

Consultation on International Sustainability Standards Board Agenda Priorities Acas response

12 October 2023

This is the Acas Executive response to the [International Sustainability Standards Board's \(ISSB\) 'Consultation on Agenda Priorities' \(PDF, 284KB\)](#).

Cover letter

Acas is the independent, impartial non-departmental public body, sponsored by the UK government's Department for Business and Trade. Our research illustrates the material cost to business of not getting workplace relations right – over £28.5bn per year; around £1,000 per employee.

CIPD is the professional body for HR and people development. With more than 160,000 members globally we give trusted advice and offer independent thought leadership.

Together, we welcome the International Sustainability Standards Board's proposed focus on the 'Social' in environmental, social, and governance (ESG) and particularly human capital as an area for research. We agree with the International Sustainability Standards Board's assessment that these areas are less consistently reported and not as advanced as either governance reporting or environmental reporting, providing insufficient evidence for effective decision making.

While we recognise the economic imperatives and global climate emergencies that require attention, we also argue that matters of human and social capital need to be prioritised by company boards and investors. This was very much in evidence during the covid-19 (coronavirus) pandemic. Health and safety, labour and skills availability, and job design and culture were all demonstrated as being material to company performance and therefore important and significant in their own right.

Our analysis suggests significant gaps in the understanding of the Social dimension – the 'full footprint' – are rarely recognised. Our emerging view is that the 'Social' footprint covers the relationship an organisation has with all material stakeholders given the purpose, sector and strategy of the firm. We urge the International Sustainability Standards Board to lead the international community in a more comprehensive understanding of the 'Social' and to incorporate the very credible work by sector that already exists in the published materiality matrices.

Human capital undoubtedly is central to value creation and risk mitigation and your decision to focus research in this area makes sense. We have identified potential gaps in the research programme and would welcome further engagement to define this domain in its fullest material extent.

While some boards and investors are focused on a narrow set of ethical and diversity dimensions of 'good corporate social responsibility (CSR)', there is robust evidence pointing to a need to identify a broader set of material dimensions to help businesses thrive and manage risks during uncertain challenging times and ultimately to drive value over the longer term.

Acas and CIPD have started to marshal the evidence on the evolving definitions. We are also reviewing the non-financial social metrics in UK and international frameworks to understand areas of commonality and gaps. We would be happy to share the evidence and

emerging models with the International Sustainability Standards Board later in 2023. Our intention is to offer a full definition of 'Social' and then offer more detailed insight around the employee stakeholder since this is an area where we have market-leading expertise.

Our response specifically recommends:

- that the International Sustainability Standards Board note the current gap and inconsistencies in the way social factors are understood and used by stakeholders, boards, and investors, which is a risk to progress
- that the International Sustainability Standards Board invites Acas and CIPD to present their evidence demonstrating the positive link between the relationship footprint a firm has with its material stakeholders (the 'Social' in environmental, social, and governance) and long-term value creation and risk mitigation. Also, on the implications and opportunities for consistent reporting and benchmarking

Acas and CIPD have each separately submitted responses to the consultation, drawing on our rich research and insight on the workplace.

We would welcome further ongoing conversations about how human capital reporting can advance our collective thinking about sustainable workplaces and global economic growth and inform your programme of work.

Full response

Response to question 3 – should the International Sustainability Standards Board prioritise a single project or work on more than one project?

Single project – 'human capital'

Summary

Global investors need a consistent set of workforce metrics to understand and make evidence-based decisions on what adds material value and mitigates risk. The social aspect of environmental, social, and governance is less well developed or consistently reported upon than governance and environmental reporting.

While we recognise the economic imperatives and global climate emergencies that require attention, we also argue that matters of human and social capital need to be prioritised by company boards and that there is a particular deficit of understanding that the International Sustainability Standards Board is well-placed to address by raising the quality of global understanding.

Our insight suggests that a focus on the material non-financial information has the potential to support financial return – to companies, investors and to the wider global economy – and that this is currently undermined by a lack of understanding of social factors.

The International Sustainability Standards Board has a critical role in driving greater understanding of the breadth of the 'Social' and this includes recognising the materiality of critical factors that have been overlooked. The research focus on human capital is welcomed but could risk missing the breadth of the social dimension and some key domains which are critically material to sustainability.

Who we are

Acas is an independent and impartial non-departmental public body with a statutory duty to promote the improvement of industrial relations in Great Britain. In carrying out this duty, Acas offers conciliation in both individual and collective disputes; good practice advisory services for employers, and a website and national helpline which assists millions of employers and employees each year.

Acas brings particular and specific insight into workplace relations in Great Britain and we have links with dispute resolution agencies internationally as a member of the International Disputes Agencies network, made up of the English speaking nations' dispute

resolution agencies who can attest to the importance of these workplace factors globally. Acas wishes to contribute to a longer conversation with the International Sustainability Standards Board, using emerging evidence, to inform a future definition of the 'Social' in environmental, social, and governance, which captures both workforce factors and the wider 'Social' domains.

Acas is in the process of commissioning a detailed evidence review of insight across a broader range of social capital issues, which could inform the International Sustainability Standards Board's thinking. We would be happy to share this in due course.

Response to question 5a

Section A: introduction

We welcome the International Sustainability Standards Board's proposed focus on the 'Social' in environmental, social, and governance and particularly human capital as an area for research.

We agree with the International Sustainability Standards Board's assessment that these areas are less consistently reported and not as advanced as either governance reporting or environmental reporting, providing insufficient evidence for effective decision making. This leads to inconsistent traction and low levels of engagement (beyond mandated requirements in different jurisdictions).

Our own analysis suggests significant gaps in the understanding of the social dimension; the 'full footprint' is rarely recognised. Our emerging view is that the 'Social' footprint covers the relationship an organisation has with all material stakeholders given the purpose, sector and strategy of the firm. Our developing model definition of the 'Social' in environmental, social, and governance captures 6 broad areas:

- organisational purpose and reputation
- human rights
- equality, diversity and inclusion
- workforce loyalty and engagement
- workforce capability
- employee health and safety

There is robust evidence pointing to a need to identify and focus on this broader set of material dimensions to help businesses thrive and manage risks during uncertain challenging times and ultimately to drive value over the longer term.

We urge the International Sustainability Standards Board to note the current gap and inconsistencies in the way social factors are understood and used by stakeholders, boards, and investors, which is a risk to progress. There is an opportunity to lead the international community in a more comprehensive understanding of the 'Social' and to incorporate the very credible work by sector that already exists in the published materiality matrices.

Acas is currently undertaking a review of the non-financial social metrics in use across different UK and international frameworks, including commonalities and gaps against our developing broad definition.

Our initial analysis of the frameworks in use identifies some aspects of this broad footprint that are better defined and deployed than others. While there are consistencies around key human rights issues, for example, forced labour, child labour and modern slavery, our initial findings suggest significant gaps around workplace factors including productivity, flexible work and skills in the frameworks we looked at.

The evidence set out in our submission draws on our particular experience and expertise, and as such centres on the importance of workforce factors.

In the UK, CIPD have also identified a particular issue with workforce reporting – and their recent review of the quality of human capital and workforce reporting among FTSE 100 firms suggests that the overall quality of corporate disclosures in this area is poor. Financial

Reporting Council (FRC) Lab analysis concurs, stating that 'despite regulatory focus over recent years and increasing company and investor interest, there is a lack of consistent disclosure on workforce matters'.

We ask that the International Sustainability Standards Board considers inviting Acas and CIPD to present their evidence demonstrating the positive link between the relationship footprint a firm has with its material stakeholders (the 'Social' in environmental, social, and governance) and long-term value creation and risk mitigation. Also, on the implications and opportunities for consistent reporting and benchmarking.

International Sustainability Standards Board's research programme

The International Sustainability Standards Board consultation specifically invited prioritisation of the research areas with 3 areas proposed: (1) biodiversity, ecosystems and ecosystem services, (2) human capital and (3) human rights. This covers some but not all of the social dimension footprint and you may wish to consider research gaps in areas such as organisational purpose and reputation and employee health and safety, which we identified in our broader definition of material social factors.

The human capital research programme

Human capital is undoubtedly central to value creation and risk mitigation and your decision to focus research in this area makes sense. We have identified potential gaps in the research programme and would welcome further engagement to define this domain in its fullest material extent.

Our analysis of the factors that support value-creation, productivity and growth suggests some key potential gaps in the International Sustainability Standards Board's proposed specific programme on human capital, namely: skills, job design, employee voice and representation, and good management practices (including conflict management and dispute resolution). These may be captured within your categories but we suggest their importance merits explicit exploration within the International Sustainability Standards Board research programme themes.

Section C outlines why these factors are critical to sustainability, but first we address the subtopics identified by the International Sustainability Standards Board in Section B.

Section B: International Sustainability Standards Board subtopics

The International Sustainability Standards Board has identified 7 subtopics within the field of human capital. We endorse these subtopics and acknowledge their materiality and importance to productivity, growth and sustainability, as indicated in the evidence cited below. We have not identified a priority ranking.

Worker wellbeing, including mental health and benefits, is key to ensuring overall business success. [Health and Safety Executive \(HSE\) statistics](#) show that each year, over a million workers are injured or made ill by their work in Great Britain alone. This has financial costs for individuals and their families, as well as employers and government. [Research also indicates that worker wellbeing plays an important role in driving higher levels of labour productivity \(PDF, 2.1MB\)](#).

[A business case for diversity, equity and inclusion](#) has long existed, which argues that diversity of staff can improve learning and effectiveness of firms.

Employee engagement can have a positive impact on business performance. [A meta-analysis of 456 research studies \(PDF, 616KB\)](#) showed that across companies, businesses scoring in the top half on employee engagement more than doubled their odds of success compared with those in the bottom half. There is also a [positive relationship between employee trust and workplace performance](#), and [indications that this holds true across different measures of workplace performance \(PDF, 400KB\)](#) (financial performance, labour productivity and product or service quality).

While there remains considerable debate about definitions and measurement of the alternative workforce, [a wide range of research](#) has highlighted the generally inferior outcomes associated with most alternative work arrangements in terms of pay, progression, insecurity and satisfaction when compared to permanent employment.

Workforce costs, such as pay and benefits (including performance related pay programmes), are [strongly linked to improved innovation activities and overall productivity](#). Given the evidenced links between these subtopics and productivity, we endorse these choices for focus.

Section C: recognising the breadth of the 'Social' in the International Sustainability Standards Board research programme

The 7 subtopics rightly identified by the International Sustainability Standards Board are vital to value creation, productivity and growth, but fail to capture the full breadth of the 'Social'. Below, we outline 5 additional subtopics that, we would argue, have been missed and warrant particular attention; they represent an attempt to broaden the International Sustainability Standards Board's conception of relevant 'Social' factors.

It is possible that some of these subtopics might fit within or under those already identified by the International Sustainability Standards Board, but given their importance to value creation and materiality to investors, they merit an explicit focus. They are: skills, job design, employee voice and representation, good management practices (including conflict management and dispute resolution), and work-life balance.

These additional factors give an indication of the breadth of the 'Social' but they do not necessarily capture the full 'Social' footprint covering the relationship between an organisation and its material stakeholders, that is they do not go far enough. Therefore, in addition to what's set out below, we are conducting further research to uncover the whole gamut of material 'Social' factors which, as stated earlier, we can share with the International Sustainability Standards Board later in 2023 to 2024.

Productivity is critical across each. It may have been missed from the International Sustainability Standards Board's human capital list as it is fundamental to being able to model the impact of social value from human capital. Given the global economic climate, it would therefore appear to be a risk not to have an explicit focus on productivity within human capital.

Skills

It is important that the International Sustainability Standards Board consider skills either as part of workforce investment or more broadly. Education and skills are important drivers of productivity. Various econometric studies have confirmed the importance of skills and education for productivity growth.

For example, [a 2013 BIS research paper \(PDF, 622KB\)](#) found that a 1% rise in the share of the workforce with a university education raises the level of productivity by 0.2% to 0.5% in the long run. [Research from the US](#) suggests that skills play a key role in the effective use of information technology and there is evidence – [based on analysis of linked-employer-employee data](#) – that innovation at firm level is enhanced by a combination of skills and research and development (R&D) investments. [Recent papers from the OECD](#) reached a similar conclusion.

Job design

- [Analysis of European data from 1995 to 2000](#) suggests that countries with higher job quality have higher levels of labour productivity and vice versa.
- [2020 research from the Warwick Institute for Employment Research \(PDF, 500KB\)](#) found evidence of a link between good work and productivity. The Warwick Institute reports a positive correlation between 4 of the 7 dimensions of good work (for which evidence exists) and productivity: particularly pay and benefits; health, safety and psychological wellbeing; job design and the nature of work; and voice and representation.

- Research on job design and the nature of work (comprising a [2015 analysis of 3,098 employees across 76 organisations](#) and a [2009 study involving 2 manufacturing firms](#)) shows that autonomy, empowerment and learning in work increase innovative capacity, and in some sectors, particularly manufacturing, also lead to increases in productivity.

Employee voice and representation

- [A 2005 paper from Haskel \(PDF, 207KB\)](#) examined the relationship between unions and firms' productivity, finding a significant positive relation between productivity and union recognition at firm level.
- More recently, a [2017 paper from the UK's National Institute of Economic and Social Research \(PDF, 959KB\)](#) found that increases in union density led to substantial increases in firm productivity and wages.
- [The Warwick Institute for Employment Research \(PDF, 500KB\)](#) maintain that 'there is 14% higher productivity for the best voice and representation than in the poorest'.

Good management practices (including conflict management and dispute resolution)

Management practice:

- [Bloom and Van Reenen's World Management Survey \(WMS\)](#) has, since 2003, mapped management practices across more than 20,000 businesses, hospitals and schools in 35 countries. It finds that firms ranked amongst the top fifth for 'management quality' are more than 3 times as profitable as the bottom fifth.
- Drawing on these data, [2006 research involving 732 medium-sized manufacturing firms in the USA, France, Germany and the UK](#) found that better-managed firms are both more productive and have better conditions for their employees.

Dispute and conflict:

- [2021 Acas-commissioned research](#) mapped the incidence of conflict across UK workplaces, showing the impact on individuals and their employers. This found that the cost of conflict to UK organisations was £28.5 billion – the equivalent of more than £1,000 for each employee. Close to 10 million people experienced conflict at work. Of these, over half suffer stress, anxiety or depression as a result; just under 900,000 took time off work; nearly half a million resigned, and more than 300,000 employees were dismissed.
- These outcomes illustrate the wider societal implications of workplace conflict and, in turn, the importance of a broad definition of the 'Social'. In the UK, stress, depression and anxiety pose significant costs to the UK economy and account for a significant proportion of sickness absence from work.

Work-life balance

[A comprehensive narrative review of empirical data conducted in 2009](#) explored the relationship between work-life balance practices and organisational performance. Overall, the findings suggest that work-life balance practices are often associated with improved organisational performance. 2 more recent studies ([a 2018 literature review comprising 187 studies](#) and [2017 research using qualitative data from case studies](#)) find that work-life balance policies have strong links to both firm innovation and productivity while also improving worker wellbeing indicators.

As stated above, these additional subtopics represent an attempt to broaden the International Sustainability Standards Board's conception of material 'Social' factors. It is therefore important that the International Sustainability Standards Board's research programme covers the whole breadth of the 'Social' in order to mitigate the risk of reinforcing or legitimising current narrow definitions which – as a result – omit critical human capital drivers of productivity.

Response to question 5b

The benefit of good work relations on growth and productivity and the cost of workplace disputes to businesses is universal across industries. Indeed, as outlined above, analysis of data across multiple European countries shows that higher job quality is associated with higher levels of labour productivity and vice versa. Furthermore, better management practices across multiple countries (USA, France, Germany and the UK) have been shown to improve productivity.

With that said, there is evidence that shows the differential effects of employee voice and representation based on industry: with union coverage being shown to increase productivity in non-manufacturing industries but not in manufacturing industries.

In addition, we know that some industries have a higher propensity for workplace conflict and disputes than others. For example, research commissioned by Acas involving 53 employees across 6 industries suggests that employees from the 'manufacturing' and 'health and social work' sectors are more likely to use Acas services.

This tallies with data from an evaluation of one of Acas's core services: the helpline. In 2022 to 2023, we received 649,000 helpline calls from employers and employees. Of these, the most common topic was around discipline, dismissal and grievance (39%). Followed by contracts (18%), then wages and pay (15%).

Analysis of these data shows that employees from the following sectors are most common callers to our helpline:

- 'human health and social work activities' (19%)
- 'wholesale and retail trade; repair of motor vehicles and motorcycles' (13%)
- 'manufacturing' (9%)

Regarding employers, the following sectors are the most common callers to our helpline:

- 'human health and social work activities' (16%)
- 'manufacturing' (13%)
- 'wholesale and retail trade; repair of motor vehicles and motorcycles' (10%)

These statistics are reflected in the findings of the [latest Survey of Employment Tribunal Applications \(PDF 6MB\)](#), carried out in 2018. The survey involved 2,663 interviews: 1,373 with claimants and 1,290 with employers. It found that the following industries account for nearly half of the Employment Tribunal applications in England and Wales:

- human health and social work activities (19%)
- manufacturing (11%)
- wholesale and retail trade, repair of motor vehicles and motorcycles (10%)
- education (9%)

As such, sectors where disputes are concentrated may particularly benefit more greatly from measures to improve skills, job design, employee voice and representation – there is a significant difference in materiality - but the evidence suggests that these factors can improve organisational outcomes in all industries and sectors.

We urge the International Sustainability Standards Board to incorporate the very credible work by sector that already exists in the published materiality matrices.

Response to question 5c

Acas is currently undertaking a review of the non-financial social metrics in use across different UK and International frameworks, including commonalities and gaps. This analysis identifies risks of a gap if existing materials only are used as the benchmark.

Our early analysis shows that there are significant gaps across the range of frameworks in use around workplace factors including productivity, flexible work and skills. Full analysis can be shared with the International Sustainability Standards Board later in 2023 to 2024.