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PRESS RELEASE

Exposing social washing: Executive remuneration, workforce surveys and decent work

PIRC today publishes a report on an investigation into 'social washing' that looks at the trend of questionable employee engagement scores being used by major companies to justify huge executive bonuses.

The last decade has seen a boom in accreditation and ratings services based on 'black box' datasets. These are designed to guide the practices of investors who want to understand the environmental, social and governance (ESG) performance of a company.

But this industry is unregulated and vast. Companies are increasingly tapping into it to tailor their reporting and meet the expectations of the responsible investment market – and there is little scrutiny of the underlying metrics used.

To shine a light on the risks and inconsistencies PIRC reviewed the reporting and remuneration policies of 12 of the largest listed employers in the FTSE EuroFirst index to uncover how employment-related indicators are being used:

> *Volkswagen Ag; Compass Group Plc; Deutsche Post Ag; Siemens Energy Ag; Teleperformance Se; Carrefour Sa; Fresenius Medical Care Ag & Co Kgaa; Hsbc Holdings Plc; Vinci; Bnp Paribas Sa; Unilever Plc; Associated British Foods Plc*.

The companies all have over 100,000 employees and span a range of sectors including business services, healthcare, retail, finance, and manufacturing.

Key findings

- Half of the companies use employee engagement scores, based on workforce surveys, as a KPI for executive bonuses.
- A lack of rigour in terms of survey methods and scoring however undermines the credibility of this KPI.
- The prevalence of workforce surveillance and job insecurity mean that employees cannot participate in company-led surveys without fear of repercussions.

- Despite this, the use of these scores as a target for executive bonuses is more prevalent than the use of other, more verifiable, employment indicators. For example, only one company in the sample uses a workforce safety indicator and five use a gender diversity indicator.
- In half of cases, the relevant engagement score is not disclosed, even when being used as a bonus KPI.
- There is not enough detail in remuneration policies to assess whether the KPIs are being appropriately set. For example, the target at one company was to improve the approval rate for employee engagement from 77% to 78%. Without context, it appears to be a very easy target to meet, and bonuses are likely to be paid out.
- No companies fully disclosed their workforce survey methodology: half disclosed no method, half disclosed basic information.
- Half are participating in commercial accreditation services that rank companies based on employee experience
- One company, Teleperformance, is using a commercial accreditation service as a KPI for executive bonus setting, despite scoring poorly against other social indicators such as employee turnover and pay inequality.

The full report is available on request. Please contact *tom.law@pirc.co.uk* to access the report.

Alice Martin, Labour Specialist at PIRC, said:

> “When assessing employment standards, a company’s assertions, or the assessments of a commercial provider hired by the company, should never be taken at face value.
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> The example of Teleperformance – a huge global employer accused of monitoring and recording the screens of its workforce – demonstrates why company-led workforce surveys do not tell us anything meaningful about how those employees are really being treated.
>
> Paying out executive bonuses based on these deceptive measures amounts to social washing.”

Cllr Gerald Cooney, Chair, Northern LGPS, said:

> “Pension funds are increasingly concerned with the social impacts of their investee companies, particularly with regards to how workforces are treated.
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> We are however inhibited by the lack of comparable data out there to help us assess a company’s practices.
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> This is made worse by the slew of awards and accreditation services that companies commission to promote a positive image of their workforce

> practices, whilst telling us little about the more important markers of decent work, like safety, job security and pay."

BACKGROUND

PIRC is the largest independent European provider of corporate governance, proxy voting and corporate social responsibility investment research and engagement advisory services. Our clients include pension funds and fund managers with combined assets of over £1.5 trillion.

The **Northern Local Government Pension Scheme (Northern LGPS)** Trust is a partnership between the pension funds of Greater Manchester, Merseyside and West Yorkshire, with £46 billion of combined AUM. Northern LGPS's purpose is to ensure the assets of its funds perform effectively so that members receive a pension that enables them to enjoy their retirement in dignity.

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