

Key Performance Indicators for Investors to Assess Labor & Human Rights Risks Faced by Global Corporations in Supply Chains: Stage 1 Report

Developed by a collaboration of The Fair Labor Association and
The Pensions and Capital Stewardship Project at Harvard Law School

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*The Pensions and Capital Stewardship Project has completed **Stage 1** of an initiative to develop key performance indicators (KPIs) for investors to assess labor and human rights (LHR) risks faced by global corporations in their supply chains. A draft set of KPIs was developed with the Fair Labor Association (FLA) in consultation with more than 100 global asset owners and asset managers and other experts. **Stage 2** of the initiative has now begun to beta test the KPIs with nine FLA companies that collectively source from 1,755 factories that employ around 1.8 million workers in 62 countries.*

The goal of the KPI initiative is to create a standardized method to assess potential reputational risk and operational shortcomings associated with LHR factors in corporate supply chains. In recent years, groups such as the International Corporate Governance Network, the United Nations Principles for Responsible Investment (UNPRI), and the United States Council of Institutional Investors have published statements and studies about the need for investors to assess so-called environmental, social and governance (ESG) factors. However, while much work has been done on the development of KPIs and other tools to help investors measure environmental and corporate governance risks, little progress has been made on metrics for social factors such as labor and human rights.

The KPIs that emerge from the FLA/Harvard initiative are intended to provide a model for investors seeking to assess LHR risk across a broad range of companies and industries. Standardized KPIs would enable third parties, especially investors, to determine which companies operate in risky industries and countries and which companies are making the most progress toward reducing operational and reputational LHR risks. For the first time, investors, consumers, and others would have a method for objectively assessing a significant social risk factor that has commanded the concern and attention of many of the world's largest corporations. These KPIs could also serve as a model for assessment tools aimed at other factors, such as corporate human capital policies for their own employees and community impacts.

The LHR KPIs could also make a significant contribution to government policy discussions about mandatory corporate ESG reporting under way at the European Commission and the United States Securities and Exchange Commission. A key objective of the former is to explore "both the desirability and the feasibility of stakeholders moving towards an agreed core set of KPIs for ESG performance." The Harvard Project's KPIs can provide a model for indicators that are based on

LHR compliance systems which a number of leading corporations helped develop and which they operate.

The Harvard Project has partnered with the Fair Labor Association (FLA), a multi-stakeholder association comprised of NGOs, universities and companies such as adidas-Group, Liz Claiborne, Nike and Phillips-Van Heusen. The FLA has promulgated an LHR code of conduct and works with its corporate affiliates to insure compliance with it by their global supply chains. (The Project also has had extensive discussions with another multi-stakeholder association, Social Accountability International (SAI), which has a similar mission. Its corporate affiliates include Carrefour, Gap, Hewlett-Packard, Toys 'R Us, and Walt Disney.)

Stage 1 of the KPI initiative involved the development of a high-quality KPI methodology through an inclusive consultative process. The Project convened an initial planning meeting in New York City in February, 2010 with members of the FLA Board of Directors, and representatives from the Interfaith Center on Corporate Responsibility, the New York State Common Retirement Fund, the Social Investment Forum, TIAA-CREF, and the United Nations Principles for Responsible Investment initiative (PRI); the President of SAI also attended the meeting. Another meeting was held in May with the SAI Board of Directors to discuss the idea.

The Project and the FLA then proceeded to develop the draft KPIs. The FLA gave the Project access to information about its work in developing what it calls an 'obligations assessment' for affiliate companies. The initial KPIs were designed to capture information from this reporting system.

These draft KPIs were presented to leading investors for their assessment and feedback. The Project made an initial presentation at a specially organized session at the PRI annual conference in San Francisco on Oct. 7, 2010. Thirty PRI signatories attended representing \$1.8 trillion under management. At a follow-up webinar held with the PRI on Oct. 20, 2010 the Project made a similar presentation to another 38 signatories who had been unable to attend the in-person event. A further 30-plus asset owners and asset managers, investment research firms and LHR experts agreed to be involved in the project. Overall, more than 100 organizations representing more than \$8 trillion in assets were consulted (Appendix A).

In February, 2011, the KPIs were presented to the FLA Monitoring Committee for initial review. On March 16, 2011, the Project held a meeting at Harvard to gather participant assessment and feedback. The goal of the meeting was for investors, FLA affiliates and FLA staff to engage in a dialogue about what is useful to investors and feasible for companies, with an eye to developing

a final set of draft KPIs for FLA companies to test. Attending the meeting were representatives from:

FLA Constituencies

Adidas
Barnes and Nobles College Booksellers
Fair Labor Association
New Balance
Phillips-Van Heusen
New Balance
Nike
Washington University in St. Louis

From Investor Constituencies

Blackrock
California State Teachers' Retirement System
Calvert
EIRIS
Goldman Sachs Sustain
Hermes Equity Ownership Services
IRRC Institute
TIAA-CREF

The meeting produced consensus on a range of revisions to the draft KPIs before they are beta-tested by the companies. Participants agreed that several of the KPIs should be collapsed into one, reducing the total number to four or five indicators that can be assessed more quickly. They also agreed that the indicators can be expanded to incorporate a range of relevant risk factors, such as company efforts to build supplier capacity and to integrate compliance across corporate decision-making and into management and board evaluation and oversight. One suggestion rejected by investors and companies alike was to measure corporate resources devoted to compliance, which was seen as too varied and flexible to produce useful information.

The results of the meeting were incorporated into the KPIs, which were presented to the FLA Monitoring Committee again in June. After further feedback from FLA affiliates, a revised draft was presented in October (Table 1). These KPIs measure companies' progress in carrying out nine of the ten Principles of Fair Labor & Responsible Sourcing that form their obligation as FLA affiliates.¹

Nine companies affiliated with the FLA began test piloting the final draft KPIs in January, 2012. Collectively these companies source from 1,755 factories that employ around 1.8 million workers in 62 countries. After the process is complete, further adjustments will be made if required and a final draft of the KPIs is expected to be presented at the February 2012 FLA Monitoring Committee meeting.

Table 1 Draft KPIs

Principle of Fair Labor & Responsible Sourcing	Key Performance Indicator <i>Supporting Questions</i>	Measurement Method
1 - Company Affiliate establishes and commits to clear standards	Company has written workplace standards <i>-Has your company established workplace standards or a code of conduct that bears your company's name and logo?</i>	Yes/No
	Percentage of FLA Workplace Code of Conduct elements that the company's workplace standards meets <i>-What elements in the company's workplace standards meet the FLA Workplace Code of Conduct? Select all that apply.</i>	%
	Company leadership has formally committed to integrate the workplace standards into business practices <i>-Has company leadership formally committed to uphold workplace standards and integrate them into business practices?</i>	Yes/No
2 - Company Affiliate identifies and trains appropriate staff	Company has identified company staff and/or service providers responsible for implementing internal workplace standards compliance program <i>-Has your company identified the company staff member and/or service providers responsible for implementing the company's workplace standards compliance program?</i>	Yes/No

	<p>Percentage of all company staff that has received workplace standards compliance training in the last reporting period <i>-How many total staff does your company have?</i> <i>-How many company staff received workplace standards compliance training in the last reporting period?</i></p>	%
	<p>Percentage of company compliance staff with appropriate competencies and suitable training in all areas under their responsibility <i>-How many compliance staff people does your company have?</i> <i>-In your opinion, how many compliance staff have appropriate competencies and suitable training in all areas under their responsibility?</i></p>	%
<p>3 - Company Affiliate shares commitment to workplace standards with suppliers and workers in the supply chain</p>	<p>Percentage of applicable facilities that provided written acknowledgment committing to (1) uphold standards, (2) submit to company and FLA monitoring, and (3) collaborate in remediation <i>-How many applicable facilities did your company source from in the past reporting period?</i> <i>-How many applicable suppliers, including owned and operated, provided written acknowledgement on all of the following: a) upholding standards, b) submitting to company monitoring, c) submitting to FLA monitoring, and d) collaborating on remediation?</i></p>	%

	<p>Percentage of all applicable facilities where the Company verified that workers, managers, and supervisors have access to workplace standards in written form and appropriate languages</p> <p><i>-How many applicable facilities did your company source from in the past reporting period?</i></p> <p><i>-Based on your company's verification during the reporting period, in how many of your applicable facilities (including contract and owned) were your company's standards made available to workers, managers, and supervisors in written form and appropriate languages?</i></p>	%
	<p>Percentage of applicable facilities where workers received training or education on all workplace standards</p> <p><i>-How many applicable facilities did your company source from in the past reporting period?</i></p> <p><i>-Indicate the number of applicable facilities where workers received training or education on all workplace standards.</i></p>	%
<p>4 - Company Affiliate ensures workers have access to grievance procedures and confidential reporting channels</p>	<p>Percentage of applicable facilities that have written grievance procedures that meet FLA guidelines</p> <p><i>-How many applicable facilities did your company source from in the past reporting period?</i></p> <p><i>-How many of your applicable facilities have written grievance procedures that meet FLA guidelines?</i></p>	%

	<p>Best Practice KPI: Percentage of applicable facilities that have taken a FLA self-assessment (SCAT) on grievance procedures</p> <p><i>-How many applicable facilities did your company source from in the past reporting period?</i></p> <p><i>-How many of your applicable facilities have taken a FLA self-assessment (SCAT) on grievance procedures?</i></p>	%
	<p>Percentage of applicable facilities provided with a confidential mechanism to report noncompliances directly to the company</p> <p><i>-How many applicable facilities did your company source from in the past reporting period?</i></p> <p><i>-How many of your applicable facilities are provided with a confidential mechanism to report noncompliances directly to your company?</i></p>	%
	<p>Percentage of noncompliance reports from the confidential mechanism from the past 5 years that have been resolved</p> <p><i>-How many complaints (oral or written) did your company receive from workers at applicable facilities in the past 5 years?</i></p> <p><i>-Of the complaints that your company received directly from workers over the past 5 years, how many have been resolved?</i></p>	%
	<p>Percentage of applicable facilities where workers received training on internal grievance procedures since the last reporting period</p> <p><i>-How many applicable facilities did your company source from in the past reporting period?</i></p> <p><i>-How many of your applicable facilities, including owned factories, provided training to workers on internal grievance procedures</i></p>	%

	<i>since the last reporting period?</i>	
	<p>Percentage of suppliers where workers received training on confidential noncompliance reporting mechanism since the last reporting period</p> <p><i>-How many applicable suppliers did your company source from in the past reporting period?</i></p> <p><i>-In how many suppliers did workers receive training on confidential noncompliance reporting mechanism since the last reporting period?</i></p>	%
<p>5 - Company Affiliate conducts workplace standards compliance monitoring</p>	<p>Of the applicable facilities added during the reporting period, the percentage subject to pre-sourcing workplace standards monitoring</p> <p><i>-How many new applicable facilities did your company add within the reporting period?</i></p> <p><i>-How many of the applicable facilities that were added in the reporting period were subject to pre-sourcing workplace standards monitoring?</i></p>	%
	<p>Percentage of subcontractors subject to pre-production workplace standards monitoring</p> <p><i>-How many new subcontractors did your company add within the reporting period?</i></p> <p><i>-How many of the subcontractors that were added in the reporting period were subject to pre-production workplace standards monitoring?</i></p>	%

	<p>Percentage of suppliers monitored for workplace standards by company within the reporting period <i>-How many applicable facilities did your company source from in the past reporting period?</i> <i>-How many of your company's applicable facilities were monitored at least once within the reporting period?</i></p>	%
	<p>For applicable facilities with collective bargaining agreements (CBAs), the percentage where monitors verified compliance with the workplace standards provisions in the CBAs <i>-How many of your suppliers have collective bargaining agreements?</i> <i>-Of the applicable facilities with collective bargaining agreements (CBAs), in how many did internal monitoring verify compliance with the workplace standards provisions in the CBAs?</i></p>	%
<p>6 - Company Affiliate collects, manages and analyzes workplace standards compliance information</p>	<p>Company identifies and tracks persistent forms of noncompliance <i>-Has your company analyzed workplace standards compliance findings for persistent noncompliances?</i></p>	Yes/No
	<p>Company identifies and tracks egregious forms of noncompliance <i>-Has your company analyzed workplace standards compliance findings for egregious noncompliances?</i></p>	Yes/No
	<p>Best Practice KPI: Percentage of applicable facilities subject to annual supplier compliance performance review <i>-How many applicable facilities did your company source from in the past reporting period?</i></p>	%

	<p><i>-How many of your applicable facilities were subject to an annual supplier compliance performance review in the past year?</i></p>	
<p>7 - Company Affiliate remediates in a timely and preventative manner</p>	<p>Percentage of remediation plans developed within a maximum of 60 days after the receipt of the assessment report since the start of 2011 or the start of your affiliation, whichever came first <i>-How many remediation plans has your company developed since the start of 2011 or the start of your affiliation with the FLA, whichever came first?</i> <i>-Of those remediation plans, how many were developed within 60 days of the receipt of the assessment report?</i></p>	%
	<p>Percentage of open noncompliances with remediation plans <i>-What is the total number of open noncompliances in your applicable facilities?</i> <i>-How many of those open noncompliances have remediation plans?</i></p>	%
	<p>Percentage of audits conducted within the reporting period for which remediation plans included root cause analysis <i>-How many of your company's applicable facilities were monitored at least once within the reporting period?</i> <i>-How many of the audits conducted in the reporting period included root cause analysis in the development of remediation plans?</i></p>	%

	<p>Company applies compliance solutions that were identified through remediation with one supplier to prevent occurrence at other factories in the supply chain <i>-Do you apply compliance solutions that were identified through remediation with one supplier to prevent occurrence at other factories in your supply chain?</i></p>	Yes/No
	<p>Percentage of noncompliances that were verified as remedied since the start of 2011 or the start of your affiliation with the FLA, whichever came first <i>-How many noncompliances have there been in all of your applicable facilities since the start of 2011 or the start of your affiliation with the FLA, whichever came first?</i> <i>-Of the noncompliances from the start of 2011 or the start of your affiliation with the FLA (whichever came first), how many have been verified as remedied?</i></p>	%
8 - Company Affiliate aligns sourcing criteria and workplace standards	<p>Company's analysis of business practices has led to a concrete plan for minimizing negative impacts <i>-When your company identifies a negative impact, does your company develop a concrete plan to minimize it?</i></p>	Yes/No
	<p>Company has implemented plan to minimize negative impacts <i>-How has your company implemented the plan to minimize the negative impact on workplace standards?</i></p>	Yes/No
	<p>Company has analyzed its supply chain to identify the impact of production/sourcing decisions and other business decisions and practices on workplace standards <i>-Does this analysis identify the impact of company business practices on workers and</i></p>	Yes/No

	<i>workplace standards?</i>	
	Company compliance staff are held accountable in evaluations for compliance program key performance indicators <i>-Does your company define key performance indicators for your compliance program? (multiple choice options)</i>	Yes/No
	Company senior management are held accountable in evaluations for compliance program key performance indicators <i>-Does your company define key performance indicators for your compliance program? (multiple choice options)</i>	Yes/No
	Company sourcing or production staff are held accountable in evaluations for the alignment of orders and workplace standards compliance performance <i>-Do the annual performance reviews of company production or sourcing managers include a component on the alignment of orders and workplace standards compliance performance?</i>	Yes/No
9 - Company Affiliate establishes and maintains relationships with labor non-governmental organizations, trade unions and other civil society	Company has developed a strategic plan for local CSO outreach and engagement within its supply chain <i>-Does your company have a strategic plan for outreach with local civil society organizations?</i>	Yes/No

institutions	Percentage of sourcing countries where the company has relationships with CSOs <i>-Provide the number of countries from which your company sourced within the last reporting period.</i> <i>-Provide the number of countries in which your company has established relationships with civil society organization(s).</i>	%
	Company has involved civil society organizations in the design and implementation of compliance program strategies, trainings, worker communication channels, or remediation plans within the reporting period <i>-What is the nature of your company's engagement with CSOs? Select all that apply.</i>	Yes/No
	For factories that have a union or worker representative structure, percentage of audits in which they consulted during the audit <i>-Of those with a legally constituted union or worker representative structure, how many were subject to an audit within the reporting period?</i> <i>-Of the audits conducted, how many included consultation with legally constituted unions or worker representative structures?</i>	%
10 - Company Affiliate meets FLA verification and programmatic requirements	Company participated in applicable FLA due diligence activities	Yes/No
	Frequency that company appeared on a FLA staff delinquency report for failure to submit required documents or communication	0,1, 2, 3 score: 0=did not appear 1=appeared once 2=appeared 2-5 times 3=appeared more than 5 times

	Company pays dues and fees in full and on a timely basis	Yes/No
	Company representative attended an FLA meeting within the reporting period.	Yes/No

Appendix A: Organizations that have participated in KPI project

Organization	Country	Type of Institution
Addventure	China	Asset manager
Aegon	Netherlands	Asset manager
AFL-CIO	US	Labor union
AIG	US	Insurer
Amalgamated Bank	US	Bank
API	Sweden	Pension fund
APG	Netherlands	Pension fund
Arcano	Spain	Asset manager
As You Sow	US	Advocacy group
Australian Council of Super Investors	Australia	Pension fund industry assn
Australian Super	Australia	Pension fund
Aviva	UK	Insurer
Axa	France	Insurer
Bâtirente	Canada	Asset manager
Blackrock	US	Asset manager
Boston Common Asset Management	US	SRI fund
British Columbia Investment Management Corporation	Canada	Asset manager
Caisse Des Depots	France	Pension fund
California Public Employees' Retirement System	US	Pension fund
California State Teachers' Retirement System	US	Pension Fund
Calvert	US	SRI fund
Capital International	US	Asset manager
Cbus	Australia	Pension Fund
Ceres	US	Advocacy group
Citi	US	Bank
Comgest	France	Asset manager
CtW Investment Group	US	Investment advisor
Deutsche Asset Management	Germany	Asset manager

Dexia	Belgium	Bank
Domini	US	SRI fund
EIRIS	UK	Sustainability research firm
Elementim	S. Africa	Asset manager
Ethix SRI Advisors	Sweden	Investment advisor
Evangelical Lutheran Church of Finland	Finland	Pension fund
F&C Asset Management	UK	Asset manager
Florida State Board of Administration	US	Pension fund
Folksam	Sweden	Insurer
FRR	France	Pension fund
General Board of Pension and Health Benefits UMC	US	Religious fund
Global Reporting Initiative	Netherlands	Advocacy group
Goldman Sachs	US	Bank
Governance for Owners	UK	Asset manager
Hamilton Lane	US	Asset manager
Henderson	UK	Asset manager
Hermes	UK	Asset manager
Hesta	Australia	Pension fund
Industry Funds Management	Australia	Asset manager
Instituto Hartmann Regueira	Brazil	Advocacy group
International Corporate Governance Network	UK	Advocacy group
IRRC Institute	US	Foundation
Institutional Shareholder Services	US	Investment advisor
Jones Lang LaSalle		Asset manager
KLP	Norway	Insurer
Mercer	US	Investment advisor
Missionary Oblates	US	Religious fund
Mitsubishi UFJ Trust and Banking Corp	Japan	Bank
MN Services	Netherlands	Asset manager
MSCI	US	Investment advisor
MunichRE	Germany	Insurer
Natixis AM	France	Asset manager

New York City Comptroller's Office	US	Pension fund
New York State Comptroller's Office	US	Pension fund
Norges Bank Investment Management	Norway	Asset manager
Novaster	Spain	Pension fund consultant
Oddo Securities	France	Asset manager
Ontario Public Service Employees Union Pension Trust	Canada	Pension fund
Parnassus Investments	US	Mutual fund
Pensions Investment Research Consultants	UK	Pension fund industry assn
PGGM	Netherlands	Pension fund
Phoenix Global Advisers Pacific	US	Investment advisor
Principles for Responsible Investment	UK	Advocacy group
Railpen	UK	Pension fund
Rathbones	UK	Asset manager
Responsible Research	Singapore	Sustainability research firm
Reynolds Foundation	US	Foundation
Robeco	Netherlands	Asset manager
Rockefeller Financial Asset Management	US	Asset manager
Ryan Labs Asset Management	US	Asset manager
Santander	Brazil	Bank
Satori Capital	US	Asset manager
Schroders	UK	Asset manager
Service Employees International Union Master Pension	US	Pension fund
Share	Canada	Advocacy group
Social Investment Forum	US	Advocacy group
Stanlib	South Africa	Asset manager
State Universities Retirement System of Illinois	US	Pension fund
Sumitomo Trust	Japan	Asset manager
SustainAbility		
Sustainable Asset Management	Switzerland	Asset manager
Sustainable Investments Institute	US	Investment advisor

Sustainalytics	Canada	Sustainability research firm
Syntrus Achmea Asset Management	Netherlands	Asset manager
T. Rowe Price	US	Mutual fund
The Co-operative Asset Management	UK	Asset manager
Threadneedle	UK	Asset manager
TIAA-CREF	US	Pension fund
Trillium Asset Management	US	SRI fund
UAW Retirees Medical Benefits Trust	US	Pension fund
Unite	US	Labor union
Universities Superannuation Scheme	UK	Pension fund
Verite	US	Advocacy group
Vigeo	France	Sustainability research firm

¹ The Principles are listed in the left-hand column of Table 1. The complete set of Principles with their explanatory benchmarks can be found on the FLA website at [http://fairlabor.org/fla/Public/pub/Images/XFile/R457/FLA Principles of Fair Labor Responsible Sourcing.pdf](http://fairlabor.org/fla/Public/pub/Images/XFile/R457/FLA_Principles_of_Fair_Labor_Responsible_Sourcing.pdf).