Principles for Responsible Investment

ENGAGING RETAILERS ON EMPLOYEE RELATIONS

A QUICK-REFERENCE GUIDE

WHY ENGAGE?

Employee relations includes how a company manages the skills, engagement and retention of its employees. Many studies show a positive correlation between employee relations and a company's financial performance[1]: highly engaged employees tend to stay longer, and are more likely to be productive and provide good customer service.

Global companies with highly engaged employees grow earnings per share more than 2.5 times faster than those whose employees show below-average engagement.[2]

As a labour-intensive sector, employee relations are particularly relevant for retail, yet reporting on the issue tends to be poor.

HOW TO ENGAGE

STEP 1: REVIEW REPORTING FOR RED FLAGS

Even if a company reports that it "values its employees", there are several red flags that indicate that the company might underestimate the importance of its employees to its business:

- no reporting on employee-related KPIs;
- no reporting on performance against those KPIs, or narrative on that performance over time;
- no demonstrated awareness of the issue at the company's most senior level.

PRI-COORDINATED ENGAGEMENT ON EMPLOYEE RELATIONS IN THE RETAIL SECTOR[3]

This reference guide describes lessons learnt from a PRI-coordinated engagement that saw 24 investors with US$1.5 trillion of assets under management work together to enhance 27 global retail companies' performance and reporting on employee relations. After 16 months, 22 of the companies improved their reporting and three improved their performance, against a set of KPIs identified as financially material. The most improved companies increased their overall performance and reporting score by 26%.

A detailed analysis of the engagement results, including good practice examples, will be made available in a forthcoming report in early 2016. For more information, contact:

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1 IRRC Institute (2015) – "The Materiality of Human Capital to Corporate Financial Performance"

2 The Gallup Management Journal: Byrant Ott (2007) - "Investors, Take Note: Engagement Boosts Earnings".

3 The Principles for Responsible Investment is a UN supported initiative for responsible investment with over 1400 signatories with US$ 59 trillion assets under managements.

"But we haven't done anything wrong"

This response, expressed by a supermarket during the engagement, is a reminder that investors need to be clear on how managing environmental, social and governance considerations such as employee relations is not only about risk, but provides opportunities and potential competitive advantage.

STEP 2: ASK TRIED-AND-TESTED QUESTIONS

On employee turnover:

- How does the company's annual employee turnover rate compare to previous years and industry peers?
- Based on its business model, what rate is the company aiming for?
- What is the company's strategy to achieve or retain its desired turnover rate?

On employee training:

- How does the company assess what current and future skill sets it requires?
- To meet this need, what training is provided, how much (e.g. hours of training or money spent) and how regularly (to each employee or group of employees)?
- How does the company measure the effectiveness of its training?

On employee engagement:

- How does the company identify the needs and engagement levels of its employees on a regular basis, and what are they?
- How does the company respond to the findings and ensure that its workforce is motivated and enabled to contribute to the success of the business?

STEP 3: EVALUATE THE COMPANY'S RESPONSE

Leading companies are able to go beyond the numbers and explain context such as the rationale behind their employee-related KPIs, the outcomes of those KPIs over time and how their employee-related strategy links to their overall strategy and business model.

STEP 4 RESPOND TO COMPANY CONCERNS

"The information is commercially sensitive. My peers don't report this information and it would be a competitive disadvantage to do so."

Many retailers across different subsectors and regions already report such information (for example, the German supermarket Metro reported its employee turnover and the Mexican hypermarket Walmart Mexico reported its spend on employee training). Companies can also find a reporting method that suits their circumstances: for instance, instead of reporting the total spent on training, a company might choose to report the average hours of training per employee.

"It is too difficult to measure training."

Where quantified metrics cannot fully capture activity, measurement and reporting should not be abandoned, but reinforced with explanatory narrative. Companies should also collaborate with sector peers, investors, other stakeholders and experts to develop solutions for quantitative reporting.

"The data is not consistent enough between peers/countries to allow meaningful comparisons."

Leading companies provide data over time, to identify improvements or anomalies, and, where needed, break it down, e.g. by country, to allow more meaningful comparisons. They also provide a clear narrative to put their data into context, and are clear on the definitions they used. Good sector practice, or international standards such as the G4 Sustainability Reporting Guidelines or SASB's Sustainability Accounting standards for the consumption sectors, can provide further guidance.

The PRI's Investor Engagements team coordinates collaborative investor initiatives on a range of environmental, social and governance issues. To find out more, visit www.unpri.org