

MEASURING THE NON-FINANCIAL PERFORMANCE OF FIRMS THROUGH THE LENS OF THE OECD WELL-BEING FRAMEWORK: A COMMON MEASUREMENT FRAMEWORK FOR “SCOPE 1” SOCIAL PERFORMANCE

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WELL-BEING, INCLUSION, SUSTAINABILITY AND EQUAL OPPORTUNITY CENTRE

Measuring the non-financial performance of firms through the lens of the OECD Well-being Framework

A common measurement framework for “Scope 1” Social performance

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Abstract

This paper presents a conceptual framework for understanding the non-financial performance of firms through the lens of the OECD Well-being Framework. Building on existing approaches for measuring non-financial performance, it proposes a measurement framework and indicator set for what may be referred to as “Scope 1” Social performance. This refers to the well-being of stakeholders that operate within the operational boundaries of the firm, namely employees, and the capital resources that a firm contributes to and depletes that are directly relevant to society as a whole. In line with the OECD Well-being Framework, this paper emphasises the importance of measuring the well-being outcomes of stakeholders alongside the resources that firms produce and deplete. The paper also emphasises the importance of aligning the measurement of the non-financial performance of businesses at the macro-level and sectoral level by national statistical offices (NSOs) with micro-level measures collected by firms themselves. Going forward, the OECD will continue to address the measurement gaps identified in this paper and to encourage further alignment of corporate and official measures of business non-financial performance.

Résumé

Cet article présente un cadre conceptuel pour comprendre la performance non financière des entreprises à travers le prisme du cadre de l'OCDE sur le bien-être. En s'appuyant sur les approches existantes pour mesurer la performance non financière, il propose un cadre de mesure et un ensemble d'indicateurs pour ce que l'on peut appeler la performance sociale "Scope 1". Il s'agit du bien-être des parties prenantes qui opèrent à l'intérieur des limites opérationnelles de l'entreprise, à savoir les employés, et des ressources en capital qu'une entreprise apporte et épuise et qui sont directement pertinentes pour la société dans son ensemble. Conformément au cadre de l'OCDE sur le bien-être, ce document souligne l'importance de mesurer les résultats en matière de bien-être des parties prenantes parallèlement aux ressources que les entreprises produisent et épuisent. Le document souligne également l'importance d'aligner la mesure de la performance non financière des entreprises aux niveaux macro et sectoriel par les bureaux nationaux de statistiques (BNS) avec les mesures microéconomiques recueillies par les entreprises elles-mêmes. À l'avenir, l'OCDE continuera de s'attaquer aux lacunes en matière de mesure identifiées dans ce document et d'encourager la poursuite de l'alignement des mesures des performances non financières des entreprises sur les mesures officielles.

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1. Introduction

1. **The measurement of the non-financial performance of businesses and industrial sectors can provide a better understanding of how businesses affect society and the environment, inform policies, guide strategic decisions of firms, and encourage a “race to the top”.** Businesses contribute to the well-being of societies by influencing the current well-being of their stakeholders, either intentionally or non-intentionally, and through the creation as well as depletion, of economic, human, social and natural capital resources. In the face of emerging challenges, such as climate change and other environmental pressures, rapid digitalisation, and persistent inequalities exacerbated by the COVID-19 crisis, there is a heightened interest in understanding the impacts of businesses on society and the environment both on the part of policymakers, but also on the part of businesses themselves.¹
2. **At the OECD 2020 Ministerial Council Meeting, Ministers highlighted the importance of better understanding the linkages between economic production, people’s well-being and environmental sustainability.**² This requires sustained efforts to improve the measurement of these three spheres, while ensuring alignment in concepts and data sources. Such measurement needs to be sufficiently granular to capture the divergent experiences of companies, industries and stakeholders whose lives businesses affect. Progress in developing and mainstreaming measures of well-being in official statistics may also encourage their uptake by businesses, allowing them to benchmark their performance against their peers and society as a whole.
3. **In the meantime, investors and businesses are increasingly interested in measuring the non-financial performance of individual businesses and organisations as a way to better to understand Environmental, Social and Governance (ESG) risks and impacts.** As of 2020, over US\$30 trillion in assets worldwide incorporated some kind of ESG assessment (OECD, 2020_[11]). Ongoing discussions among businesses, investors, standard-setters and international organisations on developing measures of non-financial performance have resulted in some convergence, in particular in the “Environmental” domain, but less so in the “Social” domain. In addition, existing measures of the “Social” component of ESG measures do not fully capture the well-being outcomes of business stakeholders, which are necessary to adequately understand performance in the Social dimension.
4. **This paper presents a common framework for social performance that can be used both at the micro-level and at the macro-level,** i.e. by businesses, investors and standard-setters on the one hand, and by governments and national statistical offices on the other. The alignment of non-

¹ Recent years have seen a surge in calls for greater accountability of businesses with respect to their impact on people and the planet. These include BlackRock CEO Larry Fink’s annual letters, which have called for businesses accounting for environmental and social impacts (Fink, 2019_[81]); the US Business Roundtable’s new statement on the purpose of the corporation, which called to go beyond shareholder primacy to include a broad range of stakeholders (Business Roundtable, August 2019_[80]); the founding of the Coalition for Inclusive Capitalism, convened by the Vatican, which has resulted in over 200 commitments by business leaders to enhance inclusivity and sustainability; the Business for Inclusive Growth Coalition’s (B4IG) emphasis on the importance of impact measurement in implementing their G7 Business Pledge to Fight against Inequalities (B4IG, 2019_[82]).

² This paper builds on the OECD Statistics Working Paper (2018/08), which reviewed the existing measurement initiatives and frameworks on the impacts of business on well-being and sustainability (Shinwell and Shamir, 2018_[21]), assessing the coverage and quality of business reporting on different aspects of well-being and sustainability.

financial performance data at various levels of measurement has benefits for all data users, as it allows for performance benchmarking, design of policies, and data interoperability among others. There is also a potential for cost saving at the societal level if micro-data can feed directly into macro-level accounts. The measures proposed in this paper are identified based on their suitability for measurement at both levels.

5. **In this context, this paper presents a measurement framework and indicator set for measuring “Scope 1” social performance.** Borrowing language from the GHG protocol,³ this paper refers to “Scope 1” Social performance as (1) the well-being outcomes of stakeholders that operate within the operational boundaries of the firm, i.e. employees and (2) the capital resources that are created or depleted directly by the firm itself and that are relevant to society as a whole (e.g. taxes paid, research and development spending).⁴ The defining characteristic of “Scope 1” performance is that the stakeholders affected operate inside the operational boundaries of the firm, or, in the exceptional case of direct contributions to resources or capitals for the benefit of society as a whole, that these resources are a direct result of the firm’s operations and financial decisions. This distinction implies three pragmatic characteristics of “Scope 1” social performance that set it apart and that make it a logical starting point from a measurement perspective. First, performance in this area is relevant (or “material”) for all firms (that have employees), and are therefore widely applicable. Second, while the aspects of life that are affected by consumption depend on the type of product or service, the measures in “Scope 1” are (nearly) universal to all businesses and therefore allow for harmonised measurement. And third, the measurement of “Scope 1” social performance is possible within the confines of the firm itself, and does not require data collection external to the firm.

6. **While this paper sets out a measurement framework for “Scope 1” social performance, this does not imply that the societal relevance (or “impact materiality”) of these issues is greater than in the areas of consumer well-being or stakeholder well-being in the supply chain.** This paper suggests classifying product impacts and the well-being of consumers as “Scope 2” social issues,⁵ and stakeholder well-being in the supply chain as “Scope 3” social issues, in an effort to bring clarity in the range of social issues that businesses exert an influence on. Depending on the type of firm and the sector in which it operates, the relative weight of these social issues may vary significantly (for example: B2B firms do not have consumers; other firms have limited supply chain impacts). The reason for why this measurement framework focuses on “Scope 1” issues is primarily out of pragmatic considerations: because it is within reach to establish common measures across official statistics and businesses by building on existing measures.

7. **The proposed “Scope 1” social performance measurement framework is rooted in the OECD Well-being Framework** (see Box 2.1), an integrated set of measures that captures both the *current* well-being experiences of individuals in society as well as the *resources* needed to sustain their well-being in the future. It applies some of the key lessons from the “Beyond GDP” measurement agenda to the measurement of the social performance of firms. These include (1) considering well-

³ The Greenhouse Gas Protocol (GHG Protocol) distinguishes between three scopes of GHG emissions: Scope 1 refers to GHG directly emitted through the company’s own activities, whereas Scope 2 and Scope 3 emissions capture emissions the company is indirectly responsible for, either upstream or downstream (GHG Protocol, 2004_[84]).

⁴ To be precise upfront: resources created and depleted here only refer to the *direct* contributions to (and depletion of) capital resources of society as a whole; they do not refer to the capital contributions firms make through their stakeholders (e.g. employees, consumers), which are captured through measures relevant for these stakeholder groups.

⁵ The classification of employee impacts as “Scope 1” issues and consumer impacts as “Scope 2” issues has already been proposed by Forética, a Spanish business association, in the area of health in its work on the Health Footprint (<https://foretica.org/proyectos-y-soluciones/grupo-de-accion-salud-y-sostenibilidad/>).

being in a multi-dimensional way, (2) a focus on the outcomes that matter for people – in the case of the firm, its stakeholders, (3) considering inequalities in a transversal manner (i.e. across all dimensions of current well-being), and (4) complementing objective measures of well-being with subjective measures, i.e. measures of people’s experiences and evaluations that only people themselves can report about (Stiglitz, Sen and Fitoussi, 2009^[2]). Outcome indicators provide a direct measure of firms’ actual performance, while allowing flexibility on the specific policies or practices used to achieve these outcomes. Best practices in measuring well-being and progress by national statistical offices (NSOs) can inform the measurement of social performance of firms.

8. **The framework proposed in this paper is to some extent aspirational** because the operationalisation of some its indicators by firms and NSOs would require further methodological guidance, investments in data collection and increased harmonisation of such measures. It would also necessitate greater transparency on the part of firms, either on a voluntary basis or as a result of mandatory disclosure requirements. **At the same time, the proposed measurement framework is achievable because “Scope 1” social performance is measurable within the firm**, a feature which underpins the proposed definition of “Scope 1” social issues. It is beyond the scope of this paper to assess whether governments or regulators should mandate the disclosure of the business data needed to operationalise such a proposed framework.

9. The proposed framework is consistent with the **Sustainable Development Goals (SDGs)**, and complements existing frameworks focusing on business contributions to the SDGs with measures of the experienced well-being of different stakeholders. It also draws heavily from existing measures on stakeholder well-being outcomes and on economic, social and human capital creation and depletion developed by the international statistical community.

10. This paper has **three objectives**:

- First, to propose a framework for measuring “Scope 1” social performance of firms by proposing indicators that better capture **stakeholder well-being outcomes**, in particular for **employees** and for business contributions to **capital resources for society as a whole**;
- Second, to contribute to **the alignment of business measurement of non-financial performance and official statistics** in order to facilitate integrated measurement and allow for performance benchmarking;
- Finally, to **encourage firms and national statistical offices (NSOs) to further develop and harmonise statistics** on stakeholder well-being and sustainability at the economy-wide, firm, and sector-level.

11. **Section 1** starts by revisiting the case for measuring the non-financial performance of business, while **Section 2** outlines the existing data and measurement landscape, both in official statistics as well as by businesses. **Section 3** sets out a conceptual framework for aligning ESG perspective with the OECD Well-being Framework and provides greater conceptual clarity specifically in the Social dimension. **Section 4** presents a set of indicators to measure the “Scope 1” social performance of firms. **Section 5** concludes by suggesting potential applications and discussing the measurement challenges and data gaps.

2. The rationale for strengthening the measurement of non-financial performance at the micro-level and macro-level

12. Recent years have witnessed increasing recognition of the interlinkages between economic production and societal well-being outcomes and sustainability.⁶ Because of the important co-dependencies between these spheres, **their measurement needs to be rooted in consistent concepts and data sources, and it needs to be sufficiently granular to shed light on these interlinkages at various levels.** As the central node in economic production, the firm and the industries they belong to are at the heart of the intersection between the economy and the social and environmental domains. **Governments and businesses have an interest in advancing the measurement of these three domains** and in ensuring such measurement systems are well aligned⁷. This section describes these motivations from both perspectives.

Measuring non-financial performance: relevance to NSOs and policymakers

13. **For policy makers, a poor understanding of the interlinkages between production, well-being and sustainability risks resulting in policy decisions that are sub-optimal from the perspective of maximising societal well-being.** Virtually every policy decision, every piece of regulation or legislation touches the three spheres, either directly or indirectly. Without adequately accounting for the impact of a policy in each of these areas, policies can do more harm than good on a societal level. It is for this reason that more and more countries have turned to incorporating well-being metrics into policy processes in order to ensure that governments hold themselves accountable for progress in a multi-dimensional manner.⁸ Informed interventions for the sake of the well-being of business stakeholders, such as consumers (e.g. banning tobacco advertisements), employees (e.g. setting labour standards), employees in the supply chain (e.g. through mandatory human rights due

⁶ The OECD source paper prepared for the 2020 OECD Ministerial Council Meeting, *Framing the Measurement of Production, Well-being and Sustainability* (OECD, 2020_[3]) notes that “the interaction among the three spheres and the measurement of their connection in a systematic and coherent manner has become increasingly important to do justice to the rising complexity of policy questions”.

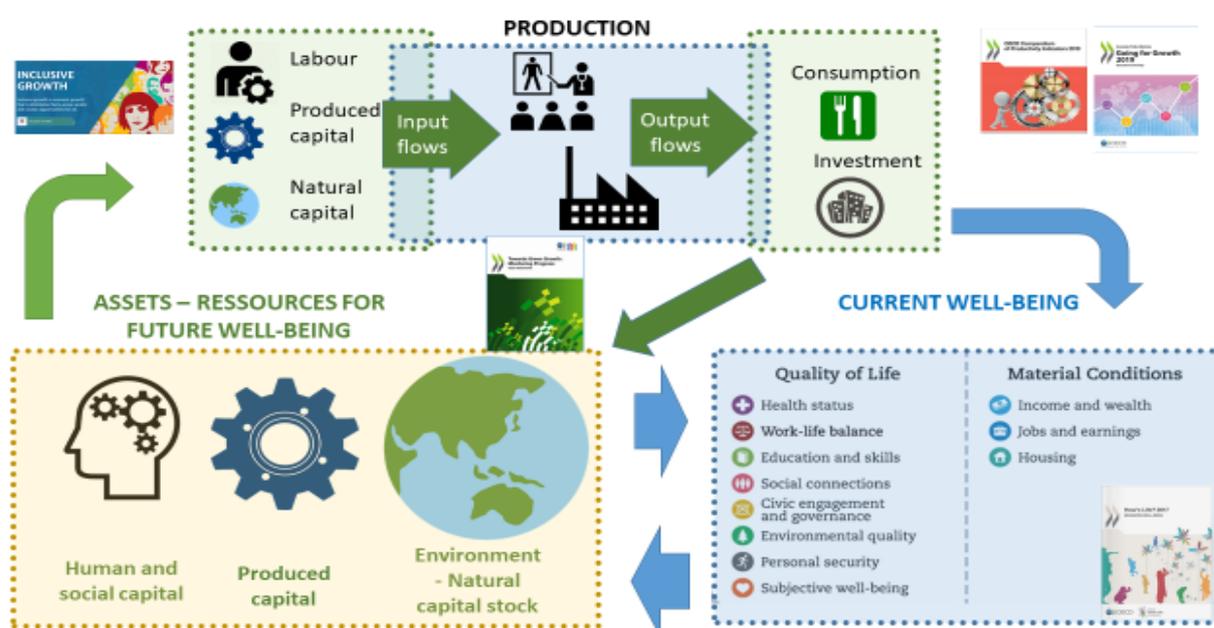
⁷ One out of many calls for greater alignment between official and business statistics was made by (Durand and Delmas, 2017_[91]).

⁸ Such government initiatives have most recently been documented in (Exton and Shinwell, 2018_[85]), “Policy use of well-being metrics: Describing countries’ experiences”, *OECD Statistics Working Papers* 2018/07, <https://dx.doi.org/10.1787/d98eb8ed-en>.

diligence standards) and society as a whole (e.g. by introducing carbon pricing), allow governments to provide the framework conditions to drive economic performance, maximise people's well-being and ensure sustainability.

Figure 2.1), a business should consider a number of stakeholder groups at different stages of its production process and value chain. **Employees** (in direct operations and in the supply chain) contribute to production and value creation as labour inputs, alongside produced and natural capital resources. On the output side, a firm's most direct stakeholders are **consumers** of final goods and services. The current well-being of consumers and employees feeds into the current well-being of **society as a whole**. In addition, their education and skills, health, trust and other elements of their experienced well-being as individuals also enter into human and social capital at the aggregate level.

Figure 2.1. The interrelated system of production, well-being and sustainability



Source: (OECD, 2020^[3]), "Framing the measurement of Production, Well-being and Sustainability", *MCM Source Paper*, [SDD/CSSP\(2020\)2/REV1](https://www.oecd.org/sdd/CSSP(2020)2/REV1).

15. **A key observation on the interaction between well-being and production is that they can be mutually reinforcing**, as the theory and evidence behind the concept of inclusive growth suggest, e.g. (Llena-Nozal, Martin and Murtin, 2019^[4]). Human and social capital in society as a whole enter back into production as labour inputs. Investing in people, in the quality of human and social capital, besides being intrinsically important to individuals and society, can also benefit production and company performance. This is true for both employees and consumers. Healthy and happy workers are more productive and contribute to overall firm performance, e.g. (DeNeve, Krekel and Ward, 2019^[5]). Product quality and its impact on consumers are important for the well-being of consumers, but will indirectly shape the well-being of society too, feeding back into the capital resources needed for sustainability and indirectly into the production sphere. While some of these linkages may be indirect, people are at the core of the inputs and outputs of economic production, making the measurement of people's well-being in relation to production highly relevant.

16. **As regards natural capital, the link between production and sustainability is clear.** In the long-run, there is a distinct trade-off between extraction-based production processes and natural capital

resources and the sustainability of the economic system. Natural capital can contribute to economic production but its depletion should be adequately accounted for. **Sustainability and natural capital** also influence **current well-being** and **human and social capital**, for example, through the impacts of environmental pollution on people's health and quality of life.

17. **To better understand these interlinkages, it is necessary to go beyond the aggregate economy-wide level, and to measure the non-financial performance at the firm-level and industry-level.** A more granular understanding of economic performance, but also of stakeholder well-being and of contributions to and depletion of capital resources, can help increase corporate accountability for the social and environmental outcomes that are within the remit of its business activities. In turn, this can help to identify potential trade-offs and win-win policies that are beneficial in multiple domains. Certain industries, for example in the brown economy, may contribute positively to employment in a given geographical entity but also have negative effects for natural capital and environmental quality. Adequately accounting for the well-being of stakeholders involved may shed additional light on such trade-offs (Batini et al., 2021^[6]).

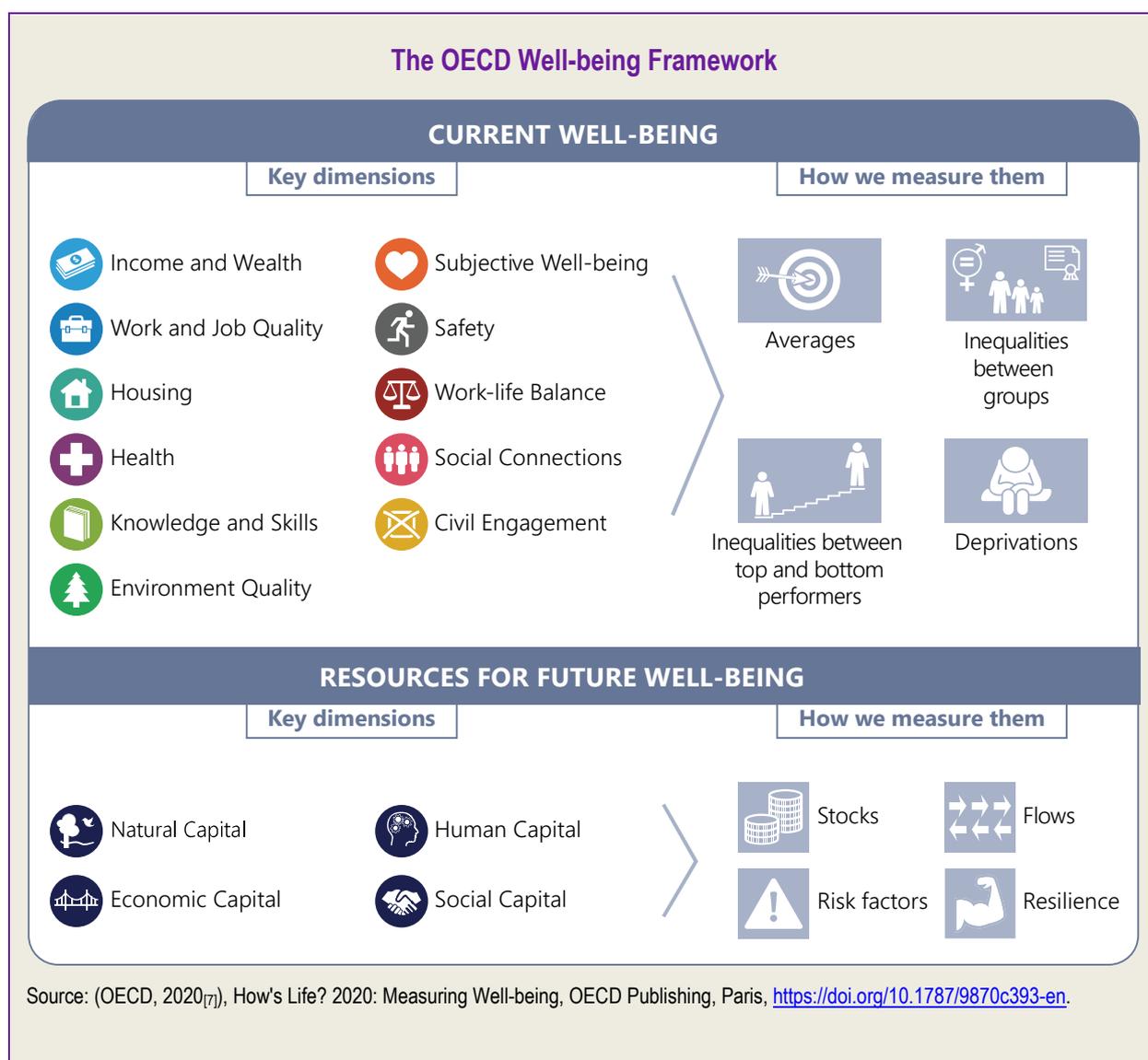
Box 2.1. What is well-being? The OECD Well-being Framework

The OECD Framework for Measuring Well-being (see the figure below) was first developed in 2011 in response to a call to “look beyond GDP” when assessing countries’ economic and social performance. Developed under the aegis of the OECD Committee on Statistics and Statistical Policies, it builds on extensive work by the OECD and other international organisations, national governments and researchers on the measurement of societal progress. It also draws on the rich academic literature in welfare economics and on the recommendations of the Commission on the Measurement of Economic Performance and Social Progress (Stiglitz, Sen and Fitoussi, 2009^[2]).

The OECD Well-being Framework provides a broad assessment of societal progress at the aggregate level, looking beyond the economic system to the diverse experiences of people and households, as well as to the ability to sustain these over time. It considers two distinct components: *current well-being*, which considers the well-being of people here and now; and *resources for future well-being*, thereby considering sustainability as an integral component of well-being. The OECD Well-being Framework relies on several guiding principles:

- An emphasis on people and households as the unit of analysis;
- A focus on final outcomes rather than on inputs, processes and outputs ;
- The consideration of both objective and subjective aspects of people’s life, in order to take into account how people themselves experience and perceive their lives (see also Box 5.1).
- Performance is assessed in terms of both country-averages and inequalities (i.e. higher inequalities are considered as lowering the welfare of a community, for a given value of average performance), with inequalities considered between groups (e.g. men vs women), between top and bottom performers (e.g. top 10% vs bottom 40% of the income distribution) and through measures of deprivation (i.e. the share of the population falling below a given threshold of achievement).

While other operationalisations of the same concept exist, and several countries have developed their own dashboards of well-being indicators, a review of these initiatives highlights that they have much in common, i.e. a broad consensus around the underlying features (Exton and Fleisher (2022), forthcoming).



Measuring non-financial performance: relevance to businesses and investors

18. **The ideas of going “beyond GDP” and of measuring non-financial performance are increasingly gaining traction among businesses as well.** The same questions that policymakers ask on the relationships between employee well-being and productivity, sustainability and production, and between distributional outcomes and sustainability may also be relevant to guide corporate decisions. Companies are increasingly stating their willingness in measuring and improving the well-being of stakeholders, and understanding better their dependencies on natural and human resources that are essential for their long-term success. A number of coalitions of businesses, such as the Business for Inclusive Growth Coalition, the Council for Inclusive Capitalism, the World Business Council for Sustainable Development, the Value Balancing Alliance and others have taken steps to improve and better measure the broad non-financial performance of businesses.⁹

⁹ Fifty years since the concept of shareholder capitalism was proposed by Milton Friedman and other economists (Friedman, 1970^[89]), there is a growing sense that the idea that the only purpose of the firm is to maximise value

19. **The push for business reporting on non-financial performance is also driven by demands from stakeholders.** Investors and consumers alike apply more scrutiny than ever when evaluating the environmental and social performance of businesses, and demand adequate information to make investment and consumption decisions. In what Klaus Schwab calls the “Greta Thunberg effect”, younger generations in particular are holding businesses accountable for their non-financial performance (Schwab, 2019^[8]), as consumers, as (potential) employees and as the future investors of a vast amount of wealth to be inherited from the baby boom generation. Demands for improved non-financial reporting are increasingly made by governments, too. The European Union’s Non-Financial Reporting Directive (NFRD), which came into effect in 2018, instructs member states to require significant business entities to publicly disclose their policies, key performance indicators and risks related to environmental and social performance. Other examples include legislative acts against modern slavery in the United Kingdom, Canada and Australia, which require business to report on risks of relying on forced labour in their operations and supply chain.

20. **Investors and different types of investments come with various degrees of interest in the non-financial performance of firms.** As illustrated in previous OECD work (OECD, 2020^[1]), the spectrum of investment decisions ranges from conventional investing, which does not have a particular regard for environmental, social or governance (ESG) practices, which expects a financial market return only, to social investing, where the primary aim is a social or environmental outcome and where expected financial returns are lower than for traditional investments.¹⁰ On the conventional side of this spectrum, ESG investing is a variant of traditional investing that considers ESG factors as a way to mitigate risks and identify opportunities in order to enhance long-term value, while impact investing is a form of investment that explicitly seeks social or environmental return while achieving market rate financial returns.

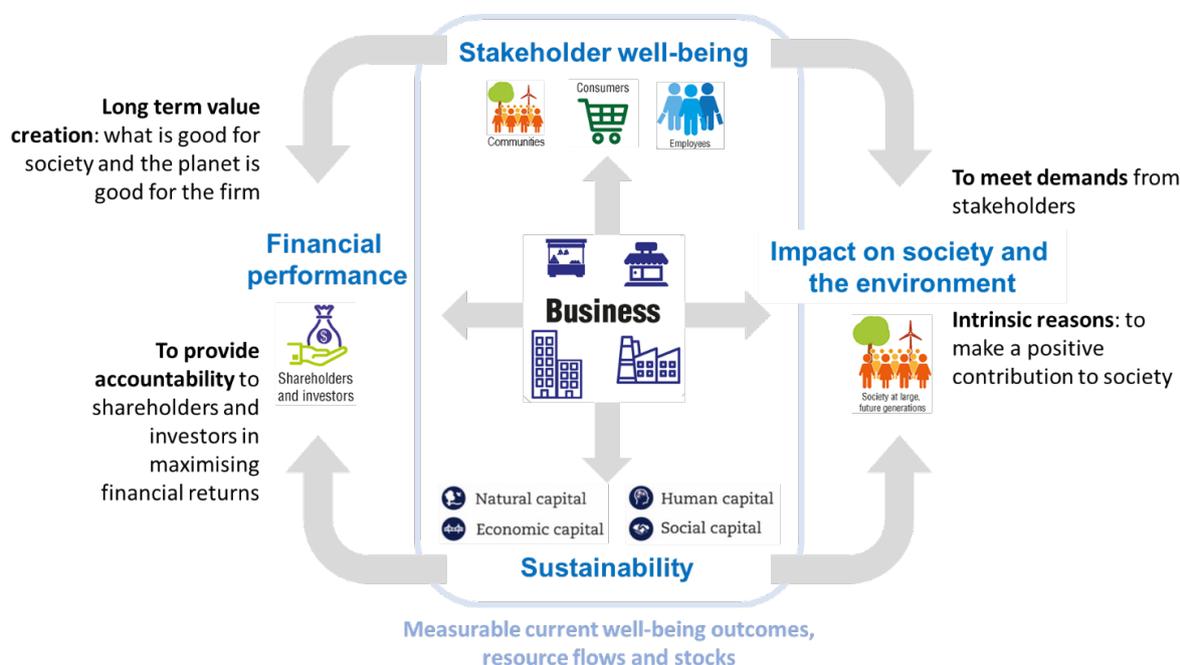
21. **Measuring firms’ environmental and social performance may also be valuable for businesses.** Performance indicators based on social and environmental outcomes can help businesses improve efficiency and reduce costs, for example by optimising the use of resources and identifying emerging risks and untapped opportunities (Freeman, Harrison and Zyglidopoulos, 2018^[9]). They can also help them better prepare for various risks they could be exposed to, such as poor employee health and well-being outcomes, environmental fragilities in the supply chain, consumer dissatisfaction, etc. Research on ‘instrumental stakeholder theory’ suggests that the good treatment of stakeholders can support business performance, both in the social domain, with respect to the treatment of employees and customers, e.g. (Choi and Wang, 2009^[10]; Rodriguez-Fernandez, 2016^[11]), and for environmental sustainability, e.g. (Hessels, Bouman and Vijfvinkel, 2011^[12]). (Jones, Harrison and Felps, 2018^[13]) argue that positive relations with stakeholders can provide firms with a competitive edge, while recognising that they are difficult to build and require significant investments in human capital and relationships. As such, measuring stakeholder well-being and capital creation and depletion can inform and guide business strategies, operational activities and innovations to support long-term value creation.

for its shareholders is too simplistic. In late 2019, the US Business Roundtable, a group of around 200 CEOs of leading US businesses, released a statement on the purpose of the corporation, recognising the need to go beyond shareholder primacy, and to consider other stakeholders, including customers, employees, suppliers, and communities (Business Roundtable, August 2019^[80]). Similarly, the Council for Inclusive Capitalism is a coalition of businesses with over \$10 trillion assets in ownership and over 200 million employees united by common values and commitments to make the economic system more trusted, fair, responsible, dynamic and sustainable (<https://www.inclusivecapitalism.com/about/>).

¹⁰ Setting philanthropy aside.

22. **Measuring stakeholder well-being and capital creation and use are also a necessary step in the measurement of business impact on society and the environment.**¹¹ As mentioned above, businesses are increasingly interested in measuring their broader impacts on society and the environment.¹² By comparing their own well-being performance against industry or aggregate level benchmarks, businesses can shed light on the difference they make in the lives of their stakeholders. At the most basic level, for example, a business can measure its impact on earnings in society by comparing what it pays its workers to industry or society level standards for workers with similar skill sets. Beyond material dimensions, the same can be done when it comes to employees' job satisfaction, self-reported discrimination, or various components of consumer satisfaction and well-being. The same holds for business performance in terms of capital creation and use. In order to understand their impact on society and the environment, businesses need to measure the human, social, natural and economic capital they create, as well as what they deplete.

Figure 2.2. Stakeholder well-being and sustainability can affect long-term value creation and have an impact on society and the environment



23. **Figure 2.2 illustrates how stakeholder well-being and sustainability performance have the potential to shape financial performance and long term value creation, in addition to having an impact on society and the environment.** The extent to which stakeholder well-being and capital creation and depletion are “material” for firms is constantly evolving, an idea that is known as **dynamic**

¹¹ A useful categorisation of initiatives related to impact measurement and management is suggested by Boiardi (2020^[83]): this distinguishes between principles and guidance; frameworks and methodologies; standards, certifications and ratings; as well as metrics and indicators. For instance, the Impact Management Project (IMP), a collaboration between the OECD, the World Bank, UN agencies and a range of standard-setting organisations, aims to help companies and investors navigate the landscape on measuring, comparing, reporting and managing business impacts on social and environmental issues and provide recommendations for further convergence and alignment on such measures.

¹² The business *Pledge to Fight against Inequalities* by the members of the Business for Inclusive Growth coalition (B4IG, 2019^[82]) committed signatories to advance human rights, build inclusive workplaces, and strengthen the inclusiveness of supply chains. The development of a common approach to impact measurement is considered essential by B4IG members to advance with the implementation of their Pledge.

materiality (WEF and BCG, 2020^[14]), although the findings referred to in the previous paragraph suggest that aspects of social performance may have always been material, albeit largely not accounted for by business performance measures. Aside from being material to the firm and its investors, stakeholder well-being and capital creation and depletion also have an impact on society and the environment. Some jurisdictions are taking the position that firms should consider societal impacts as a second layer of materiality, and that they should consider and report on aspects of non-financial performance that impact the environment and society.

3. The statistical and data landscape surrounding business and sectoral non-financial performance

24. This section provides an overview of the existing and evolving landscape related to the measurement of business and sectoral non-financial performance both in official statistics as well as by companies, investors and standard setters in an effort to create firm-level non-financial performance measures. It also elaborates on the main measurement gaps or obstacles.

Aggregate statistics of business demography, stakeholder well-being and resource production and use

25. **As it stands, statistics that support the structural analysis of the economy do not sufficiently consider stakeholder well-being and all elements of capital production and depletion.** While ad-hoc analyses such as the ones mentioned above consider distributional and non-economic outcomes, data on employee and consumer well-being or detailed natural resource use do not systematically feature in the tools that underpin business-level analysis. For example, the *OECD Structural Analysis (STAN) Databases* include limited data on human capital (the number of employees only) and the environmental footprint of industries (CO₂ emissions only). Most sources of business-level data have insufficient granularity to allow identifying **inequalities** in stakeholder well-being **between and within industries**, and the different footprint of industries in terms of natural capital use. Some OECD countries, however, started to compile and report on the non-financial performance of business sectors, allowing a more granular understanding of the broad performance of specific industries (See Box 3.1).

Box 3.1. Business sector and the SDGs: the approach of the Danish Statistical Office

In a 2021 report, Statistics Denmark presented disaggregated data on business non-financial performance in line with the SDGs for fourteen broad industry groups (Statistics Denmark, 2021^[15]). Using the UNCTAD core indicators¹³ as a starting point, Statistics Denmark leveraged existing data to understand which sectors are moving in the direction of contributing to achieving the SDGs, and those where progress is lacking.

Because the report is focused on SDG performance and relies on available data, it does not yet provide a fully comprehensive story about the relationship between well-being, production and sustainability. In particular, key indicators of performance on certain dimensions of employee well-being and social capital contributions of various sectors remain poorly documented. Still, the report illustrates the potential of producing sectoral-level non-financial performance measures based on existing sources, and provides businesses in Denmark with the opportunity to benchmark their own performance against that of their peers in a number of areas.

26. **In official statistics, the measurement of production, stakeholder well-being, and capital creation and use is scattered across a range of measurement systems.** The measurement of these different spheres relies on a range of measurement modalities, which at times differ across OECD countries. To ensure comparability, data are collected and organised using internationally agreed industry classification standards, the ISIC Rev. 4 classification. Using this classification, it is theoretically possible to assess and evaluate production, well-being and sustainability of specific industries, even though the data on stakeholder well-being and sustainability currently available at the industry level are limited.

27. The following sub-sections present different types of existing statistics on business demography, production and the creation and depletion of capital resources, and stakeholder well-being.

Structural and business demography statistics

28. **Structural and business demography statistics are a key building block for business statistics as they provide data on production-related variables with a high degree of sectoral granularity** (e.g. turnover, value-added, production, operating surplus, employment, labour costs and investment). They also allow disaggregating data by firm size (Table 3.1). Structural and demographic business statistics (SDBS) include the creation and exit of businesses in the economy, giving contextual information on macro-economic and sectoral dynamics. SDBS are sourced from a combination of census data, business surveys or business registers.

29. **Increasingly, there is also an interest to dive deeper and assess the economic performance of individual businesses, especially the largest firms in OECD economies.** Private providers house vast datasets on company financial statements covering production and economic capital, as well as on physical presence in different countries and corporate structure. The OECD recently launched an initiative to map the presence of multinational enterprises (MNEs) across countries and collect data on how they operate through the *Analytical Database on Individual Multinationals and*

¹³ The UNCTAD core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals are a set of indicators, identified by UNCTAD at the request of the Inter-Agency and Expert Group on Sustainable Development Goal Indicators, of business contributions to the SDGs, that can be commonly measured by business entities and national statistical offices alike (UNCTAD, 2019^[18]).

Affiliates (ADIMA).¹⁴ An open-source project, the *ADIMA database* collects data on the largest MNEs (e.g. on turnover, employment and corporate taxation), also to highlight the possible consequences of companies decisions to relocate some of their operations (e.g. those managing the proceeds from their intellectual capital). The initiative demonstrates a growing interest on the side of policy-makers in conducting more granular analyses by looking not only at sectors as a whole but also by mapping and comparing individual businesses. As such, the *ADIMA database* could perform a useful bridging function in assembling different types of data on the performance of large corporations.

Table 3.1. Business demography statistics

Data sources	Topic	Official/non-official	Public/private	Data collection method	Reporting level
Structural and Demographic Business Statistics	Business demography, turnover, value-added, production, employment, labour costs, investment	Official statistics	Public	National business surveys, census	Sectoral (ISIC Level 2)
<i>OECD Analytical Database on Individual Multinationals and Affiliates (ADIMA)</i>	Physical and digital presence	Non-official statistics	Public	Big data	Specific MNEs
Private company databases (e.g. Bloomberg, Refinitiv)	Financial performance, business demography, governance, supply chain relationships, etc.	Non-official statistics	Private	Company reporting	Individual companies

Production and the creation and depletion of capital resources

30. **The measurement of firms' production, creation and depletion of different types of resources sustaining the well-being of people and communities should be part of an integrated measurement system** (Table 3.2). The System of National Accounts (SNA) provides a framework for the measurement of economic production and use of economic capital, which can be applied at both the sectoral level and aggregate level. Its supply and use tables provide a detailed picture of production and use of goods and services in the economy, based on data from business registers, administrative sources, various types of business surveys (e.g. annual business surveys and sector-specific surveys) and economic census data, depending on the country. These can be complemented by other sources to analyse industrial performance at sector levels. Such data feed into the *OECD Structural Analysis (STAN) Database*. Currently, these structural analysis statistics only include a few elements on the depletion and creation of human, social and natural capital resources associated with economic activities, while including data on labour inputs and wages, taxes less subsidies, and CO₂ emissions.

31. **Better integrating data on well-being and sustainability is one of the main priority areas within the SNA research agenda.** The 2008 version of the SNA is currently being revised, and a dedicated task team is working on how to better integrate data on the distribution of economic resources and the use of environmental resources in the SNA accounting framework. The latter is particularly relevant to the present paper, as more detailed data on the use and re-use of raw materials in production is a key missing component in measuring the impact of businesses and industries on the environment. There are two main challenges.¹⁵

- First, statistics on the use of natural capital in production need to be as **comprehensive** as possible, and if a partial picture is provided it needs to clearly identify its gaps. This is highly relevant when it comes to comparing business and industry performance on sustainability, as a partial view may skew judgment of how individual businesses perform.

¹⁴ See: <https://www.oecd.org/sdd/its/measuring-multinational-enterprises.htm>.

¹⁵ These challenges are noted in the 2020 MCM Paper (OECD, 2020^[3]).

- Second, for national accounts a key challenge lies in providing a **welfare valuation** of natural assets, as the market prices of natural resources may understate their societal value. While the System of Environmental-Economic Accounting (SEEA) has made some progress in this regard, the task remains challenging. However, for monitoring and many analytical purposes, monetary valuation is not strictly necessary to understand the impacts of businesses on the environment, and accounting for natural capital use in physical rather than monetary units is a useful and necessary starting point.

Table 3.2. Production and resource creation and depletion statistics

Data sources	Topic	Official/non-official	Public/private	Data collection method	Reporting level
OECD Structural Analysis Database (STAN)	Production, value added, investment, R&D expenditure, CO2 emissions	Official statistics	Public	Business registers, administrative sources, business surveys, economic census	Sectoral (ISIC Level 3)
Private company databases (e.g. Bloomberg, Refinitiv)	Production, value added, investment, R&D expenditure, environmental impact, resource use	Non-official statistics	Private	Company reporting	Individual companies

Stakeholder well-being

32. **Measuring stakeholder well-being relies largely on different instruments than those used for measuring production and resource use**, partially because a substantial part of the well-being experience of stakeholders is experienced by individuals, and its measurement need to rely, *inter alia*, on subjective measures reported by different individuals, rather than observed by third parties. A number of components of the stakeholder well-being experience are covered by the data sources described above, including statistics on employment, contract types, and wages across different sectors. However, this leaves many dimensions of stakeholder well-being out of consideration when it comes to structural analysis and to understanding inequalities within and between sectors.

Employees

33. The most basic employee-focused measurement tool at the country-level is a labour force survey (LFS), which provides information about employment, working hours, wages and other aspects of workers' experiences. Because of their large sample, LFS can provide information on different types of inequalities in employment. Some countries' labour force surveys include modules on working conditions, although these are not necessarily harmonised across OECD countries and are not always comprehensive. Some countries' business surveys also include aspects of employee well-being as reported by the business, for example on corporate practices or employee representation. Eurofound's European Company Survey asks businesses (and an employee representative) to report on a range of aspects related to working conditions practices. However, for the purpose of capturing employee well-being outcomes, company surveys are of limited use as they rely on the self-reported assessment of a company representative (typically the one responsible for Human Resource Management), rather than workers, and because of their focus on the reporting of business inputs and practices, as opposed to outcomes.

34. For this reason, **stand-alone working conditions surveys are an important source of data on different aspects of the experienced well-being of employees**, such as work-life balance, health status, work safety and accidents, social connections, and subjective well-being. Such surveys ask employees themselves about their own well-being. Typically, working conditions surveys include

information of the industry of the workers surveyed (and their occupational groups), allowing such data to be connected to other industry-level economic data, at least at broad industry levels (Table 3.3).

35. **In 2017, the OECD conducted a review of official (and non-official) working conditions surveys in its *Guidelines on the Quality of the Working Environment*** (OECD, 2017_[16]). The guidelines reflect a growing recognition of the importance of self-reported employee well-being statistics as a fundamental element of statistics on employment quantity. The OECD Guidelines include an extended survey module with recommended questions that could be implemented by national statistical offices at the country level, or by individual businesses. The suggested survey questions are based on international best practice in measuring working conditions and are sourced from surveys such as the European Working Conditions Survey, the British Skills and Employment Surveys, and the French Enquête Conditions de Travail.

36. A number of observations made by the OECD Guidelines on gaps in the statistical measurement of working conditions continue to hold:

- **Comprehensiveness:** Some aspects of working conditions, such as work-life balance, training and learning, self-realisation, are not covered by working conditions surveys in certain OECD countries.
- **Comparability:** Comparability remains limited across OECD countries, especially for non-European countries. In addition, within the EU, frameworks and survey questions remain heterogeneous across countries and agencies.
- **Timeliness:** The only regular comprehensive working conditions survey covering a large number of countries is Eurofound's European Working Conditions Survey, which is conducted every four or five years. Other surveys are irregular or have larger lag times.
- **Sample size:** The most comprehensive working conditions surveys, such as the EWCS, are in most countries limited to 500 or 1 000 employees. This is particularly problematic for the purpose of understanding inequalities in employee well-being within and between sectors, as limited sample sizes make it challenging to meaningfully disaggregate statistics.

37. Strengthening comparative and granular statistics on employee well-being would necessitate addressing these issues.

Table 3.3. Employee-related statistics

Data sources	Topic	Official/non-official	Public/private	Data collection method	Reporting level
Labour Force Surveys	Employment status, earnings, working hours	Official statistics	Public	Individual-level survey	Sectoral (ISIC Level 2)
Official and non-official living conditions surveys (e.g. General social surveys, EU-SILC, EQLS)	Job satisfaction	Official/non-official statistics	Public	Individual-level survey	Sectoral (ISIC Level 2)
National employee well-being surveys (including European Working Conditions Survey and equivalent)	Working conditions and job quality (including skills, voice and representation, social connections, environmental quality)	Official/non-official statistics	Public	Individual-level survey	Broad sectors
National business surveys (including Eurofound European Company Survey)	Work organisation, training, skills, voice and representation, social connections, firm performance	Official/non-official statistics	Public	Business survey	Sectoral (NACE Level 1)
Labour Inspection Statistics	Occupational health and safety, harassment and gender-based violence	Official statistics	Public	Labour inspections	Sectoral
<i>OECD Analytical Database on Individual Multinationals and Affiliates (ADIMA)</i>	Women on company boards	Non-official statistics	Public	Big data	Large MNEs
OECD Programme for the International Assessment of Adult Competencies (PIAAC)	Skills, training	Non-official statistics	Public	Individual-level survey	Broad sectors
Non-official surveys on living conditions (e.g. Eurobarometer, ESS, ISSP, Gallup World Poll)	Working conditions and job quality	Non-official statistics	Public	Individual-level survey	Aggregate
Private company databases (e.g. Bloomberg, Refinitiv)	Health and safety, diversity, voice and representation	Non-official statistics	Private	Company reporting	Individual companies

Consumers

38. **There are no official measurement tools that are explicitly dedicated to measuring consumer well-being**, with the closest substitute being information from consumer expenditure data. Two types of data sources gather data on consumer expenditures. First, national accounts provide data on final consumption expenditure at the aggregate by COICOP (Classification of Individual Consumption According to Purpose) group. It is sometimes possible to map COICOP groups to industries (using ISIC codes), although multiple industries are generally involved in the production of the goods and services purchased by households under a given consumption expenditure category. Aside from national accounts, household budget surveys and living conditions surveys sometimes include questions on consumer expenditure, typically with more precise product categories. The benefit of these surveys is that they allow to better understand the distribution of consumer expenditures within the population and can shed light on the affordability of certain goods for different income groups.

39. Both data sources, however, only include measures of consumption expenditures in different product categories. These are inputs of consumer well-being, but do not reveal much information about consumer well-being outcomes. No (official) harmonised international data sources on consumer well-

being currently exist, although some initiatives by consumer policy research institutions in OECD countries are broaching the question of how to measure consumer well-being.¹⁶

Table 3.4. Consumer-related statistics

Data sources	Topic	Official/non-official	Public/private	Data collection method	Reporting level
Consumption expenditure accounts	Household consumption by product category	Official statistics	Public	National accounts	Aggregate
Household budget and living conditions surveys	Consumption by product category	Official statistics	Public	National accounts	Aggregate

Business measures of non-financial performance

40. **A number of initiatives have already been undertaken to develop frameworks for businesses interested in measuring their non-financial performance.**¹⁷ Existing tools and initiatives can be classified into a few different categories.¹⁸ Among reporting standards, the standards of the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (now Value Reporting Foundation) are widely used, with the former focusing on a wide range of stakeholders, and the latter primarily focusing on environmental standards that are financially material to the firms. Similarly, disclosure practice guides, of which NASDAQ’s ESG Reporting Guide is a prominent example, provide guidance for voluntary reporting by businesses. Reporting frameworks, such as the one issued by the Task Force on Climate-Related Financial Disclosures (TCFD), provide guidance on how companies should integrate non-financial performance metrics in their decision-making processes.

41. A non-exhaustive list of existing non-financial performance measurement and reporting frameworks include:

- **GRI – UN Global Compact** “Business Reporting on the SDGs: Analysis of the Goals and Targets” report, which presents an inventory of possible disclosures for each of the 169 SDG targets (GRI & UN Global Compact, 2017_[17]).
- **UNCTAD’s** “Guidance on Core indicators for entity reporting on the contribution towards the attainment of the Sustainable Development Goals”, which presents indicators for business reporting on SDGs (UNCTAD, 2019_[18]).
- **Corporate Human Rights Benchmark**, which has developed a methodology to measure companies’ human rights performance across its operations and supply chains (Corporate Human Rights Benchmark, 2019_[19]).

¹⁶ For example, the Consumer Policy Research Centre (CPRC) is an Australian independent, non-profit, consumer think-tank established with seed funding by the Victorian Government aiming to promote evidence-based research to inform practice and policy change. Recently, the CPRC has published a white paper on applying well-being concepts to consumer policy (CPRC, 2020_[88]).

¹⁷ The Impact Management Platform, which is a collaboration between international organisations (including the OECD) and other leading providers of sustainability standards, documents key resources and provides guidance on the management and measurement of “impact”, the broad contributions of organisations to well-being and sustainability. See: <https://impactmanagementplatform.org>.

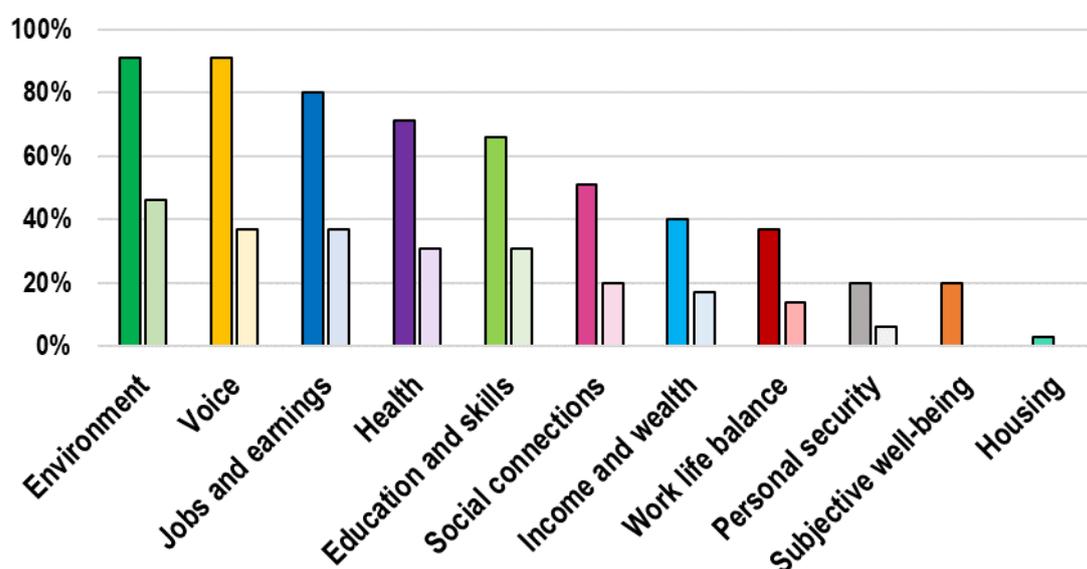
¹⁸ A useful overview of the different tools and actors is provided in the 2020 *OECD Business and Finance Outlook* (OECD, 2020_[1]).

- **World Economic Forum's** discussion paper “Towards Common Metrics and Consistent Reporting of Sustainable Value Creation” (World Economic Forum, 2020_[20]).

42. **Agreeing on what measures to consider is an important step for measuring business non-financial performance, in particular when it comes to the “Social” dimension of ESG.** With the proliferation of ESG ratings, environmental, social and governance issues have provided the broad contours of the domains of non-financial performance that should be considered. However, the sometimes narrow framing of the “Social” dimension of business frameworks and ESG metrics misses out a number of well-being dimensions that are relevant to business stakeholders. **Existing “Social” measures also tend to focus on input and output measures, rather than on the objective and subjective outcomes that matter for business stakeholders.** In addition, businesses interested in their social performance should adequately measure the different outcomes of various stakeholder sub-groups, such as men and women, employees of different ethnic or racial backgrounds, in different job categories and occupations, high and low paid employees, etc. Inequalities between groups in the workplace strongly influence inequalities in society; adequately measuring these is a first step towards addressing them.

43. An OECD review of existing measurement initiatives and frameworks on the impacts of business on well-being and sustainability (Shinwell and Shamir, 2018_[21]) showed that, **while some important aspects of well-being are reflected in these frameworks, many others, such as work-life balance, subjective well-being and personal security are not** (see Figure 3.1). The review by (Shinwell and Shamir, 2018_[21]) used the OECD Well-being Framework as a starting point to assess the coverage and quality of business reporting on different aspects of well-being and sustainability, concluding that these were varied and inconsistent.

Figure 3.1. Coverage of different well-being dimensions in various business reporting frameworks



Note: The figure shows the share of business reporting frameworks that include at least one indicator/theme for each of the dimension featuring in the OECD Well-Being Framework (dark coloured bars), and the share of frameworks including quantitative data for each of these well-being dimension (light coloured bars), out of the 35 reviewed frameworks. Quantitative data refers to information that is measured and expressed numerically, in a way that may be compared across different companies. Where measurement metrics were not specified, the classification of well-being dimensions was done with the most granular information available.

Source: (Shinwell and Shamir, 2018_[21]), “Measuring the impact of businesses on people’s well-being and sustainability: Taking stock of existing frameworks and initiatives”, *OECD Statistics Working Papers*, No. 2018/08, OECD Publishing, Paris, <https://dx.doi.org/10.1787/51837366-en>.

44. **The range of “Social” issues considered by institutional investors when evaluating ESG issuers also omits several aspects of well-being.**¹⁹ The 2020 OECD Business and Finance Outlook grouped these issues in five broad categories: Privacy (notably, data security), Community involvement (i.e. Social impact of business operations, product and services), Human capital (mainly diversity and inclusion, as well as training and development), Involvement in controversial situations (i.e. corruption and human rights violations) and lastly, Human rights in the workplace (working conditions, health and safety, non-discrimination) (OECD, 2020^[1]). Lack of harmonisation in the way these aspects are measured reduces comparability of these metrics across different types of assets.

Box 3.2. Regulatory developments in non-financial reporting

When it comes to non-financial performance of businesses, many initiatives, standards, frameworks and principles have emerged, scattered across a range of users and topics. This multitude of instruments hampers accountability and transparency, as well as market recognition of business non-financial impacts (positive or negative) (Chatterji et al., 2016^[22]; Berg, Kolbel and Rigobon, 2019^[23]; Gibson et al., 2019^[24]). Greater coherence of metrics of business non-financial performance with established measures of economic performance and societal progress (at national level) could better inform public policies relevant to businesses and allow businesses to benchmark their own performance.

So far, no universal framework for reporting on non-financial performance has emerged. This is partly because neither the International Accounting Standards Board (IASB) nor the Financial Accounting Standards Board (FASB), which together are responsible for the two internationally recognised sets of accounting standards, have developed standards for sustainability reporting, which has stalled progress in non-financial performance measurement as companies await further guidance. For investors, the lack of harmonisation means having to weed through different sets of reporting and measurement frameworks that have at times limited comparability. In November, 2021, the International Financial Reporting Standards Foundation (IFRS) announced the creation of a standards board with the goal of setting a global baseline for sustainability disclosures.²⁰ It is understood that this International Sustainability Standards Board (ISSB) will initially focus on climate-related disclosures.

¹⁹ “ESG ratings and index providers include firms (e.g. Bloomberg, MSCI) that (i) provide assessments of equity and debt issuers based on their disclosures, and that explicitly or implicitly offer metrics and information that help determine ESG scores, and (ii) index providers that convert ratings into market indices by reweighting market portfolios in accordance with some or all of the approaches described above” (OECD, 2020^[1]).

²⁰ <https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/>.

4. A conceptual framework of non-financial performance through the lens of the OECD Well-being framework

45. One of the objectives of this paper is to propose **a framework for assessing the non-financial performance of firms** that aligns the perspectives of measurement communities from the public and private sector. This necessitates an understanding of how the language around substantive issues used by these communities relate to each other. This section first presents a conceptual framework for understanding how Environmental, Social and Governance (ESG) issues correspond to the components of the OECD Well-being Framework – in use by governments and national statistical offices. It then provides further clarity in the Social dimension, focusing on the measurement of “Scope 1” issues, i.e. those occurring internal to the firm.

Aligning the ESG perspective with the OECD Well-being Framework

46. As has been noted, **investors (and by extension businesses) tend to think about their impacts on society within the framework of ESG issues**. This paper suggests that the OECD Well-being Framework can be used to develop a more detailed conceptual understanding of ESG issues, in particular in the Social dimension. It should be emphasized that ESG issues are not uniformly used by all actors: some primarily focus on ESG issues that are financially material to the firm (the outside-in perspective), while others consider ESG issues that capture the firm’s impact on society (the inside-out perspective). The framework presented in this paper is primarily concerned with the impacts of businesses on society as a whole. However, as previously noted, it is likely that many of the measures proposed in this paper are also relevant in informing about long-term enterprise value.

47. **Figure 4.1 presents a conceptual framework to support the alignment of Environmental, Social and Governance issues and the components of the OECD Well-being Framework** that relate to the non-financial performance of businesses. The **Environmental** component captures the contributions of firms to the stocks and flows of natural capital. In the **Governance** area, business non-financial performance primarily affects social capital in society as a whole. The **Social** component consists of two separate elements. On the one hand, firms contribute directly to the well-being outcomes of business stakeholders, notably employees, consumers and communities (both in own operations and in the supply chain) – see section below for more details. On the other hand, firms contribute directly to economic, social and human capital in society, for example by adding value to the economy, contributing to knowledge and research and development, and by making dedicated human and social capital investments.

48. The **capitals** that firms create and deplete, in theory, feed directly into the accounting of **macro-level capital stocks and flows**.²¹ In the area of economic capital, the combined value added of all firms in the economy makes up the total value added of the economy (which equals GDP plus taxes minus subsidies) while the combined investments of all firms is the largest component of the economy-wide gross fixed capital formation and of the stock of economic capital. In the area of natural capital, the combined emissions of all firms in the economy represent the largest share of the total GHG emitted by the private sector, with the GHG Protocol being constructed in a way that prevents double counting and that ensures that the Scope 1 emissions of all firms in an economy add up to the aggregate. As described in Section 1 of this paper, due to the co-dependencies and interlinkages between current well-being and resources for future well-being, the capitals created and depleted by firms also have an indirect impact on current well-being outcomes in society.

Figure 4.1. Environmental, Social and Governance factors and how they affect current well-being of stakeholders and resources for future well-being in society as a whole



49. In the **Environmental** area, there is a statistical agenda that aligns official environmental accounts with business natural capital measures in order to enhance data interoperability between the macro and the micro level. At its 14th Meeting, the UN Committee of Experts on Environmental-Economic Accounting (UNCEEA) agreed on a five-year roadmap for better aligning business measures of environmental performance with the **System of Environmental and Economic Accounting (SEEA)**, the framework adopted by the United Nations as an international statistical standard for environmental accounts. The Committee recognised the mutual benefit of such alignment, which would both strengthen the ability of NSOs to collect detailed data on business natural capital use and provide businesses with detailed data that is fit for purpose.²² In the next few years, pilot projects will be conducted to better understand gaps and opportunities for such alignment. In the meantime, businesses and governments are convening in different settings to collaborate on future alignment, including through the Capitals Coalition's Combining Forces initiative.²³

²¹ The OECD Well-being Framework distinguishes between four types of measures to account for natural capital in society, i.e. stocks (e.g. of produced assets); flows (e.g. material resource use); risk factors (e.g. obesity rates) and resilience factors (e.g. renewable energy use).

²² See the UN SEEA Roadmap to align business accounting and the SEEA here: https://seea.un.org/sites/seea.un.org/files/images/business_accounting_6.docx.

²³ <https://capitalscoalition.org/project/combining-forces-on-natural-capital/#:~:text=The%20objective%20of%20Combining%20Forces,and%20included%20in%20decision%2Dmaking>.

50. **A degree of convergence has already been achieved in measuring the natural capital footprint of businesses, especially on a number of core indicators.** The SDGs are a useful reference framework for firms that are interested in measuring and reporting on their environmental impacts, as they are supported by a global monitoring framework. The UN Global Compact and GRI have mapped various corporate disclosure standards against the SDGs, providing concrete measurement standards for measuring business contributions to environmental objectives (GRI & UN Global Compact, 2017^[17]). These include disclosures on processes and inputs and on the flows, stocks (as well as risk and resilience factors) of the natural resources used by businesses. Among the latter, the UNCTAD Guidance on Core Indicators lists the most important business contributions to natural capital in a way that is aligned with official statistics (UNCTAD, 2019^[18]). Table A.1 lists a number of core indicators of business environmental performance that have equivalents at the macro level, and which are largely in line with the UNCTAD core indicators.

51. **In ESG terms, the Governance area typically captures risks and opportunities related to the corporate governance of the firm, good corporate citizenship, and involvement in controversial situations, among others.** Such issues are also relevant for society as a whole, and primarily affect society's social capital. For example, corruption can undermine trust in businesses and in institutions more broadly. While a comprehensive measure of business integrity is hard to establish, it should include public investigations and prosecutions lodged against a business. In addition to overt illegal practices, businesses may also influence politicians and policy makers, as well as public debate, through lobbying, campaign finance, control of the media, bribery of public officials and other methods (Fuchs and Lederer, 2007^[25]). Undue business influence through financial contributions in the political realm may result in policy capture and suboptimal outcomes from the perspective of society as a whole and (indirectly) undermine trust (OECD, 2017^[26]).

52. **In addition, inequalities in outcomes and opportunities also originate in (or are influenced by) corporate governance processes.** This includes unequal representation in the boardroom, which is at once a reflection of unequal opportunities allotted to different groups and a channel that perpetuates inequalities between groups through the lack of representation of certain groups in corporate governance. Measuring the compensation of board members can also shed light on earnings inequalities in the firm, which feed into income inequalities for society as a whole. Excessive compensation of the board may not only be inefficient from a societal perspective but also pose risks for shareholders, due to the misalignment of incentives between the board and firm's management (Dah and Frye, 2017^[27]). These inequalities at decision-making level can be considered as risk factors for social capital in society as a whole.

53. Table A.4 lists a number of core indicators of business performance in the Governance dimension of ESG. Because these measures can be considered to contribute to and/or deplete from social capital relevant to Society as a whole, these measured can be considered relevant from the perspective of a firm's social performance as well.

A conceptual framework for the Social dimension: providing clarity on the components of business performance in the Social dimension

54. **One of the main goals of this paper is to provide greater conceptual clarity on the different facets of the social performance of firms.** In the **Social** area, the non-financial performance of firms comprises both their contribution to (and depletion of) capitals in society, and its influence on the current well-being of stakeholders affected by firms operations.²⁴ It is widely recognised that **people**

²⁴ See Box 2.1 for a reminder of the components of the OECD Well-being Framework

are central to the social performance of firms.²⁵ The OECD Well-being Framework and other international “Beyond GDP” frameworks consider individuals (and households) as the natural unit of analysis for measuring current well-being in society. Because of the importance of people to the social dimension, the conceptual framework used in this paper starts by identifying the business stakeholders whose well-being are relevant to measure as part of the firm’s non-financial performance.

55. **This paper identifies four broad categories of stakeholders whose well-being are relevant from the perspective of measuring business non-financial performance: employees, consumers, local communities and finally society as a whole.** Firms affect the **current well-being** of consumers, employees and communities (either in own operations or in the supply chain). Other business stakeholders, such as shareholders and investors, suppliers and vendors as business entities, or B2B customers are also business stakeholders, but these relationships are underpinned by financial transactions and traditional financial reporting, hence they are not covered in this paper.²⁶

56. **Building on this set of business stakeholder groups, this paper distinguishes between four main components of the social performance of firms** (see Figure 4.2). These are: (1) the creation and depletion of economic, social and human capital that contribute to resources for future well-being in society as a whole; (2) the well-being of employees (and inequalities therein); (3) the impact of products on the well-being of consumers; and (4) the well-being of stakeholders in the supply chain. **The four components of social performance identified in this paper concern only the direct contributions of firms to societal capitals or stakeholder well-being outcomes.** (even if they are mediated by a third-party, such as in the supply chain). **Indirectly**, the well-being of stakeholder groups such as employees and consumers also affect society as a whole, and can contribute to human and social capital. Similarly, there are possible indirect effects between the contribution of firms to capitals in society (e.g. through value added, research and development, or investments in communities) and current well-being of society as a whole.

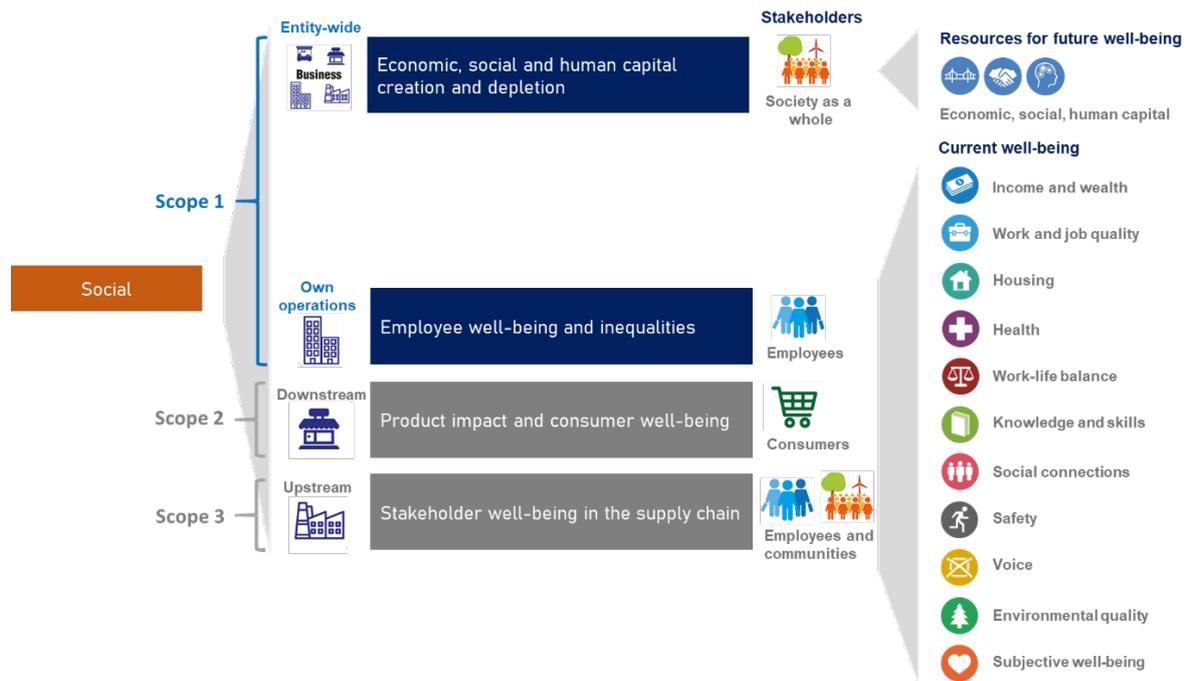
57. **In an effort to advance the measurement agenda on social performance, this paper suggests distinguishing between three different scopes for the measurement of social performance.** This paper refers to “Scope 1” social performance as (1) the well-being outcomes of stakeholders that operate within the organisational boundaries of the firm, namely employees and (2) the resources for future well-being that are created or depleted directly by the firm itself and that are relevant to society as a whole. Note that stakeholder well-being is measured through current well-being outcomes while resources for future well-being are measured through stocks and flows of capitals, in line with the OECD Well-being Framework. The defining characteristic of “Scope 1” performance is that the stakeholders affected are internal to the firm, which has a corollary in stakeholder theory, where employees are typically thought of as internal stakeholders, and consumers and suppliers as external ones. This paper suggests classifying product impacts and the well-being of consumers as “Scope 2”

²⁵ For example, the WEF’s white paper on Stakeholder Capitalism considers four components of sustainable value creation, one of which is “People” (World Economic Forum, 2020_[20]). The Capital Coalition’s “Social and Human Capital Protocol” states upfront that “people are at the core of business”, and notes that businesses depend on people and society, while also impacting their well-being (Capitals Coalition, 2019_[86]).

²⁶ The categorisation of stakeholder groups used in this paper is broadly in line with the recent note (May, 2021) “Stakeholder Capitalism: Purpose, History and Operating Principles” by Peter Georgescu, *Chairman Emeritus-Young & Rubicam*. This note articulates the concept of stakeholder capitalism, building on the 2019 Business Roundtable declaration that challenged shareholder primacy, by noting that the purpose of business includes creating value for (1) the employees and contract workers it depends on; (2) the customers it serves; (3) the communities it touches; (4) the suppliers and vendors it works with; (5) the environment it impacts; (6) the shareholders it provides for; and (7) finally, the corporation itself.

²⁷ and stakeholder well-being in the supply chain as “Scope 3” social issues. The direct capital contributions that a firm makes to society (such as taxes paid or R&D spending) are included under “Scope 1” by virtue of being a product of the firm’s operations or financial decisions, albeit benefiting external stakeholders (namely Society as a whole).

Figure 4.2. Components of the social performance of firms and how they affect current well-being of stakeholders and resources for future well-being in society as a whole



58. **The proposed distinction between different components of business Social performance differs somewhat from the GHG Protocol, which has inspired this structure.** This distinction between different scopes is not, as is the case in the GHG Protocol, based on whether impacts are direct or indirect (i.e. produced by the own firm or by another entity). Consumers are still considered to be a direct stakeholder of the firm. However, as in the GHG Protocol, which distinguishes between different scopes based on operational boundaries, the stakeholder group impacted under “Scope 1” (employees), operates within the firm’s operational boundaries, and any impact thus occurs in the context of the firm’s own production process. Likewise, the proposed “Scope 2 and 3” impacts do not occur in the context of the firm’s own production process, but rather during the consumption of the good or service produced (“Scope 2”) or during the production process of another entity (“Scope 3”). The direct capital contributions on society as a whole included under “Scope 1” (examples are value added, taxes paid, R&D spending) are to some extent an exception. These contributions indirectly benefit society as a whole. However, they are related to activities or financial decisions that arguably take place within the operational scope of the firm, and therefore may qualify as being included under “Scope 1”.

59. **Depending on the type of firm and the sector in which it operates, the relative weight (or “impact materiality”) of “Scope 1, 2 and 3” issues may vary significantly.** Across businesses,

²⁷ The classification of employee impacts as “Scope 1” issues and consumer impacts as “Scope 2” issues has already been proposed by Forética in the area of health in its work on the Health Footprint (<https://foretica.org/proyectos-y-soluciones/grupo-de-accion-salud-y-sostenibilidad/>).

investors, and other actors there is increasing interest in understanding and quantifying the social impact of firms' operations and investments. However, there is little agreement as to where to start and how to measure different social impacts. One of the reasons is that the relative importance of "Scope 1, 2 and 3" issues may differ widely across companies. Whether "Scope 1, 2, or 3" issues are more relevant for a firm should be decided on the basis of whether a firm has a relationship with a given stakeholder. For example, employee well-being outcomes are relevant for all firms that have employees, while consumer well-being is relevant for all firms selling final goods and services to consumers. Some B2B companies (e.g. commodity trading firms) do not sell to consumers, and therefore the measurement of "Scope 2" performance may not apply to them.

60. **Whenever a stakeholder relationship is present, the measurement of social performance in the corresponding scope is relevant to the firm, at least from an impact materiality perspective.** For example, a pharmaceutical company may have significant positive contributions under "Scope 2", but this does not negate the necessity to adequately measure its performance under "Scope 1" or "Scope 3". Similarly, large multinational companies may have significant supply chain effects and therefore need to put in place robust due diligence practices and measurement frameworks to ensure preventing human rights abuses in the supply chain. These impacts may prove to have significant "impact materiality" to the firm, which may warrant the firm to place attention on this area. Still, "Scope 1 and 2" issues should also be considered and measured, and the implementation of measurement infrastructure in "Scope 1" may set the groundwork for more robust measurement in "Scope 3".

61. **"Scope 1" performance is a good starting point for a robust measurement framework of social performance as it lends itself to (near) universal measurement and internal data collection by all firms.** There are three additional characteristics of "Scope 1" social performance that set it apart from Scope 2 and 3. First, performance in this area is relevant (or "material") for all firms that have employees, and is therefore widely applicable. Second, while the aspects of life that are affected by consumption depend on the type of product or service, the relevant well-being outcomes of employees are (nearly) universal to all employees and therefore allow for harmonised measurement. And third, the measurement of "Scope 1" social performance is possible within the confines of the firm itself, and does not require collection of data external to the firm.

Principles of measuring of social performance

The principles of the OECD Well-being Framework, which are rooted in the recommendations by the Commission on the Measurement of Economic and Social Progress (Stiglitz, Sen and Fitoussi, 2009^[2]), are relevant to inform the measurement of social performance of firms, especially as it relates to the current well-being of business stakeholder groups. These principles are applicable to the measurement of the current well-being of all business stakeholders, including employees ("Scope 1"), consumers ("Scope 2") and communities and employees in the supply chain ("Scope 3"). These principles, which will be operationalised in the following sections, are:

- **Measures of social performance should consider stakeholder well-being in a multi-dimensional way.** The main advantage of taking a multi-dimensional approach to measuring stakeholder well-being is that it allows avoiding blind spots and highlighting potential trade-offs. Ensuring that firms measure relevant well-being outcomes in the full range of dimensions ensures that all possible impacts of a firm on its stakeholders are accounted for and thus avoids under or overestimating social performance.

- **Companies' social performance in the area of stakeholder well-being should be measured through outcome indicators, rather than indicators of inputs or outputs.**²⁸ Most existing business non-financial performance frameworks feature a mix of input, output and outcome indicators. Each of these are useful in tracking progress. However, in order to understand the effect of actions and, by extension, how they impact society, the measurement of social performance needs to be rooted in a solid outcomes-based framework.²⁹
- **Inequalities should be measured in a transversal manner (i.e. across dimensions and indicators).** Taking a comprehensive approach to measuring stakeholder well-being requires measuring inequalities within and between groups across a range of well-being dimensions. It is not sufficient, in any of these areas, to only consider average outcomes. Data needs to be sufficiently modular to allow for comparisons between stakeholders with different characteristics.
- **Well-being should be measured through both objective and subjective indicators.** A number of aspects of people's quality of life, such as the quality of their working environment, can be measured through survey questions on their own lived experiences; further, some aspects of well-being are inherently subjective,³⁰ and can therefore only be measured by asking people to evaluate certain dimensions of their own experienced well-being. In support of this international effort, the OECD has produced a number of guidelines³¹ on measuring self-reported aspects of well-being, including subjective well-being, trust and the quality of the working environment ((OECD, 2017_[16]; OECD, 2013_[28])). Self-reported measures provide an important complement to objective ones, and businesses should consider using employee surveys as an important source of information about their non-financial performance³² (see also Box 5.1).

²⁸ It should be reiterated that, in the area of capital creation and depletion, social performance is measured through business contributions to the stocks and flows of capitals, and risk and resilience factors.

²⁹ See also (Schumann, 2016_[87]) for a description of the different characteristics of input, output and outcome indicators.

³⁰ Subjective well-being refers to "good mental states, including all of the various evaluations, positive and negative, that people make of their lives and the affective reactions of people to their experiences" (OECD, 2013_[28]). In large samples, these concepts, by definition, cannot be observed by a third party. (Conversely, other self-reported measures, such as health status, can also be measured in an objective manner, e.g. by looking at the prevalence of different forms of morbidity and disability).

³¹ These guidelines also include a thorough review of existing evidence on the validity of self-reported measures, i.e. whether they capture what they claim to measure. In the case of subjective well-being, there is a wealth of evidence to support the idea that such measures correlate well with other proxies of the same concepts and are consistent with the expected relationship with individual, social and economic determinants. To a large degree, subjective well-being measures capture the information that they aim to capture (OECD, 2013_[28]). This is not to say that there are no limitations to using subjective well-being and other self-reported measures, but it is by now widely acknowledged that they can act as a useful complement to objective data sources.

³² This point was also made by Anat Itay Sarig in the context of the construction sector (Itay-Sarig, 2017_[93]).

5. A measurement framework for “Scope 1” Social performance

62. This section presents a **measurement framework and indicator set for measuring firms’ “Scope 1” Social performance**. As described above, “Scope 1” Social performance is considered to include the well-being of employees and inequalities thereof, as well as the resources for future well-being that firms contribute to and deplete and that are relevant to society as a whole (Figure 5.1). Because the defining characteristics of these two components of “Scope 1” Social performance is that they are internal to the firm, the collection of data that underpins the measurement of “Scope 1” Social performance can be performed wholly inside the firm. For this reason, this measurement framework presented in this section includes **measurable indicators of stakeholder well-being outcomes** that are applicable to most firms in the economy, which is an important premise for alignment with official statistics.



63. This measurement framework builds heavily on **existing measures of non-financial performance**. These measures are drawn from an OECD review of initiatives (Shinwell and Shamir, 2018^[21]), and have benefitted from consultation with external stakeholders and experts across the OECD (conducted from late 2019 until mid-2020). The proposed framework is also closely aligned with the UNCTAD Guidance on core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals (UNCTAD, 2019^[18]) and with GRI standards on relevant indicators. In addition to existing business non-financial performance frameworks, the indicator set presented in this section also draws from best practices by NSOs in measuring the well-being of business stakeholders, in particular of employees.

64. The measures proposed are **multi-dimensional and ambitious**, sometimes lying outside the scope of traditional business measurement or reporting. But they are **within the scope of what businesses and NSOs can measure**. This means that their implementation is possible using established data collection methods and tools, even though additional investment may be required to implement them. Many of the additional measures proposed are based on employee survey data, and

can potentially be measured through existing employee surveys in businesses. Many NSOs, too, already conduct working conditions surveys, and while greater alignment across surveys involves costs, there is also a lot to be gained from greater harmonisation.

65. **While the framework presented in this paper is applicable to all businesses, not all the proposed indicators will be equally relevant for every firm**, and additional indicators might be relevant for businesses operating in specific sectors. In particular, some indicators are not relevant or applicable to small and medium enterprises. Still, the conceptual framework, the dimensions and the indicators may serve as a starting point for any firm interested in reporting its social performance in a comprehensive and multi-dimensional way.

66. **In order to ensure the usability of non-financial performance metrics, data should be collected and compiled in a modular fashion that allows both consolidated and disaggregated reporting.** Multinational enterprises in particular are typically composed of multiple entities and operational facilities, spanning multiple countries. In order to assess differences in social or environmental performance across a firm's entities, facilities, locations and activities, data should be collected in a way that allows disaggregation at different reporting levels (UNCTAD, 2019^[18]). Disaggregating data naturally comes with challenges. The privacy of stakeholders answering questions about their experiences should always be warranted when presenting data about the performance of a company or sub-bodies, departments, or locations within a company. It is possible that the outcomes of certain sub-groups in specific cases could be presented without compromising employee anonymity, in which case the latter should be safeguarded.

Employee well-being and inequalities

67. **Employees represent a fundamental node at the intersection between production, well-being and sustainability**, and proposing a set of indicators on employee well-being and inequalities in the workforce is a key contribution of this paper. Employee well-being is a fundamental driver of societal well-being, both because having a job is important for a person's well-being, and because the time spent at work, the social interactions people have at work, the skills that employees use and gain, and the sense of purpose and identity they may derive from their job have a large influence on people's lives. In addition, inequalities in the workforce, in representation, earnings, career advancement and working conditions are a key vector of societal inequalities.

68. **A key motivation for this paper is that existing indicators in the social dimension do not fully capture the multi-dimensional experiences of business employees.** The manifestations and determinants of business social performance are multi-dimensional, and so should be its measurement. A comprehensive approach to diagnosing inequalities and seeing how businesses perform in the Social domain requires monitoring the interrelated areas that are important for people's lives. Existing frameworks are biased towards indicators based on existing data, especially those that can be derived from administrative sources. While this is understandable, existing data sources fail to provide a full understanding of progress in achieving inclusive workplaces.

69. **While employment makes an essential contribution to the well-being of individuals and societies, the employment impacts of businesses is not limited to the provision of jobs. The quality of the working environment** has an impact on other areas of well-being, such as subjective well-being, social connections, and health (OECD, 2017^[16]; Liu, 2018^[29]). Research has also found that higher job quality can promote skills development, increase firms' productivity and competitiveness and foster societal well-being (OECD, 2017^[16]). Detrimental conditions, such as workplace harassment, affect business outcomes by pushing workers to withdrawal and disengage from work, and by leading to negative attitudes towards work in general and their employer in particular (Weziak-Bialowolska,

Białowolski and Mcneely, 2020^[30]). It is therefore critical that measures of the social performance of firms adequately take into account working conditions and the well-being of employees.

70. **The measures proposed on employee well-being and inequalities, in line with the principles that underpin the OECD Well-being Framework, are largely limited to outcome indicators that capture the current well-being of employees.** The measurement of these outcomes is a prerequisite to understanding the impact of firms on society as a whole, both in terms of contributions to current well-being and to human and social capital (Figure 5.2). Indirectly, the well-being of employees contributes to a large range of societal outcomes. An understanding of these impacts needs to start by measuring the outcomes that matter for employees. As noted in Figure 5.2, the outcome indicators selected are primarily relevant to **SDG 8** on decent work and economic growth, and **SDG 5 and 10** on gender equality and reduced inequalities. Indirectly, the current well-being outcomes of employees may also contribute to a range of other SDGs, including on reducing poverty, hunger, good health and well-being, education, and peace, justice and strong institutions.



71. Table 5.1 presents a set of indicators that may inform socially-relevant aspects of business actions from the perspective of employees. Further details on these indicators can be found in Table A.2. The measures proposed include both self-reported and objective indicators. While some of the indicators included in Table 5.1 might be compiled by businesses based on information available on their business records, in other cases they will require undertaking surveys of their employees based on questionnaires and protocols that are comparable and consistently applied across businesses (such as those set out in the OECD Guidelines on Measuring the Quality of the Working Environment (OECD, 2017^[16])). It should also be noted that while the present framework presents a minimum set of indicators, these OECD Guidelines include additional suggested questions that may be relevant to comprehensively understand the quality of the working environment.

Table 5.1. Common indicators of Employee well-being and inequalities

Theme	Indicator	Well-being framework
Employment	Employment by group	Work and job quality
	Employees with temporary contracts	
	Hiring and turnover	
	Perceived opportunities	
Earnings	Wages and benefits	Income and wealth
	Executive pay gap	
	Equity ownership	
	Financial insecurity	
Work-life balance	Working hours	Work-life balance
	Long working hours	
	Annual leave	
	Parental leave	
Health	Self-reported health	Health
	Mental well-being	
	Absenteeism	
Safety	Occupational health and safety incidents	Safety
	Discrimination incidents	
	Perceived discrimination	
	Workplace violence and harassment	
Learning and skills	Perceived learning	Knowledge and skills
	Training perceptions	
	Self-realisation	
Voice and representation	Workplace voice	Civic Engagement
	Collective bargaining	
	Trust in management	
Social support	Social support	Social connections
	Managerial practices	
	Trust between workers	
Subjective well-being	Job satisfaction	Subjective well-being
	Life satisfaction	
	Intrinsic rewards	
	Eudaimonia	
Environmental quality	Exposure to loud noise	Environmental quality
	Exposure to chemical products	
	Exposure to air pollution	

Note: Where possible, indicators should allow disaggregation by entity, facility, location and activity. In addition, indicators on employee well-being indicators should be expressed, where possible and relevant, by gender, age groups, contract type and staff category groups, as well as by race, ethnicity and/or migration status (See Table 5.2). Further detail on these indicators is provided in Table A.2.

72. **Employment is a fundamental determinant of well-being and inequalities. Work is important for people as a means to generate income but also because it gives people a sense of purpose, identity and social connections.** In most OECD countries, prime-aged male workers are overrepresented in the workplace. The employment gap between male and female workers was 15 percentage points in OECD countries in 2019 (OECD, 2020^[31]). More inclusive workplaces, i.e. workplaces which accommodate workers from diverse backgrounds and with diverse needs, can

promote inclusive growth, harnessing the talents and capabilities of those who might not otherwise be in the workforce. Research shows that more diverse and inclusive teams are more innovative, engaged and creative in their work (Bourke and van Berkel, 2018^[32]). Diversity is also linked to firms' innovation, productivity and creativity, and supports global networks and connections (Spoonley, 2014^[33]).

73. **Earnings represent a significant source of most households' income and contribute indirectly to many other dimensions of the lives of employees and of their dependents** (OECD, 2017^[16]). The distributional lens of the OECD well-being framework calls for looking at the distribution of earnings inside businesses, which contribute to income inequalities in society. Research has shown that the long-term rise in income inequality observed in most OECD countries mainly reflected higher remunerations of top managers as well as higher correlations between individual earnings and capital income at the top of the distribution, and that these higher income inequalities have been detrimental to long-term growth (OECD, 2015^[34]). The remuneration of employees can (and in some countries is legally mandated to) extend beyond a wage or salary, to include additional welfare provisions such as paid sick leave, parental leave, old-age pensions, etc.

74. **Some businesses are striving to pay a living wage to all workers in their own operations and in their supply chain** (B4IG Coalition, 2021^[35]). Methodologies are currently being developed to define and measure a living wage, which require an assessment of living costs in order to determine the wage needed to afford a given basket of basic goods and services. In addition to monitoring whether employees indeed earn a living wage, it is important to monitor the extent to which employees themselves report being able to make ends meet with the wage(s) they earn. Such self-reported measures of financial insecurity are already used in household surveys such as the EU Income and Living Conditions Survey (EU-SILC) and the European Working Conditions Survey, and reported in the OECD How's Life? publication. The proposed framework includes a self-reported measure of households' abilities to make ends meet.

75. **Equity ownership can also contribute to households' wealth** (beyond wage income, which is part of the work and job quality dimension). Through stock ownership, employees can be given a stake in a firm's financial performance, with indirect effects in other areas of well-being. Employee ownership can also provide employees with the means to shaping corporate governance, for example in terms of organizational commitments, inclusiveness of workplace and related employment aspects (Freeman, 2007^[36]). Businesses with partial or full employee ownership have been found to be more productive than those in traditionally owned firms, as a result of greater incentives for the firm to succeed (Kramer, 2010^[37]). Indicators on employee ownership should reflect both the share of a firm's equity that is held by employees, as well as reflecting inequality in ownership among employees (e.g. through an indicator of the share of business equity held by the top and bottom 20% of employees, and of the size of stock options within the remuneration package of managers).

76. **The way people spend their time has a significant impact on their well-being. Work-life balance** has been linked to higher job and life satisfaction, and to lower levels of anxiety and stress (Haar et al., 2014^[38]). Overall, on average across OECD countries, 7% of paid employees routinely work more than 50 hours per week. Being able to balance time between paid work, unpaid work, leisure, social and family commitments and other activities is beneficial for employees' well-being. Business practices supporting work-life balance are associated with higher employee productivity, with benefits to the firm in the form of greater talent retention and lower absenteeism (Albert López-Ibor, 2010^[39]).

77. **The health of employees is directly affected by their working conditions and the quality of the working environment.** Fatal and non-fatal work injuries and diseases contribute to higher mortality, disability and morbidity of the population. Exposure to chemicals, oil, gas or metals can have detrimental impacts on workers' health. Other types of labour, including desk jobs, can also have physical health consequences, such as on hearing impairment or back and muscular pain. Such physical health outcomes can be measured in employee surveys.

78. **In addition, the pace of work, stress, a poor social climate or lack of a sense of purpose can have negative mental health consequences.** In general, there are three main avenues for assessing population mental health outcomes – diagnostic interviews, cause of death data on suicides as well as drug and alcohol abuse, and self-reported survey tools.³³ With respect to measuring employee well-being, survey tools are a logical choice. The WHO-5 Well-being Index³⁴ is a suitable candidate to assess the mental well-being of employees, as it is framed in an accessible manner. It consists of five simple and non-invasive questions, and has been found to have adequate validity as a mental well-being measure from clinical trials and workplace interventions (Topp et al., 2015^[40]; Lipovac et al., 2020^[41]). A slightly more invasive complement is the PHQ-4 (Patient Health Questionnaire 4), which explicitly asks about the experience of negative mental states, providing a very succinct measure of signs/symptoms of anxiety and depression (Kroenke et al., 2009^[42]). Finally, inequalities should also be considered when looking at health and safety outcomes for employees. Research has shown that employment in high-injury or illness-prone occupations in the United States is concentrated among people with low education and who are foreign born, male and African American (Steege et al., 2014^[43]).

79. **Concerning safety, besides injuries and fatalities, discrimination and harassment are important issues to monitor in the workplace.** Beyond being inherently problematic and in conflict with human rights laws and principles, discrimination and unsafe work environments raise barriers to inclusion by promoting stress, poor job satisfaction, high job turnover, poorer performance and career prospects (Triana, Jayasinghe and Pieper, 2015^[44]; Willness, Steel and Lee, 2007^[45]). In the United States, 42% of women reported having experienced some kind of discrimination in the workplace, compared to 22% of men (Parker and Funk, 2017^[46]). Measuring discrimination and harassment is challenging, as reporting channels need to be trusted. It is recommended that, as complement to measuring those incidents that are reported through official channels, monitoring is complemented by surveys that poll experiences of discrimination of employees in order to get a comprehensive picture. The European Working Conditions Survey includes a number of tested questions on discrimination and adverse social behaviour (ASB), which includes violence and threats of violence, harassment and unwanted sexual attention.

80. **The environmental quality of the workplace also influences the health and safety of employees.** Occupational exposure to air pollution has been linked to negative health outcomes, such as heart disease, as well as death (Torén et al., 2007^[47]). In addition, various aspects of environmental quality at work, such as air quality, thermal comfort, noise and light quality have also been linked to stress (Thach et al., 2020^[48]). While in the past attention primarily focused on exposure to pollutants inside the workplace, more attention has recently been paid to exposure of outdoor workers to air pollution, such as PM_{2.5} and nitrogen dioxide (Canary, 2020^[49]). The environmental quality measures depend on industry and firm-level characteristics, and hence are not always universally applicable. Industry-specific measures need to be identified for a better understanding of the environmental quality of workplaces.

81. **Work can provide opportunities for workers' personal development and knowledge and skills.** A measure of skill advancement is the share of employees who report having learned something useful on the job, which captures learning in a broad sense, including on-the-job learning or learning through training programs. An additional indicator is the share of employees who have received training

³³ A wide variety of survey tools have been developed to capture more specific disorders such as anxiety or depression (e.g. PHQ, GAD), general mental distress (e.g. MHI, GHQ, SRQ, SF-12) as well as positive mental health (e.g. WHO-5 Well-being Index, Warwick-Edinburgh Mental Well-being Scale, MHC-SF). The WHO-5 Well-being Index is a workplace friendly tool that frames questions in an accessible and non-confrontational manner.

³⁴ OECD (forthcoming), *Mental health and well-being: towards an integrated policy approach, A Systematic Review of the Literature*, <https://www.karger.com/Article/Fulltext/376585>. The WHO-5 Well-being Index is a short 5-item measure of a respondent's mental well-being (rather than distress) and only includes positively worded items (although the scoring guidance also allows to classify respondents with poor psychological well-being, and it has been found to be a sensitive and specific screening tool for depression).

which they believe can advance their employment opportunities (OECD, 2017^[16]) Training has been shown to have a positive impact on job satisfaction, as it can make employees feel more valued and be part of the team, as well as increasing workers' morale, retention and a sense of loyalty (Hanaysha and Tahir, 2016^[50]; Zahra, Iram and Naeem, 2014^[51]), while also promoting a learning culture and employee participation in decision-making. Indirect effects of skills improvements include improvement in work-based competencies, attitudes and behaviours, enhanced employability and higher entry wages.

Box 5.1. Measuring self-reported aspects of the quality of the working environment

The *OECD Guidelines on Measuring the Quality of the Working Environment* identify best practices and suggest survey questions that can be used to assess various components of employee well-being (OECD, 2017^[16]). Some of such measures are regularly used by national statistical offices and other government bodies to shed light on working conditions. This includes the European Working Conditions Survey, a multi-national survey implemented in European countries by Eurofound (an agency of the European Union) and replicated in a few other OECD countries (the United States and Korea).

Many large businesses already field employee surveys to assess components of the well-being of their employees, including employee engagement and satisfaction, and to collect feedback from employees. Collecting self-reported data is thus well within the reach of large businesses, and many of these already do so (see a selection of examples below).

The lack of comparability between employee surveys is a missed opportunity for companies, investors and other stakeholders. Without harmonisation of such instruments, it is not possible to compare companies' performance and benchmark to peers.

In addition to this, companies are not fully exploiting the potential of business surveys to act as sources of information on their non-financial performance. Some companies ask their employees how they judge the company's performance on inclusiveness. A more robust approach, however, is to ask employees directly about their own experiences and then compare these experiences across groups. This avoids asking employees to make value judgments about others and report on their own experiences.

Company	Initiative
AXA	AXA has started to collect feedback from employees on a regular basis by shifting to Pulse surveys, short and focused surveys measuring a few components at a time, helping to quickly identify areas of improvement. Each year, AXA also sends out two surveys to all its employees globally (covering over 100 000 employees in 22 languages) ³⁵ .
BASF	BASF measures employee engagement through an index score based on five questions, measured annually. The 2019 employee survey was completed by 71 000 employees ³⁶ .
Danone	Danone fielded a large-scale employee survey among its 100 000 global staff in 2018, asking for feedback on the company's goals. The survey secured an 80% response rate, reportedly far outperforming the company's expectations. ³⁷
Johnson and Johnson	Johnson and Johnson conducts an employee-wide survey (the Our Credo Survey) on a biennial, administered in 78 countries and 36 languages, with a 93% participation rate in 2020 ³⁸ .

82. **The engagement of employees in decision-making processes is inherently important to ensure that workers are included and that their interests are represented, and is ultimately beneficial for a firm's productivity.** **Workplace voice** involves the possibility for employees to influence decisions at the workplace both through representatives and through direct consultation and good communication with management. Voice and representation are relevant in narrowing gender gaps and inequalities between racial and ethnic groups, and are also important for companies that are undergoing restructuring processes and want to ensure that this is done in an inclusive and responsible manner. Doing so also enhances employers' awareness of workers' needs, leads to more efficient use of their resources, and allows workers to shape their working conditions (OECD, 2017_[16]).

83. **As full-time employees spend most of their day at work, social connections in the workplace are important for work engagement, reducing stress levels and increasing job satisfaction.** Employees who feel recognised by their managers may be encouraged to develop themselves and contribute to the company, and to further their own career paths. Research suggests that women receive less credit for their ideas than men, and a similar pattern exists for people from racial or ethnic minorities.³⁹ ⁴⁰ But the benefits of social support are not only psychological. Women, for example, appear to benefit less from access to senior leadership and sponsorships from people in higher echelons of the company.⁴¹ Perceived social support from supervisors may also mitigate some of the negative effects of discrimination in the workplace (O'Brien et al., 2017_[52]). In addition, social relations and work culture are important for developing cohesion and trust in and outside the workplace, and can have a positive impact on social capital. The *Edelman Trust Barometer* 2019 shows that, while employees' trust in their employers is high relative to other institutions, at 75% on average, it varies from 56% in Korea to 86% in Indonesia (Edelman, 2019_[53]).

84. **Besides financial stability, work can offer social contact, self-esteem, and a sense of purpose** (Oswald, Proto and Sgroi, 2015_[54]). Job satisfaction is an important aspect of **subjective well-being**⁴² (Bowling, Eschleman and Wang, 2010_[55]). According to Gallup's State of the Workplace survey, only 15% of full-time workers feel "engaged" at work, meaning that they are highly involved in, and enthusiastic about, their work and workplace (Gallup, 2017_[56]). The survey also shows that businesses with more engaged employees have higher profits, higher productivity and less job turnover. One proxy measure for eudemonia proposed in workplace surveys refers to employees' reported ability to fully employ their knowledge and skills in their job, referred to as 'opportunities for self-realisation'.

85. **The relationship between job satisfaction, on one hand, and job performance and opportunity, on the other, goes in both directions** (Judge et al., 2001_[57]). Career advancement and opportunity can lead to greater engagement and job satisfaction, while being engaged and satisfied with the job and the employer can lead an employee to perform better and have greater access to opportunities. On the contrary, disadvantaged and minority groups are at risk of entering a vicious cycle of low quality jobs, low job satisfaction, lack of career progression and poor engagement, resulting in resignation, lack of motivation, and ultimately less opportunities (HEC, 2020_[58]). For this reason, measuring job satisfaction, beyond being instrumental in monitoring employees' overall engagement and satisfaction with their company, can also help diagnose how certain groups are faring and whether they may need additional support or guidance to thrive. Finally, while life satisfaction is the result of a

³⁹ <https://www.mckinsey.com/business-functions/organization/our-insights/understanding-organizational-barriers-to-a-more-inclusive-workplace>.

⁴⁰ <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/the-black-experience-at-work-in-charts>.

⁴¹ <https://hbr.org/2019/08/a-lack-of-sponsorship-is-keeping-women-from-advancing-into-leadership>.

⁴² Subjective well-being is considered to consist of three components: life evaluation and evaluation of domains of life, as well as affect, or experienced well-being, and eudemonia (having a sense that things in life are worthwhile). (OECD, 2013_[28]).

large range of factors, being in secure employment, the earnings and benefits that workers receive, and the quality of the working environment together can play a large role in determining workers' life satisfaction outcomes. By collecting data on this measure, businesses can identify vulnerable groups of workers among their employees and in the supply chain.

86. **Altogether, the aspects of employee well-being described here indirectly contribute to human capital in society as a whole, which encompasses the skills, competencies and health status of people in society.** At a time when economies face multiple transformations, moving towards a more digitalised and a greener economy, employees need to adapt to a changing labour market. These transformations need to be accompanied by human capital investments. Re-skilling and up-skilling, even at a later age, can help make people more resilient in the face of these changes.

The importance of measuring inequalities across employees' outcomes

87. Taking a comprehensive approach to measuring outcomes in the Social dimension requires measuring inequalities across a range of well-being dimensions. It is not sufficient, in any of these areas, to only consider average outcomes. Data should ideally be sufficiently disaggregated and modular to allow for comparisons between and within groups. Several dimensions of inequalities are relevant for monitoring employees' well-being (see Table 5.2).

88. The most basic are **age** and **gender**. Age groups can shed light on differences in the extent to which a business provides opportunities for young employees, who may face difficulties entering the labour market, or those that are nearing retirement and may find themselves with increasingly obsolete skills. Gender inequalities should be measured in a transversal manner to identify any structural, social or psychological barriers that women face in accessing opportunities and being represented equally in all aspects of decision-making processes.

89. **Race and ethnicity** are an important vector of inequalities, and discrimination and systemic barriers prevent certain groups from gaining complete and equal participation in society and the economy (OECD, 2020^[59]). The national context matters for how terms such as "race", "ethnicity", "migrant status" or indigenous identity" (the latter two are more relevant concepts in some countries) are understood and measured (Balestra and Fleischer, 2018^[60]). Norms and appropriate terminology are evolving rapidly even in countries that are more advanced in collecting data on diversity. In addition, some countries pose legal constraints on whether data on ethnicity or race can be collected.

90. **Staff category** and **contract type** are two additional lenses through which companies may assess the success of their interventions in building inclusive workplaces. Economies and societies are facing massive transitions that require new and different skill sets and that may require companies to adapt and change. Providing equal opportunities for all may mean making particular investments for those people that are most vulnerable to such transitions. By considering outcomes of employees in different staff categories and with different contract types, companies can make sure that, in the face of these transitions, no one is left behind.

91. Indicators should also be disaggregated by **country** and **region** to better highlight geographic inequalities in outcomes. This is necessary to better illustrate the broad impact of a company on global and regional inequalities. Finally, for some indicators, it may be useful to produce data on the distribution of outcomes through average of decile groups of performance. This is in particular the case for the wage distribution, which gives a fundamental overview of a company's wage inequality and is an important data input into various monetisation methodologies.

Table 5.2. Dimensions of inequalities for employee outcomes

Disaggregation	Relevance	Measurement
By age group	Relevant to measure efforts to include young people in the labour market, as well as to monitor whether older workers receive opportunities in the face of structural transformations	Below 30; 30-49; 50 and above
By gender	Relevant to measuring progress in improving the gender balance in company workplaces across the board	Male; Female; Other
By race or ethnicity¹	Relevant to monitor progress in ensuring equal outcomes across racial or ethnic groups	There is currently no international standard to measuring race and ethnicity.
By staff category	Provides insight into whether outcomes differ between different employment groups	ISCO-08 categories
By contract type	Provides insight into whether contract type perpetuates inequalities of opportunity and whether there are inequalities in job security among minority groups	Full-time (Permanent); Part-time (Permanent); Temporary
By country and/or region	Provides insight into the extent to which inequalities are spatial in nature and can help diagnose global and regional inequalities in employee outcomes	Country, region, and further spatial disaggregation if interest
By decile	In particular relevant to measure vertical inequalities in earnings, a core feature of inclusive workplaces, but can also shine light on the distribution of other outcome indicators (e.g. through ratios of the top and bottom quintile, or 'vertical inequalities')	Compute average for each decile

Note: ¹ The provision of breakdowns by race and ethnicity may depend on legal constraints in the national context.

Creation and depletion of resources for future well-being relevant to Society as a whole

92. **Beyond their impact on society through the current well-being experiences of employees, consumers and communities, businesses also create and use up the capitals that society uses to sustain well-being over time**, thereby affecting society as a whole. Existing non-financial reporting frameworks already include a number of key indicators related to firms' creation and depletion of resources for future well-being. Within the logic of aligning the OECD Well-being Framework with business' "Social" performance, the indicators that form part of this component of "Scope 1" only consider the direct contributions that businesses make to, and detract from, the stocks and flows (and risk and resilience factors) of capital resources that are relevant for society as a whole.

93. As noted in Figure 5.3, these indicators of capital contributions and depletion are directly relevant to a number of SDG's including **SDG 4** on quality education, **SDG 8** on decent work and economic growth, **SDG 9** on industry, innovation and infrastructure, **SDG 11** on sustainable cities and communities, and **SDG 16 and 17** on peace, justice, institutions and partnerships. Indirectly, these capital contributions may contribute to all other SDGs, since these capitals provide fundamental pillars for social and economic progress (for example, through corporate taxes or research and development).

Figure 5.3. The relationship between inputs and business activities, business capital creation and depletion, and the impact that may ensue



94. **As the backbone of the economies of all OECD countries, businesses contribute to economic capital, a major building block of both current well-being and of the well-being of future generations.** Most fundamentally, this occurs through business investment in labour and capital inputs. This investment contributes to the prosperity of society as a whole by enhancing capacity to produce goods and services that people can consume or that can be used as intermediate inputs upstream in the value chain. Businesses also contribute to future resources by investing and research and developments, which can generate technological solutions to enhance economic and natural capital, which can benefit the current well-being of society as a whole. Finally, by paying corporate taxes, businesses contribute to fund those public goods that are necessary for economic activity and societal well-being. In OECD countries, taxes on corporate profits account, on average, for 9% of all tax revenue (OECD, 2019^[61]). Base erosion and profit shifting (BEPS) practices have significantly eroded the corporate tax base, with revenue losses from BEPS estimated in the range of USD 100-240 billion (2014 figures), equivalent to 4-10% of corporate tax revenues (OECD, 2015^[62]). Businesses should accurately report their profits and tax payments in jurisdictions in which they are tax liable in order to contribute their fair share to society's economic resources. By doing so, they will contribute not only to economic capital but also to social capital, through maintaining trust in institutions and in a democratic market economy.

95. **Social capital** refers to the norms, networks and values that help different groups in society to engage and co-operate with each other (OECD, 2013^[63]). **Businesses influence social capital through their relationships with stakeholders**, for example by building relationships between workers and managers, fostering **diversity and equal opportunities**, forging **trust** between employees and **acting responsibly and with integrity**. These components of the well-being of employees therefore impact on social capital of society as a whole. Businesses also make specific investments in the social and **human capital** of society as a whole, including by investing in employees and local communities, for example through training programs and community investments (See Table 5.3).

Table 5.3. Common indicators of Social performance: Creation and depletion of resources for future well-being relevant to Society as a whole

Theme	Indicator	Well-being framework	Stakeholders
Revenue and value added	Revenue	Economic capital	Society as a whole
	Value added		Society as a whole
Research and development	R&D spending		Society as a whole
Taxes	Taxes paid		Communities; Society
Community investment	Community investment	Human and social capital	Communities; Society
Human capital investment	Training hours		Employees; Society
	Training expenditure		Employees; Society

Note: Where relevant, indicators should allow disaggregation by entity, facility, location and activity. Further detail on these indicators is provided in Annex Table A.3

96. Certain aspects of the “**Governance**” component of “ESG”, in particular those related to **board composition and compensation** and **good corporate citizenship**, i.e. the idea that companies should comply with legal and moral norms in society, also contribute to social capital and to the extent to which people in society trust businesses and institutions (OECD, 2020^[64]). While in ESG terms, these fall under the category of a firm’s Governance, they are also relevant from a Social performance perspective. Table 5.4 lists indicators in the Governance dimension that also contribute to the creation and depletion of resources for future well-being that are relevant to Society as a whole.

Table 5.4. Common indicators of Governance performance: creation and depletion of resources for future well-being relevant to Society as a whole

Theme	Indicator	Well-being framework	Stakeholders
Board composition and compensation	Board composition	Social capital	Employees; Society
	Board compensation		Employees; Society
Corporate citizenship	Corruption events and risks		Society as a whole
	Fines paid		Society as a whole
	Political contributions		Society as a whole

Note: Where relevant, indicators should allow disaggregation by entity, facility, location and activity. Further detail on these indicators is provided in Table A.4.

6. The measurement and analytical agenda ahead

97. This paper has proposed a measurement framework for one component of the Social performance of the firm, that which is internal to the firm, or “Scope 1”. In doing so, the paper helps to bridge two measurement communities and to better align the measurement of business non-financial performance with official statistics in the Social dimension. This aspect of the statistical agenda ahead underscores the need for greater harmonisation of measures between businesses and national statistical offices in this area. While the paper has identified ongoing work to better align official and business metrics for the Environmental dimension, in the Social dimension, aside from advancing harmonisation of “Scope 1” measures, future work will need to focus on developing more robust metrics of “Scope 2” and “Scope 3” performance.

“Scope 2” Social performance: Product impact and consumer well-being

98. While ample research on the well-being impacts of specific products has been done, no overarching framework of consumer well-being currently exists.⁴³ In principle, the OECD Well-being Framework is a good starting point for measuring well-being outcomes relevant for consumers as it outlines the different aspects of life that are important to consider. Some of the ways in which products can affect the well-being of consumers include the following:

- **Consumer satisfaction:** (Lee et al., 2002^[65]) suggested that consumer satisfaction can be decomposed into different marketplace experiences, such as satisfaction with acquisition, possession and use. It is, however, questionable whether such partitioning holds over time as consumers adapt their expectations to higher standards. In addition, according to (Sirgy, Lee and Rahtz, 2007^[66]) consumer satisfaction does not capture the full experience of consumers. Complementary measures of consumer satisfaction, such as negative service experiences, which are used by the Australian Consumer Policy Research Centre, may provide complementary information on consumer experiences, which can link to various well-being dimensions such as health, time use and more (Thomsen et al., 2020^[67]).
- Traditionally, **health and safety** have been primary concerns of businesses and policy-makers with regards to consumer well-being. Food, tobacco, pharmaceutical and healthcare industries, for example, have a strong influence on consumers through their products, whether positive (e.g. vaccines) or negative (e.g. sugar intake). These effects may be enhanced through advertising: a meta-analysis of the effect of advertising on household consumption expenditures showed that acute exposure to food advertising increased nutrient-deficient food intake in children (Boyland et al., 2016^[68]; Kunkel, Castonguay and Filer, 2015^[69]).

⁴³ The Product Impact Weighted Accounts framework by the Harvard Business School (Serafeim and Trinh, 2020^[90]) provides a way of accounting for the impacts of products in a broad sense, although its conceptualisation of consumer well-being is narrower than the OECD Well-being Framework.

- The **digital transformation** has also spurred significant reflection on the impact of certain digital technologies and products on people's well-being. In particular, there are concerns about the effect of digital technologies on people's **social connections**, but also their **time use** and **mental well-being** (OECD, 2019^[70]). In addition, data privacy is a relevant consumer outcome
- From the perspective of consumers' **income and wealth**, products' affordability and durability are important aspects of their impact. In some industries, such as the pharmaceutical industry, where there is little competition and firms are price setters, there is a clear trade-off between consumers' well-being and shareholders' profits. Adequate regulation can prevent excessive mark-ups and ensure the accessibility of critical products for consumers.

99. **However, measuring how products affect the well-being of consumers is inherently different to the measurement of the way that firms affect the well-being of employees**, for a number of different reasons. In the area of product impact and consumer well-being, a universal measurement framework is harder to achieve since the well-being consequences of the consumption of specific goods and services differ significantly across industries and product groups (e.g. transportation provision and time use; telecommunications and social connections; food services and health outcomes). In addition, there is a greater challenge when attributing well-being outcomes of consumers to their use of specific goods and services, since well-being outcomes may only be indirectly influenced by the consumption of a specific product. More universal measures may therefore have to rely on the measurement of certain inputs or outputs for which a proven causal link with outcomes has been established.

100. **Further work will need to be done to develop common measures for product impacts and consumer well-being.** While the principles of measurement may need to be adapted to the measurement of these "Scope 2" issues, a multi-dimensional approach rooted in the OECD Well-being Framework is certainly also relevant in this area.

"Scope 3" Social performance: Well-being of stakeholders in the supply chain

101. **In principle, the well-being dimensions that are relevant for business' own employees are also relevant to employees in the supply chain**, even though measurement is more challenging because it involves parties external to the firm. In the future, greater awareness of the importance of measuring stakeholder well-being and the availability of digital applications for data management and supply chain traceability may provide opportunities to generate information about workers' well-being upstream. As regards **communities in the supply chain**, comparable conceptual and attribution challenges exist as have been described in the area of consumers.

Micro-level efforts to monitor stakeholder well-being in supply chains: Due diligence monitoring and reporting by firms

102. **Firms can measure their performance on safeguarding the well-being of employees and communities in the supply chain by conducting thorough due diligence processes and monitoring their implementation and performance outcomes.** The OECD has championed global standards for Responsible Business Conduct (RBC) and due diligence in the supply chain (Box 6.1). Several countries have introduced legislation requiring business accountability and due diligence with regards to working conditions in supply chains, such as the Modern Slavery Act in the United Kingdom and Australia. Standard-setters like the World Benchmarking Alliance have also developed standards for firms to monitor their compliance with, and the outcomes of, due diligence processes, which provide an important input into the measurement of business non-financial performance.

Box 6.1. The OECD's Responsible Business Conduct and Due Diligence standards

The OECD is home to an array of internationally recognised instruments on Responsible Business Conduct (RBC), which encourage companies to consider such non-financial issues in all business activities, including throughout the supply chain and in business relationships. The *OECD Guidelines for Multinational Enterprises* is the main OECD instrument on RBC (OECD, 2011^[71]). They cover all major areas where businesses can impact on the society and the planet, namely information disclosure, human rights, environment, employment and industrial relations, bribery, consumer interests, competition, and taxation. A key element of RBC is risk-based due diligence – a process through which businesses identify, prevent and mitigate the actual and potential negative impacts of various risks and explain how those impacts would be addressed. The *OECD Due Diligence Guidance for Responsible Business Conduct* explains how businesses can identify, prevent and mitigate their actual and potential negative impacts across all business operations throughout their supply chains and account for how those impacts are addressed over time (OECD, 2018^[72]).

In addition, sectoral projects are examining how to measure RBC impacts in specific industries, beginning with the minerals and garments sectors. Measurement approaches are centred on monitoring implementation of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas and the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment & Footwear Sector.⁴⁴ To different extents, ongoing OECD projects in these sectors are examining drivers (or incentives), uptake and results (or impacts) of implementing the frameworks for supply chain due diligence set out in these standards.

103. **While measuring well-being outcomes in the supply chain is challenging, due diligence standards and monitoring practices consider many important dimensions of stakeholder well-being.** **Wages** in the supply chain are often significantly below standards in OECD countries, especially in industries relying on low skilled labour, such as the garment industry, other low skilled manufacturing, or agriculture. Some standard-setters have suggested reporting the share of workers in the supply chain who earn below a living wage⁴⁵ (Corporate Human Rights Benchmark, 2019^[73]). **Safety** issues in the workplace, including child and forced labour are another area of particular concern. Other well-being areas covered by due diligence standards and practices concern efforts to ensure **gender equality** in the supply chain, preventing **exploitation** and **long working hours**, and assuring minimum standards for workplace **voice** by allowing freedom of association and collective bargaining.

104. **This being said, corporate self-reporting on their uptake of due diligence standards often remains incomplete.** Even strong reporting on human rights due diligence may not address many of the less visible internal sourcing decisions, management systems and outcomes of due diligence processes that are critical to assessing the quality of uptake. The OECD has conducted monitoring and evaluation projects in the minerals and garments sectors to explore ways of overcoming this challenge, including by integrating specialist, proprietary or paid access to the data collected by industry due diligence programmes. Measuring and reporting on workplace standards in the supply chain is particularly challenging due to the many layers of increasingly complex global supply chains. A recent joint report by the ILO, OECD, IOM and UNICEF (2019^[74]) showed that a significant share of child

⁴⁴ See here for sector-specific guidance on RBC: <https://www.oecd.org/corporate/mne/>.

⁴⁵ A living wage is defined by the Corporate Human Rights Benchmark as a wage that provides a decent living for a worker and his or her family based on a regular work week (not including overtime hours), sufficient to cover food, water, clothing, transport, education, health care and other essential needs.

labour and human trafficking in global supply chains occurs at lower tiers (indirect suppliers), and that between 28% and 43% of child labour contributing to exports occurs at lower levels of the supply chain, such as in extraction of raw materials and agriculture.

105. **Survey measures of the well-being of workers in the supply chain may offer additional information on the social performance of firms in the supply chain.** The Harvard Study of Worker Well-being Survey has demonstrated that surveys among workers in the supply chain can provide meaningful complementary information on the well-being of such workers, suggesting that “the measurement of health and well-being as basic goals of work, in line with business outcomes, is a new bar for social impact and global health” (Weziak-Bialowolska et al., 2017^[75]). In the setting of Chinese factories, (Bellingan et al., 2020^[76]) has shown that well-being surveys shed light on important aspects of workers’ experience that are not captured by traditional social audits. Future work may build on the “Scope 1” measurement framework and propose measures on the well-being of stakeholders in the supply chain.

***Macro-level efforts to monitor stakeholder well-being in supply chains:
Transboundary statistics***

106. **At the aggregate level, statistics on stakeholder well-being outcomes in the supply chain are also limited.** In the economic area, Trade in Value Added (TiVA) statistics provide insight into where the value added of goods and services entering international trade is taking place. In the environmental area, analysis of CO₂ emissions produced in the supply chain feeds into demand-based CO₂ emissions statistics, which shed light on the climate footprint of global supply chains. In the social area, however, there is no consolidated measurement of the well-being outcomes embedded in global supply chains. Recently, some studies have attempted to quantify social the human rights related footprints in the supply chain by using statistics on human rights incidents in the supply chain with input-output tables and trade statistics. Alsamawi et al. (2017^[77]) estimated the occupational health and safety footprints embodied in exports and imports using both multi-regional input-output tables and various international and regional data on occupational health and safety incidents. More recently, the OECD, the ILO, IOM and UNICEF published the first-ever attempt by international organisations to measure human rights violations in global supply chains in Ending child labour, forced labour and human trafficking in global supply chains (ILO, OECD, IOM, UNICEF, 2019^[78]). Using mixed datasets, the report proposed a methodology to estimate the incidence of child and forced labour and human trafficking embedded in exports in countries at risk of these types of human rights abuses, including by sector.

107. Such estimates of human rights footprints and stakeholder well-being in the supply chain rely on macro-level and sector-level statistics of stakeholder well-being in countries downstream in the supply chain, typically non-OECD countries. A pre-condition for such studies is the availability of robust official statistics on the well-being of employees and other stakeholders in these non-OECD countries. Producing official statistics on working conditions in such countries can therefore help strengthen the global evidence base on transboundary business and sectoral impacts at the aggregate level. The UNECE/Eurostat/OECD Task Force on Measuring Sustainable Development (TFSD, convened by the Conference of European Statisticians) identified trade flows as one of the four channels of transboundary well-being impacts between countries. A recent OECD working paper on transboundary impacts in the 2030 Agenda noted that limited data on such impacts currently exist (Ino, Murtin and Shinwell, 2021^[79]). Improving statistical capacity in non-OECD countries to measure well-being outcomes of employees in supply chains is one avenue for improvement. Potential synergies between better measurement of non-financial performance of businesses in supply chains and official statistics should also be explored in the future.

Bridging national and business measurement systems

108. **The final measurement challenge addressed in this paper is the need for greater alignment of non-financial performance data at the micro-level, i.e. those collected by firms, and the macro-level, i.e. data collected by governments. Firms can benefit from better aligning their non-financial performance measurement with government statistics.** When firm-level statistics are aligned with official statistics of business non-financial performance, aggregate statistics for economy as a whole or specific industries can serve as benchmarks for individual firms, allowing them to better understand their strengths, weaknesses, risks and opportunities associated with their social and environmental performance. In the area of natural capital, companies are often not aware of official statistics at the (sub)-national level, and such data do not always come in formats that are easy to use by business (risk) managers and experts.⁴⁶ Better alignment may also reduce costs for establishing and operating different measurement systems and reduce the burden to disclose to multiple stakeholders, while improving comparability across regions or sites in which a business operates. Box 6.2 focuses on aligning measures of employee well-being, one of the components of “Scope 1” Social performance.

Box 6.2. Aligning measures of employee well-being at the macro- and micro-levels

Further progress is needed when it comes to measuring working conditions and employee well-being domestically as well as along the supply chain, both by firms and NSOs:

- In **official statistics**, there is a need for greater comparability, timeliness, and granularity of working conditions surveys in order to better integrate the production, well-being and sustainability spheres and shed light on the well-being performance of sectors. Currently, working conditions surveys differ widely between OECD countries, limiting international comparisons, while the small sample size of multi-country surveys such as the EWCS do not allow differentiating between the performance of different sectors, especially when it comes to inequalities between and within groups.
- **Firms** typically do not measure the well-being outcomes of employees in a comprehensive manner, and can learn from NSOs in this regard. In the future, they may also work with suppliers to request better data on employee well-being outcomes. This would involve going beyond minimum standards of social performance in the supply chain and measuring individual well-being experiences of workers with the same depth as the measurement of well-being of firms' own employees.

109. **There are many reasons why businesses may choose to voluntarily measure or report on their non-financial performance, and why investors may be interested in such information.** The “beyond-GDP” agenda is built around the notion that “what we measure affects what we do”, a concept that is well recognised in management theory (Stiglitz, Sen and Fitoussi, 2009^[2]). Measuring and reporting on business performance in a multi-dimensional manner in the context of SDGs may be a first step towards delivering value to all stakeholders, which is something that more and more businesses are interested in doing. The framework presented in this paper can help businesses better understand and navigate their selection of indicators in the “Social” dimension and encourage them to align their metrics with those used in official statistics. Making progress in this field will require

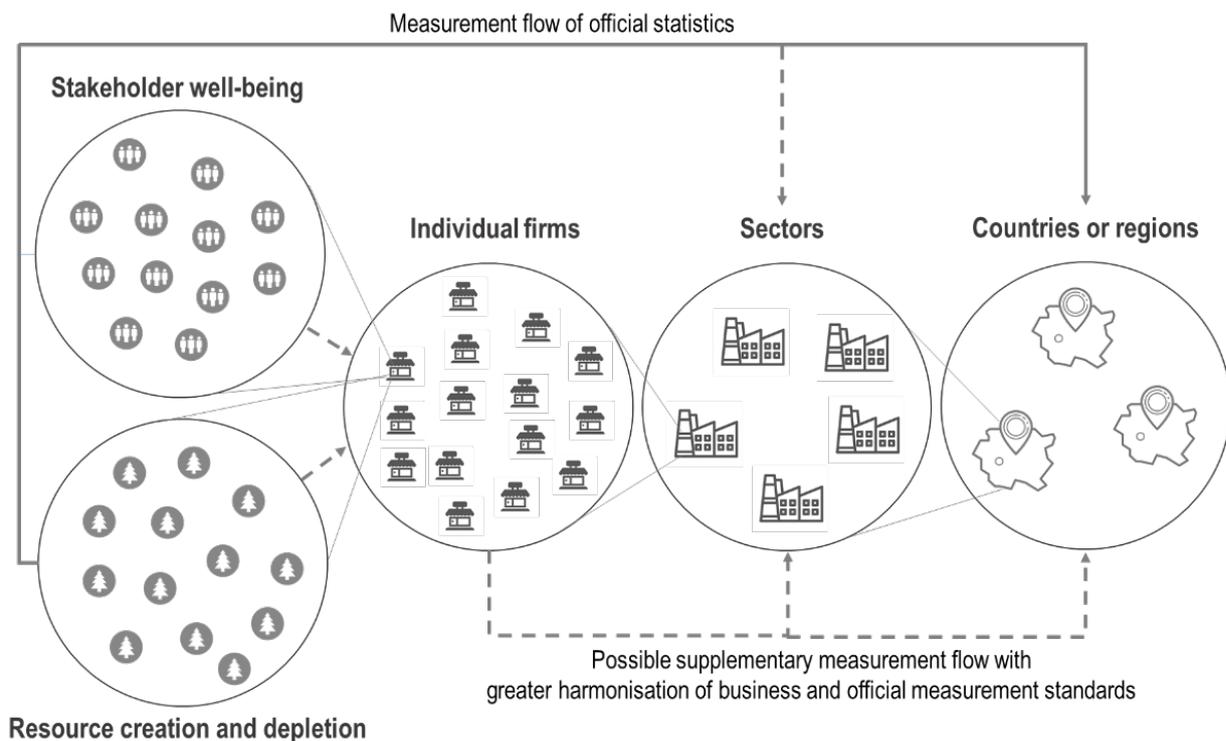
⁴⁶ As noted in the UN SEEA roadmap on aligning business and natural capital accounting, https://seea.un.org/sites/seea.un.org/files/images/business_accounting_6.docx.

continuous collaboration among international organisations and standard setters in bridging various measurement frameworks and promoting alignment and inter-operability of standards, for example in the context of the Impact Management Platform (IMP) Structured Network.

110. For governments, greater alignment between the two measurement spheres can help shed light on the relative performance of businesses and industries and their contributions to well-being and sustainability at the societal level. Firm-level data would help NSOs gain a more granular understanding of the linkages between production, well-being and sustainability. Effectively, this would imply creating a sort of “national well-being accounts”, where country-level well-being statistics could be decomposed into measures for different sectors or groups of businesses (see Figure 6.1). This would require not only that businesses measure the same concepts as national statistical offices, but also that they adopt standardised methodologies for collecting and assuring the quality of this information (e.g. facilitating auditing and peer reviews to validate results). Such flows of non-financial data from firms to NSOs could be the result of mandatory disclosure requirement, although this is not absolutely necessary, as macro-level or sectoral data can be presented without revealing the performance of individual firms.

111. **National Statistical Offices and the wider statistical and research communities can support the alignment of national and business efforts to measure well-being outcomes by sharing their expertise and exchanging best practices with businesses and standard-setters.** This requires NSOs to proactively take part in ongoing discussions on the measurement and reporting of business non-financial performance, and to share best practices in official statistics on social and environmental performance. This is already happening in different settings, including through multilateral bodies such as the OECD’s Committee for Statistics and Statistical Policy and the UN’s Committees of Experts on Environmental-Economic Accounting and on Business and Trade Statistics, and through third-party initiatives such as the Capital Coalition’s Combining Forces initiative.

Figure 6.1. Improved measurement of business non-financial performance provides opportunities for better integration of micro-level and macro-level measurement systems



112. **The framework proposed in this paper is aspirational and provides a starting point for developing comparable indicators on non-financial performance that can be implemented iteratively.** The proposed indicators could be further categorised in different tiers depending on their level of maturity, by identifying a narrower set of indicators that could be used readily by NSOs and firms and those that need further development or investment. Any improvements should be cost-efficient, without imposing a substantial additional financial burden on firms and NSOs. At the societal level, however, greater harmonisation and modularity of data across entities and users would provide cost savings and reduce reporting burdens.

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Annex A. Detailed indicator tables

Table A.1. Common indicators of Environmental performance

Theme	Indicator	Description	Well-being framework	SDG	UNCTAD	GRI	Other reference
Greenhouse gas emissions	Greenhouse gas emissions	Annual emissions of greenhouse gases (GHG Protocol Corporate Standard Scopes 1-2), tonnes of CO2 equivalent, tonnes of CO2 equivalent per USD or local currency, absolute amount and as a share of net value added	Natural capital	9.4.1.	B.3.1, B.3.2	305-1; 305-2; 305-3	
Ozone-depleting substances and chemicals	Ozone-depleting substances and chemicals	Total amount of ozone-depleting substances (bulk chemicals/substances existing either as a pure substance or as a mixture), kg CFC-11 equivalent, kg CFC-11 equivalent per USD or local currency, absolute amount and as a share of net value added		12.4.2.	B.4.1	-	
Energy consumption	Renewable energy	Renewable energy consumption as percentage of total energy consumption in the reporting period, %		7.2.1.	B.5.1	302-1	
	Energy use and efficiency	Energy consumption, joules, joules per USD or local currency, absolute amount and as a share of net value added		7.3.1.	B.5.2	302-1; 302-2	
Water use	Water recycling and reuse	Total volume of water recycled and/or reused, cubic metre (m ³), %, absolute amount and in percentage terms		6.3.1.	B.1.1	303-3	
	Water use and efficiency	Water used, cubic metre (m ³), %, absolute amount and as a share of net value added		6.4.1.	B.1.2	303-3	
	Water stress	Water withdrawn with a breakdown by sources (surface, ground, rainwater, waste water) and with reference to water-stressed or water-scarce areas (expressed as a percentage of total withdrawals), cubic metre (m ³), %, in absolute amounts and percentage terms		6.4.2.	B.1.2	-	
Material use and waste management	Material use and efficiency	Total weight or volume of virgin materials used to produce and package the organisation's primary products and services, by non-renewable and renewable materials, tonnes, %, absolute amount and as a share of net value added		12.2.1	-	301-1	

Theme	Indicator	Description	Well-being framework	SDG	UNCTAD	GRI	Other reference
	Waste	Annual volume of waste generated by type (hazardous, non-hazardous, organic, etc.) and mode of disposal (landfill, recycled, re-used, re-manufactured), tonnes, %, absolute amount and as a share of net value added		12.5, 12.5.1, 12.4.2	B.2.1; B.2.2; B.2.3	306-2	
Land use	Land use in protected areas	Number and area (in hectares) of sites owned, leased or managed in or adjacent to protected areas and/or key biodiversity areas		15		304-1	
Green investment	Green investment	Total amount of expenditures for those investments whose primary purpose is the prevention, reduction and elimination of pollution and other forms of degradation to the environment, USD or local currency, %, absolute amount and as share of total investment		7.2.1	A.3.1	-	

Note: For each proposed indicator, the columns on the right hand side of the table denote corresponding dimensions, goals or measures in the OECD Well-being Framework, the Sustainable Development Goals, the UNCTAD Guidance core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals, the GRI standards, or other reference frameworks.

Table A.2. Common indicators of “Scope 1” Social performance: Employee well-being and inequalities

Theme	Indicator	Description	Well-being framework	SDG	UNCTAD	GRI	Other reference
Employment	Employment by group	Employment of total workforce, management and executive leadership, #, total and by group	Work and job quality	5.5.2	C.1.1	405-1	
	Employees with temporary contracts	Share of employees with a temporary contract, %, total and by group		8.5	C.1.1	102-8	
	Hiring and turnover	Total number and rate of new employee hires and turnover, #, %, total and by group		8.5	-	401-1	
	Perceived opportunities	Share of employees reporting good prospects for career advancement, %, total and by group		8.5	-	-	OECD Guidelines on QWE
Earnings	Wages and benefits	Employee wages including benefits, average, USD or local currency, by group and as a proportion of total revenue	Income and wealth	8.5.1, 10.4.1	C.2.3	-	
	Executive pay gap	Ratio between the total remuneration of CEO and board of directors and the wages and salary of the median employee		8.5	-	102-38	Embankment Project
	Equity ownership	Share of company equity owned by management and employees, %, total and by group		8.5	-	-	

Theme	Indicator	Description	Well-being framework	SDG	UNCTAD	GRI	Other reference
	Financial insecurity	Share of employees reporting they have difficulties making ends meet, %, total and by group		8.5	-	-	EWCS
Work-life balance	Working hours	Average number of weekly hours worked per employee per week, #, total and by group	Work-life balance	8.5	-	-	UN Global Compact-Oxfam Poverty Footprint PF – 3.2
	Long working hours	Share of employees regularly working 50 hours per week or more, including paid and unpaid overtime, and hours worked in additional jobs, %, total and by group		8.5	-	-	OECD Well-being Framework
	Annual leave	Average number of paid annual leave days taken by employees, #, total and by group		8.5	-	401-3	
	Parental leave	Average number of days of parental leave taken by employees following a newborn, #, total and by group		8.5	-	401-3	
Health	Self-reported health	Share of employees reporting good or very good health, %, total and by group	Health	3.4, 3.9	-	-	OECD Well-being Framework
	Mental well-being	Share of employees scoring less than 50 points on the WHO-5 Well-being Index, %, total and by group		3.4.2	-	-	EWCS, WHO
	Absenteeism	Average number of workdays lost due to sickness absences and other reasons, #, total and by group		3.4, 3.9, 8.8	-	403-2	
Safety	Occupational health and safety incidents	Number of injuries, occupational disease cases, and work-related fatalities, as a share of hours worked, #, total and by group	Safety	8.8.1	C.3.2	403-2	
	Discrimination incidents	Total number of reported incidents of discrimination during the reporting period, #		8.8.2	-	406-1	
	Perceived discrimination	Share of employees who indicate having felt discriminated against in the last 12 months, %, total and by group		10.3.1	-	-	EWCS
	Workplace violence and harassment	Share of employees who indicate having experienced adverse social behaviour (e.g. violence, harassment, unwanted sexual attention) in the last 12 months, %, total and by group		8.8.2	-	-	EWCS
Learning and skills	Perceived learning	Share of employees reporting learning new things in their job, %, total and by group	Knowledge and skills	4.3.1, 8.5	-	-	OECD Guidelines on QWE
	Training perceptions	Share of employees reporting that training has improved employment prospects, %, total and by group		8.5	-	-	OECD Guidelines on QWE
	Self-realisation	Share of employees reporting to have enough opportunities to use their knowledge and skills in their current job, %, total and by group		8.5	-	-	OECD Guidelines on QWE

Theme	Indicator	Description	Well-being framework	SDG	UNCTAD	GRI	Other reference
Voice and representation	Workplace voice	Employees' perceived degree of consultation and involvement in the organisation of work and in decision making and work processes, 0-10 scale, total and by group	Voice	16.2.7	-	-	OECD Guidelines on QWE
	Collective bargaining	Share of employees covered by collective agreements (in terms of headcount or FTE), %, total and by group		8.8.2	C.4.1	-	
	Trust in management	Average rating of trust in management of employees, 0-10 scale, total and by group		8.5	-	-	OECD Guidelines on Trust
Social support	Social support	Employees' perceived support from co-workers and managers, 0-10 scale, total and by group	Social connections	8.5	-	-	OECD Guidelines on QWE
	Managerial practices	Share of employees who indicate the value of their work is properly recognised, %, total and by group		8.5	-	-	OECD Guidelines on QWE
	Trust between workers	Average rating of trust in other employees, 0-10 scale, total and by group		8.5	-	-	OECD Guidelines on Trust
Subjective well-being	Job satisfaction	Job satisfaction of employees, 0 to 10 scale, total and by group	Subjective well-being	8.5	-	-	OECD Guidelines on SWB
	Life satisfaction	Life satisfaction of employees, 0 to 10 scale, total and by group		-	-	-	OECD Guidelines on SWB
	Intrinsic rewards	Share of employees who report feeling their job is useful, % total and by group		8.5	-	-	OECD Guidelines on QWE
	Eudaimonia	Share of employees reporting their job gives them a feeling of a job well done, %, total and by group		8.5	-	-	OECD Guidelines on QWE
Environmental quality	Exposure to loud noise	Share of employees exposed to loud noise, %, total and by group	Environmental quality	8.8	-	-	OECD Guidelines on QWE
	Exposure to chemical products	Share of employees who come into physical contact with chemical products, %, total and by group		8.8	-	-	OECD Guidelines on QWE
	Exposure to air pollution	Share of employees exposed to breathing in smoke, fumes, powder, dust, vapours or tobacco smoke from other people, %, total and by group		8.8	-	-	EWCS

Note: For each proposed indicator, the columns on the right hand side of the table denote corresponding dimensions, goals or measures in the OECD Well-being Framework, the Sustainable Development Goals, the UNCTAD Guidance core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals, the GRI standards, or other reference frameworks. The OECD Guidelines on QWE refers to the *OECD Guidelines on Measuring the Quality of the Working Environment (2018)*; OECD Guidelines on Trust refers to the *OECD Guidelines on Measuring Trust (2018)*, and OECD Guidelines on Measuring SWB refers to the *OECD Guidelines on Measuring Subjective Well-being*, EWCS refers to the European Working Conditions Survey.

Table A.3. Common indicators of “Scope 1” Social performance: Creation and depletion of Economic, Social and Human Capital

Theme	Indicator	Description	Well-being framework	SDG	UNCTAD	GRI	Other reference
Revenue and value added	Revenue	Total revenue from contracts with customers, USD or local currency	Economic capital	8.2.1	A.1.1	201-1	IFRS 15
	Gross value added	Value added before interest, taxes, depreciation, and amortization, USD or local currency		8.2.1	A.1.2	201-1	
	Net value added	Value added before interest and taxes and after depreciation of tangible assets, USD or local currency		8.2.1	A.1.3	201-1	
Research and development	R&D spending	Total expenditure on research and development (R&D), USD or local currency, %, absolute amount and as a share of net value added		9.5.1	A.3.3	-	
Taxes	Taxes paid	Total amount of taxes paid and payable, including corporate income taxes, property taxes, value added taxes, employer-paid payroll taxes, plus related penalties paid, plus all royalties, license fees, and other such payments to the government, USD or local currency, %, absolute amount and as a share of net value added		10.4; 17.1.2.	A.2.1	-	
Community investment	Community investment	Total amount of charitable/voluntary donations and investments of funds (both capital expenditure and operating ones) in the broader community where the target beneficiaries are external to the enterprise incurred in the reporting period, USD or local currency, %, absolute amount and as a share of total investment	Human and social capital	17.17.1	A.3.2	-	
Human capital investment	Training hours	Training hours per year per employee, #, average and by group		4.3.1	C.2.1	404-1	
	Training expenditure	Expenditure on employee training per year per employee, USD or local currency		4.3.1	C.2.3	-	

Note: For each proposed indicator, the columns on the right hand side of the table denote corresponding dimensions, goals or measures in the OECD Well-being Framework, the Sustainable Development Goals, the UNCTAD Guidance core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals, the GRI standards, or other reference frameworks.

Table A.4. Common indicators of Governance performance: Creation and depletion of Social Capital

Theme	Indicator	Description	Well-being framework	SDG	UNCTAD	GRI	Other reference
Board composition and compensation	Board composition	Board of directors, number of members by group, #	Social capital	5.5.2	D.1.2	102-22	
	Board compensation	Total annual compensation (including base salary and variable compensation) for each executive and non-executive director, USD or local currency		5.5.2	D.1.5	102-39	
Corporate citizenship	Corruption events and risks	Number of public investigations, prosecutions or closed cases regarding corruption cases referring to the firm or its management, #		16.5.2	-	205-3	
	Fines paid	Amount of fines paid or due related to infractions and corruption-related settlements imposed by regulators and courts, USD or local currency, %, absolute amount and as a share of net value added		16.5.2	D.2.1	419-1	
	Political contributions	Monetary value of financial and in-kind political contributions made (directly and indirectly) by the firm, with breakdown nature of the recipient/beneficiary, USD or local currency		16.5, 16.6	-	415-1	

Note: For each proposed indicator, the columns on the right hand side of the table denote corresponding dimensions, goals or measures in the OECD Well-being Framework, the Sustainable Development Goals, the UNCTAD Guidance core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals, the GRI standards, or other reference frameworks.