon Tracker indicates that 92% of oil and gas companies offer executive compensation plans that directly incentivize executives to increase fossil fuel expansion and production. According to Sustainalytics, only 9% of companies currently link executive pay to ESG criteria. Board members and senior executives should be remunerated according to their performance on key sustainability metrics, to ensure alignment with strategic ESG goals. There should also be significant coordination between a board's compensation committee and its ESG oversight committee (if it exists), to ensure alignment between targets and performance evaluations. Specific compensation-related self-assessment questions for ESG integration, as developed by Claremont Partners, include:

- Does the company provide information indicating a link between consideration of ESG risks and performance, and executive remuneration?
- Does the company disclose specific non-financial targets in executive compensation plans?
- Does the company indicate that strategic ESG-related key performance indicators (KPIs) in the company plan are represented in the compensation or remuneration metrics?
- Does the compensation policy explicitly reference specific science-based targets for reducing GHG emissions with a reference to the 2°C scenario?
- Has the company explained how the variable pay award, dependent on non-financial (ESG) performance, was assessed for the year under review?
- If the company suffered a major controversy, is any increase in salary or bonus proposed for the directors employed at the time of the incident?

PwC has also developed a list of important self-assessment questions for considering board performance on sustainability issues, particularly with respect to audit, compensation, and nominating committees.

- Audit committee:
    - Are the ESG disclosures (both qualitative and quantitative) investor grade? Which ESG frameworks and/or standards is the company using?
    - Are there processes and controls in place to ensure ESG disclosures are accurate, comparable, and consistent?
    - Should independent assurance be obtained to ensure ESG disclosures are reliable?

- Compensation committee:
  - Are the ESG goals and milestones effectively integrated into executive compensation plans?
  - How is management organized to execute the ESG strategy? Are the right people and processes in place? Does the company have a culture which embraces ESG efforts?
- Nominating and governance committee:
  - Is the company's ESG story being effectively communicated to investors and other stakeholders?
  - Does the board have the necessary expertise and skills to oversee ESG risks and opportunities?
  - Does the board understand why ESG is important to investors and other stakeholders?
  - Is the board appropriately educated on ESG?

In the Climate Action 100+ Net Zero benchmark, relevant indicators for board climate oversight include that:

- The company discloses evidence of board or board committee oversight of the management of climate change risks via at least one of the following;
  - There is a C-suite executive or member of the executive committee that is explicitly responsible for climate change (not just sustainability performance) and that executive reports to the board or a board level committee;
  - The CEO is responsible for climate change AND he/she reports to the board on climate change issues;
    - There is a committee (not necessarily a board-level committee) responsible for climate change (not just sustainability performance) and that committee reports to the board or a board-level committee.
- The company has named a position at the board level with responsibility for climate change, via one of the following:
  - A board position with explicit responsibility for climate change;
  - The CEO is identified as responsible for climate change, if he/she sits on the board.
- The company's executive remuneration scheme incorporates climate change performance elements;
  - The company's CEO and/or at least one other senior executive's remuneration arrangements specifically incorporate climate change performance as a KPI determining performance-linked compensation (reference to 'ESG' or 'sustainability performance' are insufficient);
  - The company's CEO and/or at least one other senior executive's remuneration arrangements incorporate progress towards achieving the company's GHG reduction targets as a KPI determining performance linked compensation;
- The board has sufficient capabilities/competencies to assess and manage climate related risks and opportunities;
  - The company has assessed its board competencies with respect to managing climate risks and discloses the results of the assessment;
  - The company provides details on the criteria it uses to assess the board competencies with respect to managing climate risks and/or the measures it is taking to enhance these competencies.

For more information on the board's role in climate risk management, see this report by Ceres, as well as this set of self-assessment questions from Chartered Accountants of Canada. For more information about boards and sustainability in general, check out the resources compiled by the advocacy group Earth on Board.

See the earlier section on purpose governance under Section 4.1 on Business Model Transformation to understand best practices in board oversight of purpose execution.

Case Studies

Some companies have become outliers by making notable strides in improving sustainability governance and management practices. IKEA has gone a step beyond its peers by integrating sustainability responsibilities directly into the job titles of its managers; in 2019, the firm announced that its Country Retail Managers will all take on the additional role of country Chief Sustainability Officer, ensuring that all operational managers are simultaneously responsible for overseeing the firm's sustainability policy, 'People & Planet Positive'.

Unilever, a major consumer goods company, is well-known for governing and executing its sustainable purpose: to make sustainable living commonplace. As a key route to implementing its purpose, it has a robust approach to engaging employees in sustainability strategies. Unilever's managers are required to go through an intense leadership development process designed to develop sustainability competencies and systems thinking capabilities, culminating in a "Purpose Into Impact" project that all managers must deliver which aims to unite social and business impact. Unilever has ensured sustainability considerations are included in its information systems and analytics capabilities by developing a valuation tool that specifically tracks supply-chain savings, capital expenditures, manufacturing avoided costs, and turnover of goods associated with sustainability initiatives. Most interesting of all, Unilever has incentivized employee participation in sustainability initiatives by introducing a healthy degree of competition, such as a company-wide zero-waste target which prompted teams at the firm's global factories to compete to eliminate non-hazardous waste.

Danone, the French foods social purpose company, has a mission "to bring health through food to as many people as possible." It has become a world leader in incentivizing sustainable practices through executive compensation. Danone links ESG factors to both its short and long-term incentive plans, and includes annual variable compensation that is linked to performance over three categories: economic (60%), social and environmental (20%), and managerial (20%). Siemens, the major German manufacturer, has introduced a 'sustainability index' into its annual long-term Stock Award for executives on its managing board, which includes metrics related to reduction of carbon emissions.

The Cooperators, a leading Canadian insurance provider, has been ahead of the game in embedding sustainability throughout its governance. The firm currently factors sustainability considerations into all of its key governance functions including strategy, risk, capital allocation, and compensation, and its board includes a permanent standing committee for Sustainability and Citizenship. Executive compensation plans include ESG metrics to incentivize sustainability performance, and the firm has embedded sustainability into its larger business strategy by offering sustainable products such as insurance discounts for green vehicles.

Organizations/Initiatives

For more information about corporate governance, sustainability, and planning for the long-term, check out the following organizations:

- Earth on Board
- Chapter Zero
- World Business Council for Sustainable Development
- Canadian Coalition for Good Governance
- Strandberg Consulting
- The Embedding Project
- International Corporate Governance Network
- CorpGov.net
- Institute of Corporate Directors
- Governance Professionals of Canada

Business Model and Organization

Transparency and Reporting 4.3

Description

Over the past 20 years, corporate sustainability reporting has become increasingly mainstreamed. The proportion of N1000 companies producing sustainability reports has gone from just 18% in 2002 to over 80% by 2020. Unfortunately, there is scant evidence to prove that corporate sustainability reporting has led to genuine improvements in companies' practices and performance. There are a litany of issues with sustainability reporting, including a profusion of vague and inadequate targets, inconsistency between standards setters, opaque supply chains, confusing information, a lack of auditing, and the inherently voluntary nature of reporting mechanisms. Most worrisome of all, however, is the problem that most firms tend only to focus on those social or environmental issues that are deemed 'material' to the company's bottom line. This causes firms to have less interest in reducing their social and environmental impacts than on finding ways to limit how social and environmental problems will harm their overall financial position. To learn more about how firms should improve the credibility of their disclosures and implement a double materiality lens, continue reading this PDF guide.

Issue Summary

Over the past 20 years, corporate sustainability reporting has become increasingly mainstreamed. The proportion of N1000 companies producing sustainability reports has gone from just 18% in 2002 to over 80% by 2020. Unfortunately, there is scant evidence to prove that corporate sustainability reporting has led to genuine improvements in companies' practices and performance. There are a litany of issues with sustainability reporting, including a profusion of vague and inadequate targets, inconsistency between standards setters, opaque supply chains, confusing information, a lack of auditing, and the inherently voluntary nature of reporting mechanisms. Firms often use sustainability reports to highlight positive behaviours while neglecting to report on their adverse impacts, while their sustainability strategies remain separate (and at odds with) their overall business strategies. For a summary of academic research on the limits of sustainability reporting, see this open letter to the International Financial Reporting Standards Foundation.

Most worrisome of all, however, is the problem that most firms tend only to focus on those social or environmental issues that are deemed 'material' to the company's bottom line. This narrow focus on enterprise materiality (also known as simple materiality) has the tendency to reinforce the underlying problem of shareholder primacy by exclusively interpreting environmental and social risks through the language of financial accounting. If sustainability reporting is supposed to be about a firm's effect on society and the environment, then the focus on enterprise materiality reverses this principle by focusing exclusively on how social and environmental problems affect the corporate balance sheet. This causes firms to have less interest in reducing their social and environmental impacts than on finding ways to limit how social and environmental problems will harm their overall financial position. It also has the consequence of causing firms to become blind to long-term social and environmental problems that are of grave concern to society but are not yet considered relevant business risks.

Given this tension, it is unsurprising that sustainability reporting and ESG ratings have done little to reverse social and environmental devastation. Academic research shows that companies are motivated to produce sustainability reports less out of a concern for reducing impact than a "desire to minimise short term profit variations, gain stakeholder approval and enhance corporate reputation (particularly after reputation-damaging incidents)." As recent Bloomberg analysis has demonstrated, ESG ratings have less to do with reducing negative impacts than with ensuring a company's continued profitability. Their analysis of MSCI's ESG metrics showed that a company's "water stress" score had nothing to do with measuring a company's impact on local water supplies, but rather whether local supplies contained enough water to sustain their factories. Research by the OECD has shown that many ESG indices are not actually less emissions-intensive than their parent indices, and even that in some instances "high E scores positively correlate with high carbon emissions."

Even within the paradigm of enterprise materiality, corporate sustainability reporting is still falling short. Few firms are fully complying with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), one of the most prominent international standards-setters on the risks of climate destabilization to business. Only 3 in 10 companies fully disclose their environmental and climate-related aspects of their business model. Very few companies complete scenario analyses against a 1.5℃ or lower scenario, and only 6% of companies identify the short, medium, and long-term time horizons over which identified risks would impact the organization. According to GreenBiz, few companies overall implement climate resilience strategies, use different climate-related scenarios, or disclose processes for identifying, assessing and managing climate risk or integrating it into overall risk management.

As the director of the UN Environment Programme Finance Initiative has recently proclaimed, the TCFD's enterprise materiality approach is no longer adequate. Organizations need to move towards a 'double materiality' approach, an accounting lens which considers both a company's impact on the world, and the effect of social and environment risks on the company's financial position. Double materiality is a combination of both impact materiality and financial materiality, recognizing that the former cannot be adequately absorbed into the latter. Double materiality is now the official approach of the European Union, and mandatory, audited impact reporting is a key component of its proposed Corporate Sustainability Reporting Directive. Without a double materiality approach, the problem of shareholder primacy will not be overcome. In the consultation to the International Financial Reporting Standards Foundation on the creation of the International Sustainability Standards Board, an overwhelming majority of respondents called for the adoption of a double materiality approach. The recently created International Sustainability Standards Board continues to argue that anything other than an investor-oriented approach to materiality would increase complexity and delay the adoption of standards, despite providing no evidence for either assertion.

Forward-thinking organizations should also want to build on the concept of double materiality by introducing a further dimension: context-based sustainability. The notion of context-based sustainability recognizes the inherent fact that sustainability indicators are only meaningful when contextualized with reference to external, globally significant thresholds and limits. This concept of contextualization through a systems thinking approach is what underlies Kate Raworth's doughnut economics framework, in which organizations are expected to operate within the external limits defined by the global planetary boundaries (quantified by Earth system scientists) and the minimum social safeguards recognized in international human rights covenants and other protocols. For example, a company's reporting on its annual carbon emissions is only meaningful when contextualized within the global carbon budget required for a 1.5 degree temperature rise, the global goal outlined in the Paris Climate Accord based on scientific recommendations. At the moment, corporate sustainability reporting exhibits virtually no contextualization within significant social or environmental thresholds; according to a study of over 40,000 sustainability reports, only 5% of companies referred to ecological limits in any given year, and of those 5% only 31 firms sought to align their performance with these limits.

Key Considerations

There are a multiplicity of international sustainability standards setters, so much so that many observers complain of an 'alphabet soup' of standards, rubrics, and frameworks. For a detailed introduction to global sustainability standards, see this guide for Chief Information Officers as well as the materials from Standards Map, the world's largest database for sustainability standards.

The Global Reporting Initiative is the oldest and most commonly employed methodology, providing a comprehensive suite of environmental, social, and governance disclosure standards to evaluate a company's impacts on stakeholders and the environment. The Sustainability Accounting Standards Board, by comparison, employs exclusively an enterprise materiality lens to help businesses understand the social and environmental risks that are most salient to their business models, generating their flagship map of the most material issues on a per-sector basis (the SASB

Materiality Map). SASB has recently merged with the International Integrated Reporting Council to form the Value Reporting Foundation, aiding in the harmonization of investor-led approaches to materiality. The Climate Disclosure Standards Board, as well as the Carbon Disclosure Project, are two standards setters focused primarily on companies' climate impacts and greenhouse gas emissions. The Value Reporting Foundation and the Climate Disclosure Standards Board have also recently merged to form the International Sustainability Standards Board, under the purview of the International Financial Reporting Standards Foundation, the global entity which sets the global standards for corporate financial reporting. Another major international standards setter is the Task Force on Climate-Related Financial Disclosures, which focuses on getting businesses to disclose the physical and transition risks that climate impacts pose to their underlying business models. All of these sustainability standards setters adopt an enterprise materiality approach with the exception of the Global Reporting Initiative, which invokes a double materiality lens and focuses on stakeholder impacts. For more information about global sustainability reporting, see materials from the Reporting Exchange.

Identifying greenwashing in sustainability reports is key to understanding an organization's true sustainability impacts. Key questions to ask when evaluating a sustainability report, as developed by Deloitte Norway, include:
- What reports are released? Are there more than one?
- Are reports attested by a third party?
- How does the company define materiality? Single or double? Have they performed a materiality analysis?
- Do they measure outputs instead of outcomes?
- Do they disclose how KPIs are calculated?
- Do they identify stakeholders? Do they disclose how they work with these stakeholders?
- If SDGs are mentioned, are they integrated with corporate strategy?
- Do they use positive impact measurement?
- Have they committed to the recommendations of the Task Force on Climate-Related Financial Disclosures?
- Do they release a separate GRI report?
- Are they open and honest about how they can improve? Do they do even more environmental work behind the scenes than what is released publicly?

Another important tool to recognize greenwashing in sustainability reporting are the 7 sins of greenwashing, which include:
- Hidden trade-offs: claiming that a product is green without articulating its impacts on other important social and environmental issues;
- No proof: making claims without easily accessible factual evidence or third-party assurance;
- Vagueness: making claims so vaguely defined that their meaning becomes misleading and easily misunderstood;
- False labels: creating the false impression of third-party endorsement where no such endorsement exists;
- Irrelevance: making claims that are truthful but not actually relevant for environmental or social impact (i.e. claiming credit for sustainability practices that are already mandatory under law);
- Choosing the lesser of two evils: highlighting positive relative impacts that help distract the customer from the negative impact of the product category or industry as a whole;
- Making false claims.

Tools

The most comprehensive impact-driven reporting tool developed so far is the Future-Fit Benchmark, an international standard that provides businesses with the self-assessment tools and metrics to estimate their impacts on stakeholders and the environment. These open source benchmarks from the Future-Fit Foundation focus on double materiality, and integrate context-dependent data wherever possible. They are less focused on risk management than on creating change through organizational transformation, and so they are ideal for businesses hoping to become sustainability leaders.

Firms should also aim to appropriately embed the UN Sustainable Development goals within their business strategies. While 72% of firms cite the SDGs in their reports, only 23% actually integrate them into their corporate strategy. To help avoid SDG-washing, firms should use the tools developed in the SDG Action Manager, which is designed to help businesses understand their impacts, track performance, and collaborate across departments.

Firms starting out on their sustainability journey can use the Basic Sustainability Assessment Tool provided by Sustainability Advantage, which references the Sustainable Development Goals and focuses on three forms of non-financial capital (human, natural, and social). When designing their own indicators for impact assessment, firms should review the Indicator Design Tool from the Shift Project.

1. Context-Based Sustainability

As discussed above, context-based sustainability combines double materiality and impact reporting with context-dependent metrics based on social and environmental thresholds. The Impact Management Platform (IMP) has begun the process of incorporating information about global thresholds and allocations into its reporting frameworks. The IMP provides the world's first integrated tool for comprehensively measuring a company's contribution to the UN SDGs. To get started, see their "wheel" of actions that organizations can take to measure, manage, and report their sustainability impacts. For more information, see the resource list the IMP has compiled, as well as their list of sustainability performance classifications.

Using the IMP, impak Finance has created the Impact Investing Scoring Solution, which provides a universally transparent methodology for analyzing a company's positive and negative impacts with the same systematic framework. The scoring solution generates an 'impact statement', analogous to a financial statement, which scores companies out of 1,000 for their positive and negative contributions. Their tool is described in this case study on Unilever, which demonstrates the limitations of traditional ESG ratings and offers a concrete guide to the IMP methodology. Companies can also use the IRIS+ system, created by the Global Impact Investing Network, to integrate social and environmental factors into investment decisions alongside risk and return.

Organizations hoping to take action on context-based reporting should also review the Sustainable Development Performance Indicators developed by the UN Research Institute for Social Development. These indicators, which are still in the process of being developed, are meant to encompass three tiers of indicators that are context-dependent and focused on transformational change. A pilot project has begun with a series of partner organizations to test the viability of the sustainable development performance indicators, with results to be released this year. To read more about this new approach, see UNRISD's whitepaper on corporate sustainability accounting.

Firms looking to pursue true integrated reporting should see the Generally Accepted Integrated Accounting principles developed by Mark McElroy of the Centre for Sustainable Organizations as of November 2021, which provide a framework for corporate reporting that reflects both the importance of double materiality and context-dependent indicators. Firms can also review the Multi-Capital Scorecard, which helps them evaluate and report on their impacts to natural, social, and human capital.

3. Climate Risk Reporting

For the time being, organizations should still aim to report on climate risk within the more traditional enterprise materiality framework developed by international standards setters like the TCFD. Organizations should begin by understanding the various forms of climate-related financial risk, particularly risk of their exposure to stranded assets (i.e. fossil fuel reserves and infrastructure that become valueless in a zero carbon world). For more information about aligning with TCFD recommendations, see this guide from the Net-Zero Hub as well as the implementation guidelines provided by the TCFD. CPA Canada has issued recommendations for CFOs in integrating climate-risk considerations into financial valuations.

In issuing TCFD reports, firms are advised to use scenario analysis as a planning tool to consider different future risks in different climate impact scenarios. In particular, firms should use the 1.5 degree scenarios developed by the International Energy Agency (which prohibits fossil fuel development after the year 2021), and integrate the findings of these scenario analyses into business strategy and capital allocation decisions. Firms should review this article from the Carbon Disclosure Project on common pitfalls to avoid when conducting scenario analyses. For a database of existing TCFD reports, see this compilation from the Net-Zero Hub.

4. Third Party Assurance

Third party assurance of sustainability reporting is a vital ingredient in ensuring the veracity and robustness of sustainability claims. For more information about obtaining third-party verification, see this report from the GRI, and these recommendations from the World Business Council for Sustainable Development.

Case Studies

impak Finance has developed an innovative tool for scoring companies' positive and negative impacts out of a total possible score of 1000. Their impact scoring tool is described in this case study on Unilever, which awards Unilever a total score of 245 out of 1000. While Unilever is often seen as one of the most sustainable large companies on the planet, being in the 95th percentile according to a majority of CSR/ESG ratings, this impak Finance case study highlights some key discrepancies. For example, Unilever is the world's largest purchaser of palm oil, and a key member of the Roundtable on Sustainable Palm Oil. However, Unilever does not report on its overall negative impacts, namely the total number of hectares that have been cut down due to its operations. There is also evidence that the Roundtable on Sustainable Palm Oil may have certified the sale of palm oil that farmed by child labour on illegally cleared land. Overall, the impak Finance case study determines the total positive impact of Unilever group to only represent 2.6% of the firm's activities. As such, the impak scoring methodology illustrates the limits of traditional sustainability reporting and the need for a more robust approach.

Organizations/Initiatives

The major international sustainability standards setters include:

- International Sustainability Standards Board, under the purview of the International Financial Reporting Standards Foundation
- Global Reporting Initiative
- Value Reporting Foundation (a merger of the Sustainability Accounting Standards Board and the International Integrated Reporting Council)
- Climate Disclosure Standards Board
- Carbon Disclosure Project
- Task Force on Climate-Related Financial Disclosures

To learn more about the sustainability reporting landscape, see the following organizations:

- Impact Management Project
- Reporting Exchange
- The SustainAbility Institute
- CPA Canada
- impak Finance
- R3.0
- Centre for Sustainable Organizations

Business Model and Organization

Procurement 4.4

Description

The next frontier of corporate procurement is to engage suppliers, vendors and contractors in improving their social and environmental sustainability performance. Major multinational firms with large market power have an enormous opportunity to influence change in the operations of their supply chain partners. Unfortunately, less than half of supply chain professionals say that their organizations have supply chain sustainability goals. To really become sustainable, organizations must adopt sustainable or social procurement policies, implement incentives for better supplier performance, improve supply chain visualization to map key risks, and other approaches. To learn more about sustainable procurement policies and frameworks, continue reading this PDF guide.

Issue Summary

Traditionally, sustainable procurement has involved screening in or out products or services that are greener or more socially responsible. However, the next and more impactful frontier of procurement is to engage suppliers, vendors and contractors in improving their social and environmental sustainability performance.

While it is important for all organizations to improve sustainability in the entities under their direct operational control, this is only half the battle. To become a truly sustainable organization, firms need to engage with their supply chain partners and attempt to influence the adoption of sustainable practices throughout their value chain. Major multinational firms with large market power have an enormous opportunity to influence change in the operations of their supply chain partners. Unfortunately, less than half of supply chain professionals say that their organizations have supply chain sustainability goals, according to the MIT Centre on Transportation and Logistics. To the extent that organizations engage with their suppliers on sustainability issues, they tend to focus on first-tier suppliers while lower-tier suppliers remain ignored, despite being the entities where supply chain risk is most concentrated. To really become sustainable, organizations must adopt sustainable or social procurement policies, implement incentives for better supplier performance, improve supply chain visualization to map key risks, and other approaches.

Key Considerations

As outlined in this Harvard Business Review article, top performing firms will establish long-term sustainability goals for their supply chains, require first-tier suppliers to set their own goals, incorporate lower-tier suppliers into sustainability strategy, and assign a staff member to be responsible for the implementation of supply chain sustainability strategy. GreenBiz has outlined six steps to more sustainable supply chains that all organizations should follow, which include:

1. Map your supply chain;
2. Communicate expectations, particularly through a supplier code of conduct;
3. Develop a baseline for supplier performance;
4. Develop training and capacity building programs;
5. Drive performance improvement using an audit program to measure performance over time;
6. Join industry collaborations.

As a preliminary step, all organizations should adopt a supplier code of conduct that outlines expectations and minimum standards regarding supplier sustainability performance. These codes should apply to all tiers of suppliers, and should cover all the most salient issues related to sustainability and business ethics based on an assessment of the most relevant social and environmental risks. For more information about defining supplier codes of conduct, see this article from EcoVadis, as well as the guidelines from the UN Global Compact outlined on pages 23-27 of this report.

Firms should also engage with their suppliers to improve the circularity of their supply chains using this circular economy procurement framework from the Ellen MacArthur Foundation. Circular procurement policies, based on comprehensive life-cycle analyses of all purchased products, can help increase sustainability of a firm's supply chain by raising the sourcing of repurposed or recycled materials as a percentage of overall inputs.

To promote respect for human rights and labour rights across supply chains, and conduct necessary due diligence, firms should consider these self-assessment questions developed by the Danish Institute for Human Rights, some of which which include:

- Does the company promote international human rights and labour standards in its interactions with suppliers and business partners?
- Does the company seek to ensure that its suppliers and contractors, including recruitment agents, do not participate in, or benefit from, any form of forced or bonded labour, including through practices such as recruitment fees, money deposits, retention of personal documents, captivity, coercion, or human trafficking?
- Does the company require its suppliers and contractors to adhere to applicable international and national laws concerning minimum age requirements related to child labour and young workers?
- Does the company seek to ensure that its suppliers and contractors provide a safe and healthy working environment, minimizing risks of accidents, personal injury and adverse health impacts in compliance with applicable laws and regulations?
- Does the company seek to ensure that its suppliers and contractors pay wages on time and provide all employees with at minimum a living wage sufficient to meet the basic needs of employees and their dependents?
- Does the company seek to ensure that its suppliers and contractors are committed to ensuring access for all employees, in line with international minimum standards and local laws, to: annual paid leave, paid sickness leave, paid parental leave?
- Does the company seeks to ensure that its suppliers and contractors refrain from discrimination or harassment of any kind in the workplace, including in relation to recruitment, compensation, benefits, promotion or termination?

Beyond requiring sustainable and ethical practices among its suppliers, forward-thinking firms should also make sure to critically evaluate their own list of suppliers and clients to determine whether there are any firms or partnerships which might not withstand public scrutiny and should thus be boycotted or phased out. Boycotting can be a powerful tool to signal to the public and to regulators a willingness to break with unsustainable practices. The demand for boycotting unsustainable clients is increasing among employees and the general public, as noted in recent calls for law, consulting, and public relations firms to suspend their relationships with large polluters and fossil fuel firms responsible for obstructing action on climate change. In these changing political and cultural conditions, firms would be advised to reconsider problematic business relationships which might attract criticism in the future.

Tools

For a comprehensive introduction to supply chain sustainability policies, see this practical guide for continuous improvement developed by the UN Global Compact. This guide outlines concrete suggestions for establishing performance baselines, determining scope, engaging with suppliers, determining roles and responsibilities, participating in multi-stakeholder initiatives, and other key considerations. Firms can also review this guide from the Judge Business School at Cambridge that focuses on supplier engagement for sustainability.

Firms should also regularly evaluate the performance of their suppliers on key sustainability and social issues. The Global Reporting Initiative has developed standards for social assessments and environmental assessments of all supply chain partners.

1. Supply Chain Transparency

Companies should work to increase visibility into their supply chains, with the overall aim of increasing transparency and accountability. For an introduction to the themes and core concepts of supply chain traceability, see this guide from the UN Global Compact, which includes a map of the global landscape of traceability schemes on pages 15-16. Before endorsing or joining a multi-stakeholder initiative on traceability and transparency, however, organizations should be advised to read and consider the criticisms of multi-stakeholder initiatives outlined in this multi-year research project led by MSI Integrity.

Deloitte has identified a variety of supply chain transparency tools that can be used by businesses for a variety of purposes ranging from risk assessment to supply chain mapping. Their list of tools is included in the table below:

Risk Assessment	Sayari Verisk Maplecroft FRDM
Workplace Audits	ELEVATE Insite Compliance SGS
Product Traceability	Provenance Transparency-One
Supply Chain Mapping	ChainPoint Sourcemap SourceTrace SupplyShift ImportYeti
Audit Management	Inspectorio Sumerra
Data Sharing	Better Buying Sedex Advance Verité Cumulus
Worker Engagement	Ulula
Awareness Resources and Campaigns	Behind the Barcodes (Oxfam) KnowTheChain

2. Sourcing and Procurement

After mapping supply chains and identifying key risks, firms should adopt sustainable or ethical procurement policies that aim to source only from suppliers who meet a minimum level of performance. For more information about ethical and sustainable procurement policies, see this guide from Traidcraft, as well as this report on responsible value chains from the World Economic Forum.

To articulate a sustainable procurement policy, organizations should see this sustainable procurement guide from Reeve Consulting, as well as this procurement guide from the UN Development Programme. This GreenBiz article outlines the key steps in building a business case for sustainable procurement, which includes tools for benchmarking and measurement building on the resources developed by EcoVadis, a prominent sustainable supply chain advisory firm. Ceres has developed a sample supplier self-assessment tool, which covers all the key categories of environmental and social risk. To learn more about trends and issues in supply chain sustainability in general, see the Supply Chains Solutions Centre as well as the Sustainable Procurement Platform.

Firms hoping to develop a social procurement policy should see the social buying guide and social sourcing tools developed by Coro Strandberg. In purchasing ethically sourced, socially impactful products, companies should specifically aim to adopt procurement policies that benefit local communities and help develop local economies. Firms should review this Open Contracting Partnership report, which examines the importance of local procurement policies, and evaluate themselves according to the community investment framework from Business for Societal Impact. Firms should also aim to disclose their procurement practices and impacts on local communities through these GRI standards.

Case Studies

Case studies of sustainable procurement, focusing primarily on the public sector, can be seen at this page from the Sustainable Procurement Platform. In one example, the Ministry of Defence of the Netherlands has adopted a circular sourcing policy for all of its textile purchase, a decision which has saved an estimated 233 million litres of water and 23 megajoules of energy.

The Clean Creatives campaign provides an interesting example of the power of boycotting in partnership decisions, and the ripple effects they can have in changing the discourse and altering the political landscape. Clean Creatives is a movement of leading advertising and public relations agencies that is committed to suspending all work for the fossil fuel industry and no longer participating in marketing efforts that aim to increase demand for fossil fuels. As of this year, 265 agencies have signed up, suspending business with all the firms named on this boycott list.

Organizations/Initiatives

Reeve Consulting and EcoVadis are two leading organizations working with organizations to advance sustainable purchasing and procurement. For supply chain mapping and transparency tools, see the above-mentioned table.

Some key multi-stakeholder initiatives on supply chain transparency and supplier engagement include the following:

- Responsible Minerals Initiative
- Better Cotton Initiative
- Fair Trade Labelling Organizations International
- Forest Stewardship Council
- Global Organic Textile Standard

- Global Sustainable Beef Roundtable
- Good Weave
- IDH Sustainable Trade Initiative
- International Federation of Organic Agricultural Movements
- ITRI Tin Supply Chain Initiative
- Kimberley Process
- Leather Working Group
- Marine Stewardship Council
- Programme for the Endorsement of Forest Certification
- Rainforest Alliance
- Responsible Jewellery Council
- Roundtable for Responsible Soy
- Roundtable on Sustainable Biomaterials
- Roundtable on Sustainable Palm Oil
- Sustainable Forest Initiative