Social & Human Capital Coalition

The Social & Human Capital Protocol

Making companies that truly value people more successful

Draft for Public Consultation: 17 April to 18 June 2018

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Introduction: The need for action

People are at the core of business. They are companies' employees, customers, suppliers, distributors, retailers and neighbors. They determine whether a company has a productive workforce, loyal customers, healthy value chains, vibrant local communities, and supportive governments and stakeholders now and into the future. Their growth and well-being matter to the bottom line.

In the current global context ensuring this growth and well-being presents multiple challenges. Despite significant advances in economic development, persistent poverty, rising inequality, economic instability and a broadening skills gap are all impacting business value. No longer can companies rely solely on financial assets or returns on financial capital to evaluate business risks and opportunities. They must also understand how trends and shifts in society will affect them.

In September 2015, all 193 UN Member States ratified a set of 17 Sustainable Development Goals to provide a framework for achieving global prosperity within the limits of the planet. Momentum from this revitalized global agenda alongside government policy, investor requests and consumer sentiment are all driving companies to better manage their social risks and integrate social impact into their core business strategies.

To do well in today's world, companies must understand the value they create for their shareholders, for society, and for their business beyond financial returns.

Despite growing awareness, there is little consensus on how companies can measure and assess the value of this fundamental intangible asset. Many approaches exist, but they are based on different assumptions, offer different functionality, suit different purposes and compete for uptake. Even if CEOs and other decision-makers recognize the value of assets like community relationships, or employee talent, they are unable to translate this value consistently into terms that people inside and outside the company can understand and use. As a result, companies struggle to embed these factors into processes such as strategic decision-making and communications. In many cases, this leads to undervaluing - and consequently, under-investing in - the social resources and relationships on which businesses depend.

Companies that truly value people will be most successful. The measurement and management of corporate performance must evolve to incorporate social & human capital alongside financial and environmental performance. A credible, comparable and broadly accepted approach to social impact measurement and valuation is essential to enable companies to truly value people as a driver of sustainable growth.

Introducing the Social & Human Capital Protocol

The Social & Human Capital Coalition is a new initiative that aims to mainstream the assessment of social & human capital for business - shifting the consideration of social performance from an optional extra to a core part of business decision-making. A key resource of the Coalition is this Protocol.

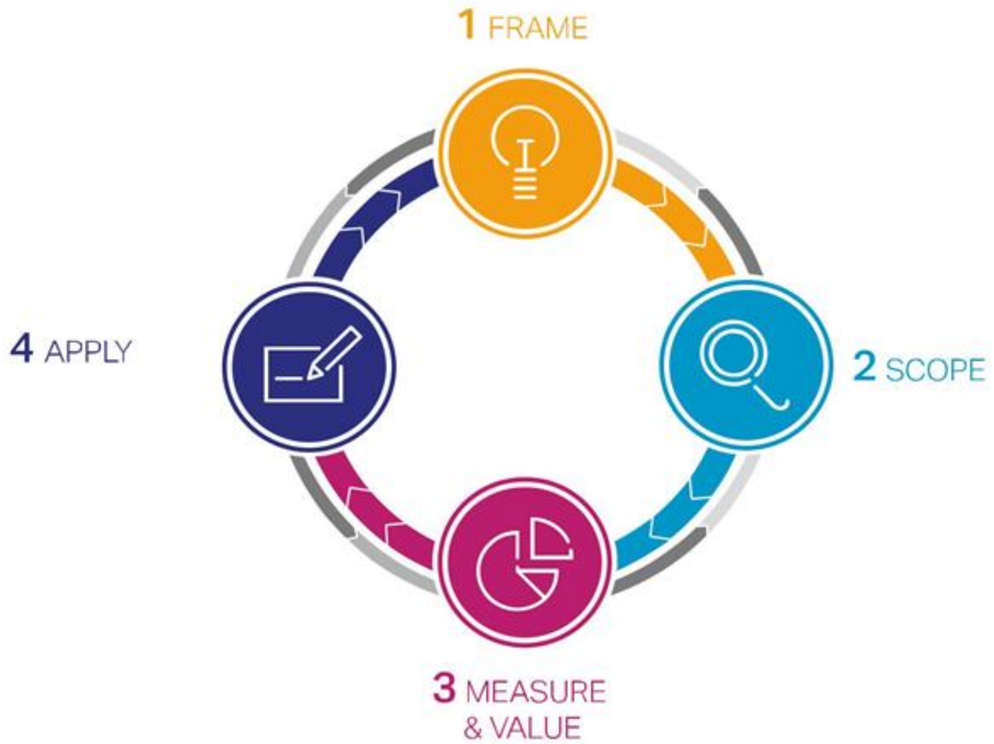
At its core, the Protocol consists of four Stages, each with corresponding steps for companies to follow in order to understand, measure, value and improve their social & human capital performance.

The first version of the Protocol is the result of two years of collaborative development involving input from over 50 forward-thinking companies, and an Advisory Group of 20 expert partners. This updated version of the Protocol is now out for public consultation. We look forward to receiving your feedback.

However, it is just the beginning of the journey. The Protocol in its current form contributes to the vision of mainstreaming the measurement of social impacts by serving two core functions.

1. It provides a consistent process to guide companies through the journey of measuring, valuing and better managing social & human capital.
2. In the wider context of the Social & Human Capital Coalition it provides a framework for collaborative action towards harmonized approaches.

Figure 1: The Social & Human Capital Protocol Stages



A CONSISTENT PROCESS TO GUIDE COMPANIES IN MEASURING AND VALUING SOCIAL & HUMAN CAPITAL

The Social & Human Capital Protocol ("the Protocol") provides a consistent process designed to generate fit-for-purpose information for business decision-making. By following the steps in the Protocol, companies can build a customized approach based on the best available techniques for social & human capital measurement and valuation.[1]

While the Protocol can be used to measure and value the social & human capital impacts and dependencies of a whole company or an individual project, product or operation, it is not designed as an approach to individual program evaluation.[2] A program evaluation focuses on whether an intervention is achieving its intended aims and outcomes. In contrast, the Protocol seeks to determine how (and by how much) a business activity increases, decreases, and/or transforms social & human capital; and the extent to which organizations depend on social & human capital for their operations. The aspiration of the Protocol is that every company using it will scale and integrate the approach across the organization.

The Protocol is not a formal reporting framework and does not assume or require that assessment results are reported externally. Nevertheless, some companies may wish to report their assessment findings and this is encouraged as a means to demonstrate how companies have considered relevant social & human capital risks, opportunities and value creation to stakeholders.

Although the Protocol leaves the choice of measurement and valuation approaches open to users it aims to provide users with a broadly accepted framework and therefore confidence to companies that they are applying the best available techniques as well as developing a solid foundation for future work around comparability and standard setting.[3]

A FRAMEWORK FOR COLLABORATIVE ACTION TOWARDS HARMONIZED APPROACHES

The longer-term aspiration of the Social & Human Capital Coalition is to move towards harmonized and comparable techniques for social & human capital measurement and valuation.

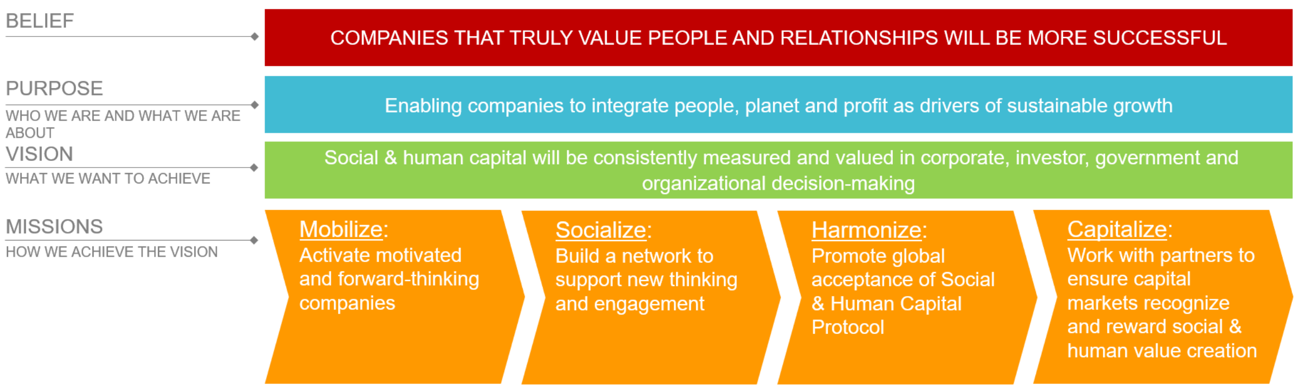
To achieve this aspiration, the Coalition will provide a framework for consolidating and harmonizing good practice, collating examples and guiding companies towards the most current tools, data sources and good practice in relevant techniques. The ongoing application of the Protocol will help to identify gaps that need to be filled, and to steer practitioners with common interests towards collaboration to advance good practice going forward.

Over the coming years, the Social & Human Capital Coalition will therefore shape and drive collaborative action to achieve four goals:

- Mobilize a network of business champions from multinational corporations at both c-suite and operational levels to advocate for implementation and collaboration.
- Socialize the Social & Human Capital Protocol with the most important practitioners and expert organizations in this space, building a network, community and coalition to drive new thinking, global engagement and collaborative action to advance and consolidate best practice.
- Harmonize technical approaches within the Social & Human Capital Protocol by promoting awareness, acceptance and uptake by governments and key global platforms.
- Work in partnership with other initiatives such as WBCSD's Redefining Value program to enable companies to capitalize on their implementation of the Social & Human Capital Protocol by ensuring the finance community and capital markets recognize and reward social value creation.

Find out more at: www.social-capital.org

Figure 2: Scaling up the social & human capital movement



[1] The Protocol introduces the term 'social & human capital' to describe the resources and relationships provided by people and society. See the Concepts and Definitions section for further detail on how this terminology is being developed and applied to a business context.
[2] Although adopting the approach laid out in the Protocol can also lay the foundations for future program monitoring and evaluation.
[3] Adapted from the Natural Capital Protocol (p.2)

BOX 1: CONNECTED INITIATIVES

DRIVING INTEGRATED THINKING

The Protocol is part of a broader movement to enable companies to integrate people, planet and profit as drivers of sustainable growth. Over the last few years, the integrated thinking and reporting movement has made significant strides in shifting mind-sets about how we understand a company's value creation. It has demonstrated the importance of measuring and valuing interactions with society for better management and provided a framework to consider the inter-linkages between financial capital and social and environmental externalities.

It is against this backdrop that effort to build the Social & Human Capital Protocol was initiated.[4] It seeks to contribute to the growing field of integrated reporting and sustainable value creation by building on work undertaken by organizations such as the International Integrated Reporting Council (IIRC), Sustainability Accounting Standards Board (SASB), Accounting for Sustainability, Global Reporting Initiative (GRI), among many others.

While these organizations focus largely on external reporting and disclosure, companies still struggle with understanding their impacts in a way that provides useful information for decision-makers to strengthen social & human capital for the benefit of society and business. The Social & Human Capital Protocol aims to bridge this gap.

INTEGRATING APPROACHES BETWEEN SOCIAL, HUMAN AND NATURAL CAPITAL

The Social & Human Capital Protocol is driven by the same purpose and based on the same concepts and principles as the Natural Capital Protocol developed by the Natural Capital Coalition. Both Protocols are critical parts of an evolving set of business resources to ensure social and environmental risks and opportunities are considered in corporate strategy and decision-making.

The Social & Human Capital Protocol mirrors the four Stages and applicable guidance in the Natural Capital Protocol but has been adapted to the more diverse frames of reference and maturity levels in the social & human capital measurement and valuation field. In addition, it also incorporates terminology and frameworks used by practitioners and experts across human rights, social impact assessments, social return on investment, monitoring and evaluation, social life cycle analysis, and product social metrics, among other areas of relevance to social & human capital. Where significant connections are drawn to the Natural Capital Protocol, text is marked in italics and references are provided.

Nevertheless, to achieve a truly holistic picture of an organizations' impacts and dependencies, social & human capital should not be considered in isolation, but rather as a broader assessment of non-financial capital.

It is our ambition, therefore, to further stimulate the development and harmonization of social & human capital measurement and valuation, until we reach a point where this work can be further integrated with natural capital - an ambition shared by our colleagues in the Natural Capital Coalition.

4 For more context see Towards a Social & Human Capital Protocol: A Call for Collaboration.

Using the Social & Human capital Protocol

USERS OF THIS DOCUMENT

With the purpose of decision-making in mind, the primary users of this document are ideally people who have insight into business strategy and operations, as well as an understanding of socio- economic issues. This person (or group of people) should have a mandate to build a team of experts (inside and outside the organization) to apply the Protocol, and to communicate the results to key internal and external stakeholders.

This Protocol is a technical document, so will not be accessible to everyone. Nor will it immediately enable the user to conduct a social & human capital assessment themselves. In these cases the Protocol does, however, provide the appropriate information and understanding needed to engage specialists or external experts.[5]

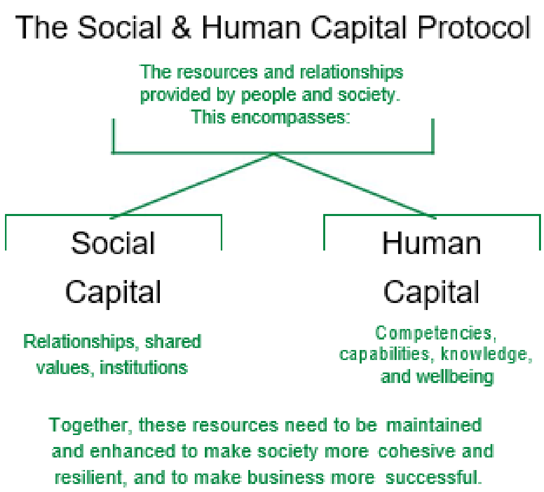
KEY CONCEPTS AND DEFINITIONS

Companies rely on a diverse set of 'capitals' to function effectively - beyond financial capital companies also use and rely on social, human and environmental resources.[6] Put simply, through their business activities, companies make use of and convert these capitals into outputs which leads to outcomes that in turn affect the stock of these various capitals as well as a company's long-term viability. In this document, we refer to the resources and relationships provided by people and society. This encompasses social capital (societies' relationships, shared values and institutions), and human capital (people's competencies and capabilities, knowledge and wellbeing). Together, these resources need to be maintained and enhanced to make society more cohesive and resilient, and to make business more successful.

Social & human capital may be considered in terms of stocks and flows in a similar manner to stocks and flows of financial capital, however, while financial capital performance is reported in company balance sheets and P&L statements, to date there is no equivalent mechanism for evaluating non-financial capital performance.[7] Such reporting would go beyond the measurement of the ways business impacts social & human capital to also consider the ways in which business depends on social & human capital. This would help companies to understand how social & human capital relates to their business drivers and how effective management of this capital underpins sustainable performance.

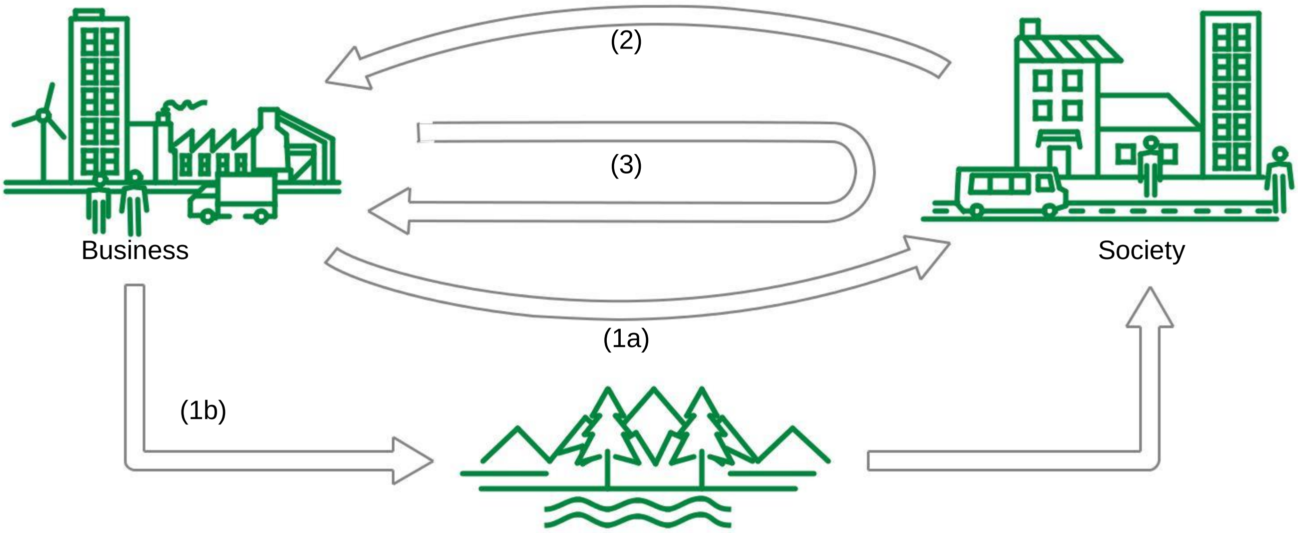
These interactions between social & human capital and business are depicted in Figure 4. This figure also illustrates the approach used in the Protocol to measure and value impacts and dependencies on social & human capital in terms of business risks and opportunities and costs and benefits to society.[8]

Figure 3: The scope of the Social & Human Protocol



5 Adapted from the Natural Capital Protocol (p.6)
6 There are a number of capital frameworks in use, for example, the 6-capital categories provided by the IIRC, the 5-capital model from Forum for the Future, and in the 4-capitals method of GIST Advisory. Definitions used in this document align with these existing frameworks. We have condensed the 6 capitals used in the IIRC model by considering "manufactured capital" as a component of traditional financial capital, as it can be described and accounted for using traditional financial metrics. As per the work of GIST Advisory, we consider Intellectual Capital as a component of Human Capital when the owner is the individual (e.g. individual capabilities), and when "owned" at an organizational level, this can be accounted for by patents and copyrights using traditional financial capital accounting methods. In addition, the recent and rapid engagement on the topic of human capital (i.e., Human Capital Management Coalition (HCMC), Center for Safety & Health Sustainability (CSHS), BlackRock's Engagement on Human Capital Policy) will continue to influence thinking and development of future work in this area.
7 It is acknowledged that social capital is not always approached as a 'stock' but can also be considered through a 'capability/ capacity' approach, as described in UNIDO, Social Capital for Industrial Development: Operationalizing the Concept. While some assumptions have to be made to facilitate the use of the term 'stock' in relation to social capital, it is applied here because it is a useful model to engage business and promote the measurement and valuation of it.
8 Text adapted from the Natural Capital Protocol (p.15), which also contains an equivalent diagram for understanding natural capital impacts and dependencies.

Figure 4: Social & human capital impacts and dependencies: a conceptual model for business



Every business impacts social & human capital. This can be a direct impact (arrow 1a), e.g. through employment and the paying of wages, or an indirect impact, through impacts on natural capital (arrow 1b), e.g. the emission of pollutants which cause respiratory problems and illness to local communities. The Natural Capital Protocol[9] contains guidance on assessing the impacts represented by arrow 1b.

Impacts on social & human capital can be described as the extent to which a company's actions or decisions contribute positively or negatively to a change in the welfare, capabilities, relationships or livelihoods of people living in society. A positive impact is a benefit to society, and a negative impact imposes a cost on society. For some companies, social impacts and the consequent costs or benefits to society remain 'externalities',[10] or issues without perceivable internal short term consequence.

In addition to impacting social & human capital all companies also depend on social & human capital. This is represented in Figure 4 by arrow 2. Social & human capital dependency is a less established concept within social & human capital measurement, but one the Coalition believes is useful. Companies depend, for example, on healthy and skilled workers, access to quality public infrastructure and services, as well as the rule of law. Some companies depend heavily on resources that are also used by local communities and are therefore dependent on a good relationship with these communities.

Business' social & human capital impacts and dependencies are closely linked and it can be the case that an impact has an effect on a social & human capital dependency. This is called 'internalization' of the business impact and is represented by arrow 3 in Figure 4.

An example of internalization is that a company may depend upon healthy and skilled employees and, at the same time, the company's working conditions, health and safety standards, and human resource, supply chain and procurement policies impact the health, wellbeing, and skills of their workforce.

There are several potential drivers that may lead to social impacts being internalized in the future, including increasing regulatory or legal action, market forces and changing operating environments, new actions by, and relationships with, external stakeholders, plus an increasing drive for transparency or voluntary action by competitors who recognize the significance of transparency to future success.[11] Understanding impacts and dependencies on social & human capital can highlight potential internalization risks and opportunities to the business. More guidance on this issue can be found in Step 2 of the Protocol.

9 The Natural Capital Coalition, Natural Capital Protocol.
10 An externality is defined as a consequence of an action that affects someone other than the agent undertaking the action, and for which the agent is neither compensated nor penalized. Externalities can be positive or negative.
11 Adapted from the Natural Capital Protocol (p.2)

Figure 5: Examples of social & human capital impacts and dependencies

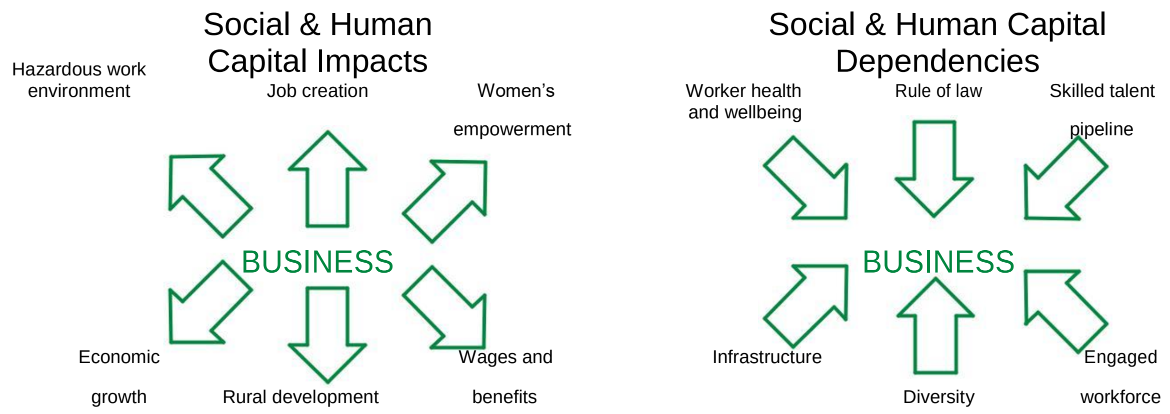


Table 1: Key Definitions

KEY DEFINITIONS	
Social capital	Societies' relationships, shared values and institutions.
Human Capital	People's competencies and capabilities, knowledge and wellbeing.
Social & human capital impacts	Positive and negative effects that businesses have on people and society through their operations and supply chains, and through the products and services they provide.
Social & human capital dependencies	Human resources and relationships that businesses need in order to create and sustain value.
Social & human capital issues	The Protocol uses this term to describe general categories of social & human capital impacts and/or dependencies. These categories may correspond to existing external frameworks, or terminology already used by companies. This allows companies to map these issues across their activities in order to identify those that are material for further analysis, without yet having to spend time developing detailed impact or dependency pathways (which will be necessary prior to measurement and valuation).
Measurement	The process of determining the amounts, extent, and condition of social capital through the collection of qualitative and/or quantitative data.
Valuation	The process of estimating the relative importance, worth, or usefulness of social capital to society or to a business in a particular context. Valuation may involve qualitative, quantitative, or monetary approaches, or a combination of these.

VALUATION AND MONETARY VALUATION[12]

To value something means to understand what it is worth to us. In the Protocol, valuation refers to the process of estimating the relative importance, worth, or usefulness of social & human capital to people in a particular context.

In financial accounting terms, valuation is understood to mean an estimation or determination of worth in monetary terms, but in welfare/wellbeing economics and in this Protocol, valuation means more than just monetary valuation.

It includes qualitative, quantitative, and monetary approaches, or a combination of these, which measure the relative importance of impacts and/or dependencies that in many cases do not have a market tradeable value.

12 Adapted from the Natural Capital Protocol (p.3)

Technical and ethical principles

TECHNICAL PRINCIPLES

The Protocol is designed as a flexible approach that can be tailored to the needs of companies and stakeholders in diverse settings. Users of the Protocol will make their own choices about how to apply the scope, metrics, methods, and techniques that are most appropriate for their context. The principles below are intended to guide users when applying the Protocol, especially when dealing with specific social issues that are not elaborated on within this document.

These principles align with the current principles of the Natural Capital Protocol, which itself builds on guidance from the Global Reporting Initiative (GRI), the World Resource Institute (WRI)/WBCSD Greenhouse Gas Protocol, and the Climate Disclosure Standards Board (CDSB):

Relevance: Ensure that the most relevant issues are considered throughout the social & human capital assessment including the impacts and/ or dependencies that are most material for the business and its stakeholders.

This helps a business to understand the most important impacts and/ or dependencies it has on social & human capital and which of its activities lead to these.[13]

Rigor: Use technically robust (from a scientific and economic perspective) information, data, and methods that are also fit for purpose.

This will make the social & human capital information produced by your analysis as reliable as possible, for the context in which it was produced.

Replicability: Ensure that all assumptions, data, caveats, and methods used are transparent, traceable, fully documented, and repeatable.

This facilitates iterative development and application of the approach and its eventual implementation across the business. It also allows for eventual verification or audit, as required.

Consistency: Ensure the data and methods used for an assessment are compatible with each other and with the scope of the analysis, which depends on the overall objective and expected application. This supports the ability to scale and integrate measurement and valuation across the company.

ETHICAL PRINCIPLES: THE SOCIAL & HUMAN CAPITAL CHARTER

The measurement and valuation of social & human capital is a relatively new concept. There exists the potential for misunderstandings of the intent and misuse of the concept, especially around the mechanics of valuation, and monetary valuation in particular.

With this in mind, a 'social & human capital Charter' was developed. The Charter is intended as a guide for companies and stakeholders when conducting or applying social & human capital measurement and valuation, in particular when making judgements about how to interpret the Protocol.

The social & human capital Charter can be found here.

The Social & Human Capital Protocol can be used to measure business impacts relating to the avoidance of illegal activities such as child labor and forced labor. Some companies will already be reporting on these issues as signatories to certain international agreements.

The Protocol does not seek to act as a substitute for these agreements, but can act to support business in mainstreaming their measurement, valuation and response to these issues.

13 Relevance is a principle to adhere to throughout the application of the Protocol. Materiality is considered further in Step 3.

Structure of the Social & Human Capital Protocol

The Social & Human Capital Protocol process is made up of four stages, each including a series of steps. As shown in Figure 6, the stages and steps are iterative: users should expect to revisit previous steps as necessary. This document describes each stage, step, and the actions companies should complete in each step. Guidance and examples are provided throughout.
Each stage includes six key elements:

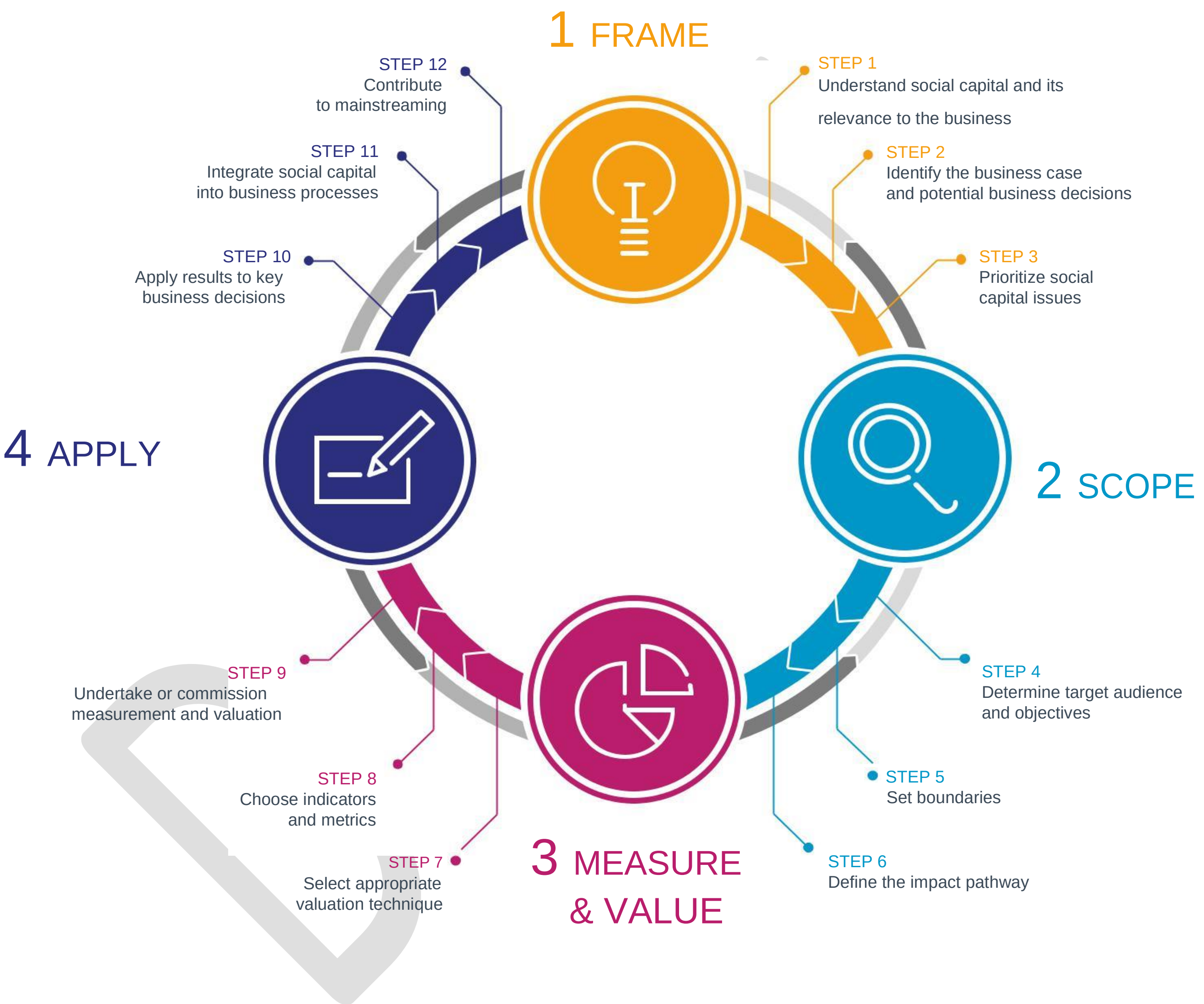
- What - objective of the stage
- Why - rationale and value-add of the stage
- How - a description of each of the steps in the stage, including:
  - Recommendations for implementing the step
  - Options that could be considered for implementing the step
  - Illustrative outputs based on research or company experience
  - Case study examples to demonstrate how companies are currently applying elements of the Protocol. The case studies do not cover all the options and recommendations described in the Protocol, but provide illustrations of how companies are currently applying certain elements. (Case studies are not included in this draft for consultation).
- Outputs - that a company should have by the end of the stage
- Practical Considerations - for the stage in terms of:
  - Skills/expertise
  - Timing
  - Stakeholder engagement
- Recommended resources - key resources which could be helpful to companies as further context or when implementing the stage

In addition to this document, the Protocol is hosted on a web-based platform that will be continuously updated as more companies use the Protocol and additional tools and case studies become available. While this document contains the core guidance and references, the online platform[14] will contain three complementary components which will aid users in the implementation of the Protocol:

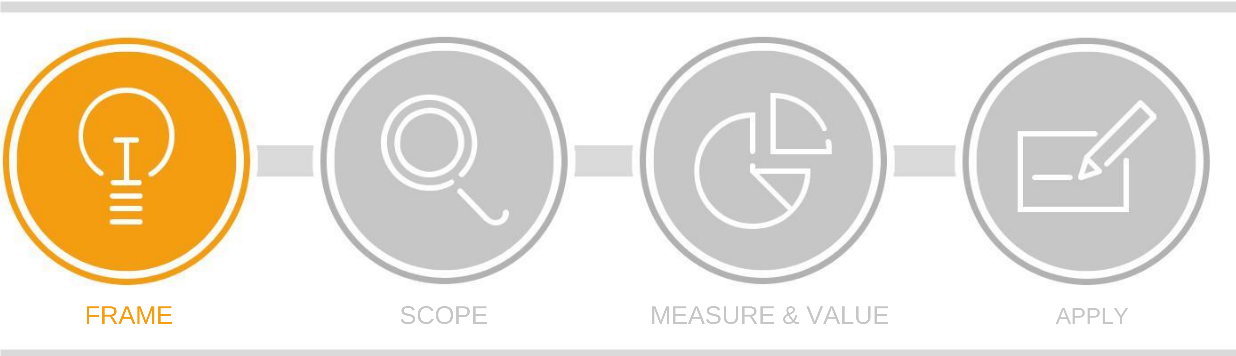
- External tools and resources to help companies execute the Protocol, such as implementation guidance for specific valuation techniques, and sample indicators for various impacts or dependencies;
- Sector guides that apply the protocol process to specific industries and seek to provide more standardized and comparable information for companies within each industry; and
- A case study library featuring company examples of how the Protocol is being used and lessons on the application of specific techniques.

14 The Social & Human Capital Coalition, Protocol Online Platform.

Figure 6: The four Stages of the Social & Human Capital Protocol



STAGE 1: FRAME



WHAT:

The first stage of the Protocol builds an understanding of how social & human capital is relevant to the business and clarifies how measuring and valuing social & human capital can inform and support strategy, decision-making and communications. Through a systematic process of prioritizing the most material social & human capital issues to stakeholders and to the business, companies can identify a starting point for measuring and valuing their impacts or dependencies on social & human capital and a clear sense of how the results could be used.

Some companies may have already conducted some or most of this stage through their existing sustainability strategy and reporting. In this case, companies should use the steps in this stage to validate existing social priorities (or 'social & human capital issues'; see below) with a view to social & human capital measurement and valuation. Users should consider whether existing materiality analyses and stakeholder engagement could be adapted or extended to lay better foundations for social & human capital measurement and valuation.

WHY:

This stage ensures that the measurement and valuation of social & human capital is aligned with both broader corporate strategy and stakeholder priorities from the very start of the process, laying a solid foundation for mainstreaming the measurement and valuation of social & human capital impacts and dependencies across the company. It is an important first step for deciding on the most material social & human capital impacts or dependencies that the initial assessment will focus on, and for setting a longer-term measurement plan.

HOW:

KEY OUTPUTS

STEP 1
Understand social & human capital and its relevance to the business

Relevant social & human capital issues

mapped across the value chain

STEP 2
Identify the business case and potential business decisions

Business decisions that could be informed by social & human capital measurement and valuation

STEP 3
Prioritize social & human capital issues

Prioritized list of social & human capital issues

STEP 1: Understand social & human capital and its relevance to the business

This first step is intended to help companies identify social & human capital issues that are relevant to their business. This may include social & human capital issues that companies are already working on and issues they may want to work on in the future. The Protocol is flexible and therefore will be applicable regardless of the method or classification framework that is used to identify social & human capital issues.

To undertake this step, users of the Protocol should:

- Map relevant social & human capital issues across the value chain, using whichever terminology or external framework is most relevant to them;
- Categorize social & human capital issues by type; and
- Prioritize issue importance to the company's stakeholders.

Mapping issues across the value chain (although sometimes challenging due to data availability) is important because it provides companies with a full view of their direct and indirect social & human capital effects from initial design of a product or service and raw material sourcing through to the end of life. Classifying these issues as positive and negative, and as impacts and dependencies, adds another level of credibility to the analysis. Issues are likely to vary in importance at each stage of the value chain and between different projects or locations, so mapping them can also help prioritize issues for each stage of the value chain and for the company as a whole.

BOX 2: SOCIAL & HUMAN CAPITAL ISSUES

A key concept we introduce in the first stage of the Protocol is that of 'social & human capital issues'. The Protocol uses this term to describe categories or themes of issue, which may include both social & human capital impacts and/or dependencies.

A challenge that is faced in the social & human capital field is the plethora of different ways to classify social impacts or dependencies. This is no surprise given the variety and importance of social impacts or dependencies that are relevant for businesses in different contexts. But it can make it difficult for companies to select which classification framework to use when deciding what impacts or dependencies are most material for them and, in reality, the answer is likely to be different depending on the context faced. It is not the Protocol's intention to set out a new classification here, or to try to reconcile the classifications that are widely accepted at this time (something which is likely to be both time consuming and, ultimately, open to debate).

Instead, in Steps 1, 2 and 3 of the Protocol, companies are advised to consider their own 'social & human capital issues'. These may be social topics or themes that a business has already identified itself; they may be taken from existing national priorities or other external classification frameworks; or, for some companies, they may already be specifically defined social & human capital impacts or dependencies.

This allows users of the Protocol to identify which social & human capital issues are most material to them using whichever language or classification frameworks are most familiar. Once issues have been chosen, the company can continue with more detailed identification of specific social & human capital impacts or dependencies that the assessment will measure and value.

RECOMMENDATIONS

MAP SOCIAL ISSUES ALONG THE VALUE CHAIN

When identifying potential social issues along the value chain, there are a number of external frameworks that can be used as helpful references. Three such frameworks, recognized by the UN and national governments, are highlighted below by way of example:

- UN Universal Declaration of Human Rights (UDHR) - proclaimed by the United Nations General Assembly in 1948, and forming the basis for international human rights law, these 30 articles lay out a common standard of achievement for all people and nations.[15]
- The UN Guiding Principles for Business and Human Rights (UNGPs), launched in 2011, further explain how these rights are applicable to business and can be put into practice by companies;[16]
- The UN Guiding Principles Reporting Framework, launched by RAFI in 2015, use the UNGPs along with the ILO's Declaration on Fundamental Principles and Rights at Work to summarize 32 "internationally recognized human rights.[17]
- ILO Tripartite Declaration of Principles Concerning Multinational Enterprises - developed and adopted by governments, employers and workers from around the world, the MNE Declaration provides direct guidance to enterprises on social policy and inclusive, responsible and sustainable workplace practices.[18]
- The Sustainable Development Goals - ratified by all 193 UN member states in September 2015, these 17 global goals, and associated 169 targets, provide an aspirational model for international development to which business can align and contribute.[19]

These frameworks outline both baselines for social performance, as well as aspirational targets which companies can help to achieve, capturing significant business opportunities in the process. Table 2[20] contains an analysis of these key resources in order to distil key social & human capital issues.

15The UN, Universal Declaration of Human Rights
16The UN, Guiding Principles on Business and Human Rights
17The UN, Guiding Principles Reporting Framework
18The ILO, MNE Declaration
19The UN, Sustainable Development Goals
20 This exercise was initiated in order to further support companies using the Protocol by producing tables that list out key 'social & human capital issues' in a way that is analogous to the natural capital impact driver and dependency categories (akin to Tables 4.1 and 4.2 of the Natural Capital Protocol). This serves as an initial list to allow companies to understand how social & human capital is relevant to them; to identify which issues may be most material for further analysis in their social capital assessment; and that can be validated, added to or refined in the future. The exercise uses three reference documents from which to distil key issues:
-UN Universal Declaration of Human Rights (Guiding Principles Reporting Framework)
-ILO Tripartite Declaration of Principles Concerning Multinational Enterprises (the MNE Declaration)
-Sustainable Development Goals (SDG Compass)
Additional social capital issues have been added to the resultant list as appropriate. However this is not intended to provide a comprehensive listing of all potential social & human capital issues which may be relevant to all companies and sectors. It is intended to spur further thought and discussion, rather than specifically linking to a set of pre-defined metrics and indicators. The list of issues is not intended to produce mutually exclusive categories, hence there will be overlap between multiple issues included.
21UNEP/SETAC, Guidelines For Social Life Cycle Assessment Of Products

Table 2: Social & human capital Issues (part I)

Social & Human capital issues relating to business	Definition	Examples of business impact drivers (these are not intended to be exhaustive)	Examples of business dependencies (these are not intended to be exhaustive)
Employment & remuneration	Issues associated with the provision of jobs and wages.	Providing employment opportunities (particularly in developing countries); paying a fair wage with appropriate benefits; providing equality in remuneration; preventing discrimination (including discrimination based on marital or reproductive status).	Availability of a diverse workforce.
Skills & knowledge	Issues associated with experience, training, education, or the creation and dissemination of intellectual capital.	Providing training or education, either directly to workforce or to wider stakeholders; appropriate use of societally significant intellectual property, including copyrights, trademarks, patents; use of tacit knowledge, systems, procedures and protocols.	Availability of a skilled workforce; access to and use of intellectual property in order to further the development of products/services.
Health, safety and wellbeing	Issues associated with people's physical or mental health.	Employing people in safe working conditions; impact on stakeholders from company activities and products or from company protecting them from harm (e.g. customers, suppliers, patients, those in company's care or custody); ensuring that the company's products and services are labelled with appropriate information and are not hazardous to society; actively creating products and services that promote healthy lifestyles and consumer wellbeing; allowing for employees to adopt a healthy work-life balance that enables them to adequately support their families.	Availability of a healthy and happy workforce; social license to operate from safe consumption of a company's products and services.
Labor relations	Issues related to labor rights and dispute settlement.	Providing adequate grievance mechanisms; allowing access to collective bargaining and associations; allowing settlement of disputes.	A workforce that is willing to work for the company; social license to operate from the absence of grievances, law suits, etc.
Access to essential services	Issues related to the provision of services that are deemed as essential for, or required by, society.	Allowing time for employees to partake in public elections; facilitating equal access to essential services for employees and their families (e.g. health care, affordable housing, clean water, sanitation and hygiene, healthy and affordable food, electricity, infrastructure); paying fair share of taxes that enable states to fund essential services.	Social license to operate from paying what is deemed an acceptable level of tax; retaining talent through the good will and the respect of employees; provision of essential services by the state in which they operate (e.g. rule of law, functioning government institutions).

Table 2: Social & human capital Issues (part II)

Social & Human capital issues relating to business	Definition	Examples of business impact drivers (these are not intended to be exhaustive)	Examples of business dependencies (these are not intended to be exhaustive)
Personal security in the workplace	Issues related to the treatment of employees in the workplace.	Ensuring the absence of physical punishment, sexual abuse or harassment in the workplace; ensuring the absence of sexual exploitation, abuse, forced labor, child labor, and trafficking; ensuring that suppliers are following adequate labor rights principles.	Social license to operate from the absence of violations in the company or supply chain.
Privacy	Issues related to personal privacy, including the use of personal data.	Ensuring that adequate data protection measures are in place to prevent violation of customer and worker privacy; ensuring that personal data is not used to discriminate between workers.	Commercial confidentiality; ability to operate in a jurisdiction with data protection requirements; confidence from current or potential customers that personal data will be protected.
Access to land and culture	Issues relating to whether stakeholders can access, or otherwise enjoy, land, activities or other services that are of spiritual or cultural significance.	Respecting the rights of indigenous people; managing impact on cultural heritage.	Social license to operate from the communities in which they operate, including in their supply chains.
Physical and economic freedom of movement	Issues related to the movement of people.	Ensuring that physical or economic displacement of people is preceded by informed consent and adequate compensation is given; ensuring migrant workers have access to fair legal procedures if required.	A flexible and mobile workforce.
Law & order	Issues related to legal and regulatory compliance.	Ensuring that, where human rights are not already upheld by local law, workers' rights are protected by the company's ethical code; ensuring that governance is effective, accountable and transparent; paying tax in accordance with local laws; implementing fair and transparent governance standards; reporting financial and non-financial information.	Social license to operate from the absence of violations in the company or supply chain; capital from investors who require transparent and effective governance, and compliance with local laws.
Sustainable economic growth	Issues relating to the sustainable development of society.	Allowing for the fair design and sale of financial products and services; ensuring investments are adequately screened for social risks; encouraging flows of financial resources to the least developed countries; facilitating equal access to financial products and services (including insurance).	Healthy, functioning economies, and consumers having access to financial products and services.

Not every company will start in the same place on this step. Depending on the company's perspective and level of current maturity with regards to integrating sustainability into core business functions, some companies will refer to, build on and validate existing lists of social & human capital issues such as:

• **Corporate materiality analysis:** Companies may already have conducted a materiality analysis as part of their social or sustainability strategy development or reporting. These may be informed by external guidance on identifying types of stakeholders and social issues, such as those contained within the Guidelines for Social Life Cycle Assessment of Products21 and the Handbook for Product Social Impact Assessment.[22] Work can draw from such lists to map and rank the relevance of the issues across the value chain.

• **Industry-specific priorities:** Companies can also draw on industry or sector-wide mappings of issues. As an example, Table 3 illustrates mapping conducted by the chemicals sector as part of the development of guidelines on social lifecycle metrics for chemical products, where 25 topics were identified and mapped against three key stakeholder groups.[23] This work in turn drew on guidance from initiatives such as the Guidelines for Social Life Cycle Assessment of Products. As another example Figure 7 highlights social issues along the forests value chain, identified by WBCSD's Forestry Solutions Group.[24]

• **National priorities:** National development plans (e.g. the South African government's National Development Plan 2030)[25], national action plans on business and human rights, or national sustainable development strategies.

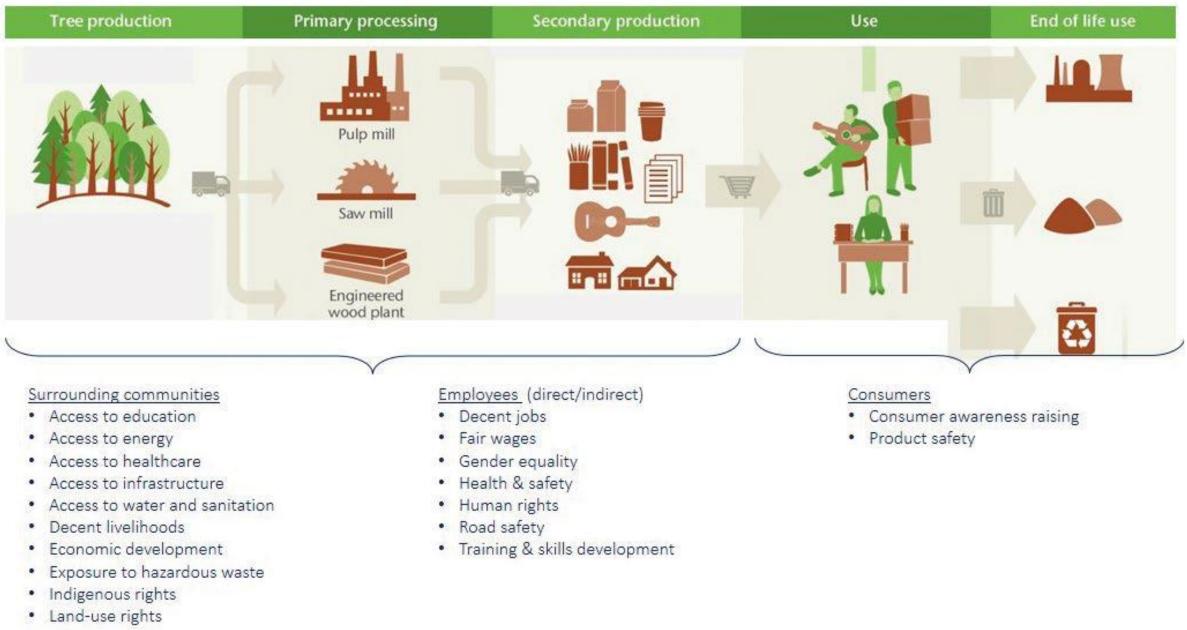
• **Local priorities:** Community action plans and municipal strategic plans.

22Roundtable for Product Social Metrics, Product Social Impact Assessment Handbook Version 3.0
23WBCSD, Social Lifecycle Metrics for Chemical Products
24 WBCSD, Forest Products Sector Guide to the Social Capital Protocol
25South African Government, National Development Plan 2030

Table 3: Mapping of social issues in the chemicals sector[22]

OVERARCHING SOCIAL TOPICS		STAKEHOLDERS		
		Workers	Local Communities	Consumers
SOCIAL AREAS	Basic Rights & Needs	• Fair wages • Appropriate working hours • Freedom of association, collective bargaining and labor relations • No child labor • No forced labor, human trafficking and slavery • No discrimination • Social/employer security and benefits	• Access to basic needs for human rights and dignity (healthcare, clean water & sanitation, healthy food, shelter) • Respect for indigenous rights	• Direct impact on basic needs (healthcare, clean water, healthy food, shelter, education)
	Employment	• Management of reorganization	• Job creation	
	Health & Safety	• Workers' occupational health risks • Management of workers' individual health • Safety management system for workers	• Health and safety of local community's living conditions	• Impact on consumer health and safety
	Skills & Knowledge	• Skills, knowledge and employability	• Promotion of skills and knowledge	• Promotion of skills & knowledge
	Wellbeing	• Job satisfaction	• Access to basic needs for sustainable development (infrastructure, ICT, modern energy) • Nuisance reduction • Developing relationship with local communities	• Consumer's product experience

Figure 7: Examples of social issues along the forest products value chain[24]



CATEGORIZE SOCIAL & HUMAN CAPITAL ISSUES BY TYPE

Categorizing these issues adds an important and useful additional perspective. Options for categorizing social & human capital issues can include (among others) whether they are:

- Positive or negative (recommended)
- Social & human capital impacts or dependencies (recommended)
- Known or potential issues
- Risks or opportunities

It is particularly important that companies consider measurement and valuation of both potential positive and negative impacts.

Similarly, positive socio-economic impacts in one area should not be used as an offset for negative impacts in another (for example impacts on natural capital). Each impact needs to be considered as a single issue which can be improved, mitigated or remedied.

Companies are increasingly viewed by stakeholders as complicit where there are social transgressions within their value chains - even if they are not directly responsible. Companies that acknowledge and take actions to tackle the social challenges throughout their value chains are not only more respected by stakeholders but are also able to proactively manage issues that could present material risks to the business. With this in mind, devoting the significant resources and influence of the private sector towards tackling negative social issues will generate wider positive societal benefits.

PRIORITIZE SOCIAL & HUMAN CAPITAL ISSUES BY THEIR IMPORTANCE TO THE COMPANY'S STAKEHOLDERS

Once issues have been mapped across the value chain and classified, companies should prioritize the issues identified.

Options for criteria to rank the importance of the social issues identified include:

- The severity of the potential impact[26],
- The likelihood of the company impacting this issue,
- In the case of negative impacts, to what degree the impact can be remediated and,
- In the case positive impacts, the degree to which the impact can be enhanced.

Completing this step with appropriate stakeholder input further enhances the credibility and value of the approach. Global and/or local stakeholders can play an important role in informing the long list of issues, determining their business relevance, and/or validating the final lists.

Companies can choose the most appropriate process for capturing stakeholder views. Some companies may decide to draw on existing internal committees or external stakeholder advisory boards; others may choose to develop entirely new processes. To identify stakeholders, companies may want to conduct a stakeholder analysis and mapping exercise that classifies stakeholders by criteria such as their expertise, legitimacy, and willingness and ability to engage. See Box 3 on stakeholder engagement and recommended resources for more guidance.

BOX 3
STAKEHOLDER ENGAGEMENT IN THE SOCIAL & HUMAN CAPITAL PROTOCOL

Stakeholder engagement is not required at the outset of applying the Protocol, but is highly recommended as it can enrich the Protocol process and strengthen the quality and credibility of the results. External stakeholder engagement may be useful at various stages of the Social & Human Capital Protocol. For example, stakeholders can:

- Offer perspectives on the issues or impacts of greatest concern
- Inform on the relative importance of issues and impacts
- Provide data and expertise
- Validate and add credibility to the process and results

For some of the measurement and valuation techniques, stakeholder engagement is necessary, particularly when it requires the perspectives or data of those people directly impacted by the company.

Risks of not engaging with stakeholders include having an incomplete view of material social & human capital issues and impacts, missing out on opportunities for innovation, and having results that are not credible or usable for comparing options and making decisions.

As social & human capital valuation is still in early stages, it is important that companies are clear about their current ambition level and long-term goals, this will help set the expectations with stakeholders and is an important precursor to inviting them to serve as partners as the company refines and improves its approach.

26 For further details on severity, see the UN Guiding Principles on Business and Human Rights, explanatory notes on Article 14)

STEP 2: Identify the business case and potential business decisions

This step is intended to help companies identify how the social & human capital issues identified in Step 1 relate to business decisions and thereby create the business case for undertaking an assessment.

In this step, users of the Protocol should map the social & human capital issues identified in Step 1 to relevant business value drivers. They should also identify key decision-makers and the type of decisions that would benefit from social & human capital information.

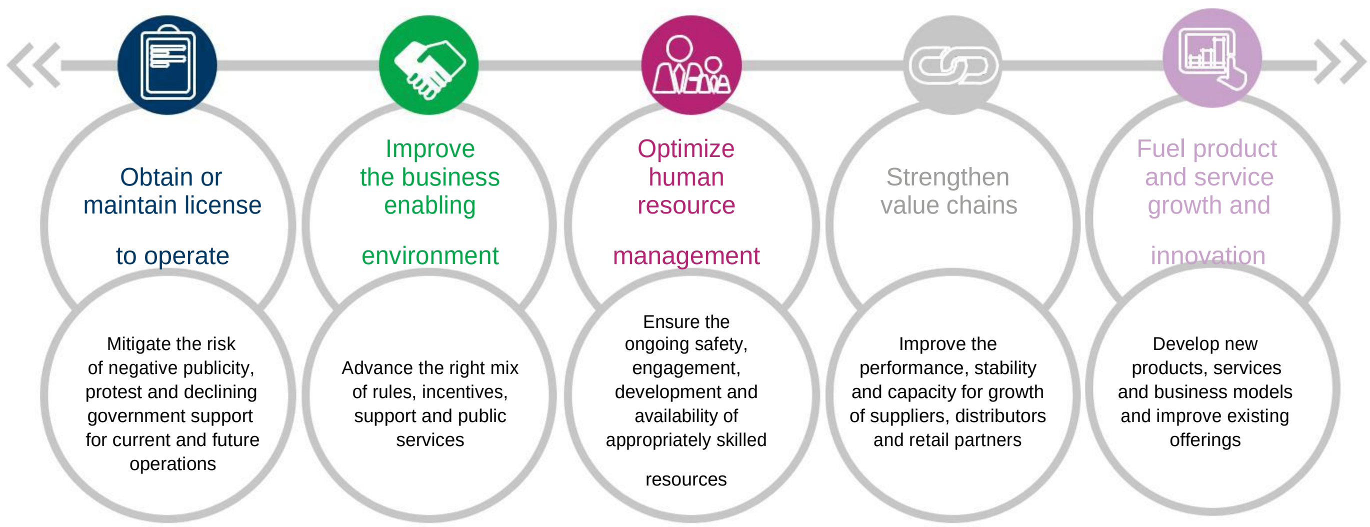
While Stage 1 of the Protocol may be done as an annual inventory to understand material social & human capital issues, for some companies it may be useful to undertake Step 2 of the Protocol more frequently; i.e. each time there is a business decision that needs the support of social & human capital information.

RECOMMENDATIONS

As described in Figure 8 below the business case for measuring, valuing and managing social & human capital can be connected to five business value drivers. These business drivers are the mechanisms through which social & human capital drives business performance improvement and value creation. The importance of these drivers will vary by company. For example, for some companies, mitigating any negative impacts on nearby communities in order to obtain a 'license to operate'[27] may be their highest priority, while other companies might be interested in developing new product lines to address the health needs of low-income consumers.

Companies should map the relevant social & human capital issues identified in Step 1 against these business value drivers, Figure 9 provides an example of this.[28]

Figure 8: Business value drivers for measuring and managing social & human capital



[27] The term 'license to operate' does not necessarily refer to a regulatory permit or license that is required by an authority for the business to operate. According to Thomson and Boutilier (2011) a social license to operate (SLO) is a community's perceptions of the acceptability of a company and its local operations. SocialLicense.com identify four levels of social license: withheld/ withdrawn, acceptance/tolerance, approval/support, and psychological identification.

28 For further details, including company examples, please refer to the WBCSD publication Social & human capital in Decision-Making.

Figure 9. Map of example impacts and dependencies against business value drivers

Business value drivers	Examples of relevant social & human capital Of primary interest to: business leadership, management and investors	Examples of relevant social & human capital impacts communities, current and potential employees, suppliers, distributors and customers
Obtain or maintain license to operate	Community, NGO and government acceptance	Human rights, wellbeing, livelihoods and job creation, local spend, tax
Improve the business enabling environment	Supportive regulatory frameworks, infrastructure, access to resources	
Optimize human resource management	Employee engagement and loyalty, access to a skilled talent pool	Fair wages, decent jobs, health and safety, education, training and skills development, community contributions
Strengthen value chains	Supplier/distributor loyalty, quality and volume, compliance	Fair pricing and conditions, supplier/distributors development, support of financial, social and environmental performance of suppliers/ distributors
Fuel product and service growth and innovation	Customer interest and loyalty. Customer knowledge required to use the product/service appropriately, disposable income required to purchase product/service	Impacts of product consumption/service use, impact of product and service provision throughout the value chain

Note: this table is illustrative and is not intended to be exhaustive

When considering relevant business value drivers, companies should especially consider key decision-makers who would be responsible for or reliant on the management of these issues, and whose decisions would be informed and influenced by social & human capital measurement and valuation in these areas. This could include decisions about resource allocation, investments in new markets, business models, or product lines, or actions to improve talent acquisition or productivity. Consulting relevant internal stakeholders through interviews, workshops, or regular meetings can strengthen this process and also build buy-in and momentum internally for subsequent steps. More information on determining the target audience for the assessment can be found in Step 4.

Companies are encouraged to consider how the results of the assessment might contribute to value creation, protection, and destruction for the company or society:

- **Value protection** is the value saved by avoiding risks such as costly delays in planning, construction and operations, lawsuits or other unforeseen added costs, project cancellation, or appropriation.
- **Value creation** is the excess of benefits over costs. For example, it can be the value from input savings or productivity gains - such as local workforce training that enables the substitution of expensive expatriates with local hires.
- **Value destruction** is the value lost due to the use of or impact on social & human capital.

BOX 4.
CONSIDERING INEQUALITY IN THE SOCIAL & HUMAN CAPITAL PROTOCOL

In most countries the gap between rich and poor is at its highest level in 30 years. Today in OECD countries the richest 10% of the population earn 9.6 times the income of the poorest 10%.

Differences in wealth, gender, age, ethnicity, health, as well as in other factors limit individual's access to, participation in and the outcomes they experience from the products, services and employment businesses provide, resulting in significant inequalities between groups of individuals.

Understanding these inequalities, and how they interact with a business's current or planned activities, can unlock potential value creation. Indeed, there can be a link between addressing inequalities and one or more of the five business value drivers presented in Figure 8.

ACCESS

Access relates to a number of areas: access to products, access to jobs, access to finance etc. For example, a business that provides capital may realize women are underrepresented as customers - upon understanding this, the business can more closely examine why women have less access to credit and then develop a new service offering or support others to remove barriers for women to access to capital. This creates a "win-win" situation where the business gains customers and perhaps develops a competitive advantage and women gain better access to capital.

PARTICIPATION

Inequality of participation in corporate decision-making can be a major impairer of firm level financial performance, through reduced ability to listen to and empathize with management, poorer corporate governance, and lower capacity for innovation. This has been demonstrated empirically in numerous studies that have investigated Board diversity in relation to profitability.

OUTCOME (E.G. REMUNERATION)

- High pay ratios[29] may affect staff morale and productivity. Business may consider paying a living wage as a minimum and set targets for pay ratios so that income inequality does not increase.
- Business also have an effect on inequality through the relationship between payments to employees and payments to owners of capital. If the proportion paid to employees is reducing this may lead to increasing inequality.
- Anecdotal evidence exists that shows that payment below the living wage is linked to high employee turnover rates, and on a macro-economic level the rise of income inequality between 1985 and 2005 is estimated to have reduced average OECD Countries cumulative growth by 4.7 percentage points between 1990 and 2010.
- On top of this, increasing regulation is observed (such as the UK's Equality Act 2010) that mandates the disclosure of pay gap data between male and female staff. Businesses that already collect and act on this data are better equipped to respond to such legislation.

Incorporating inequality (in-line with Sustainable Development Goal 10, which is focused on reducing inequality within and among countries) is not required in applying the Protocol but, as illustrated through these examples, it can be a valuable exercise in creating and protecting value, as well as leading to a more just society; and reducing rates of poverty and the associated public sector and other costs associated with poor relative lifestyles.

It is important to consider what inequalities might be associated with the social issues you identified in Step 1, so that you can collect data related to any such inequalities. As a first step think through what inequalities may be present in access, participation, and the associated outcomes of your social issues, and then be sure to collect data on the related inequalities (resulting from differences in income, gender, age ethnicity, health, etc.).

Once your data is collected, conduct distributional analyses to understand if there are systemic differences in access, participation or outcomes (e.g. remuneration). Be sure to track progress and changes in subgroup analyses over time for a clearer understanding of the presence and change in differences between subgroups. Understanding patterns associated with inequalities is a first step in reducing the associated biases that perpetrate such inequalities.

29 Pay Ratio- Can be defined in various e.g. by the Securities and Exchange Commission as "the ratio of the total compensation of the PEO (Principle Executive Officer) to that of the median annual total compensation of all employees".

ILLUSTRATIVE OUTPUTS

Figure 10. Illustrative mapping of social & human capital impacts against business drivers, decision-makers and sample decisions:

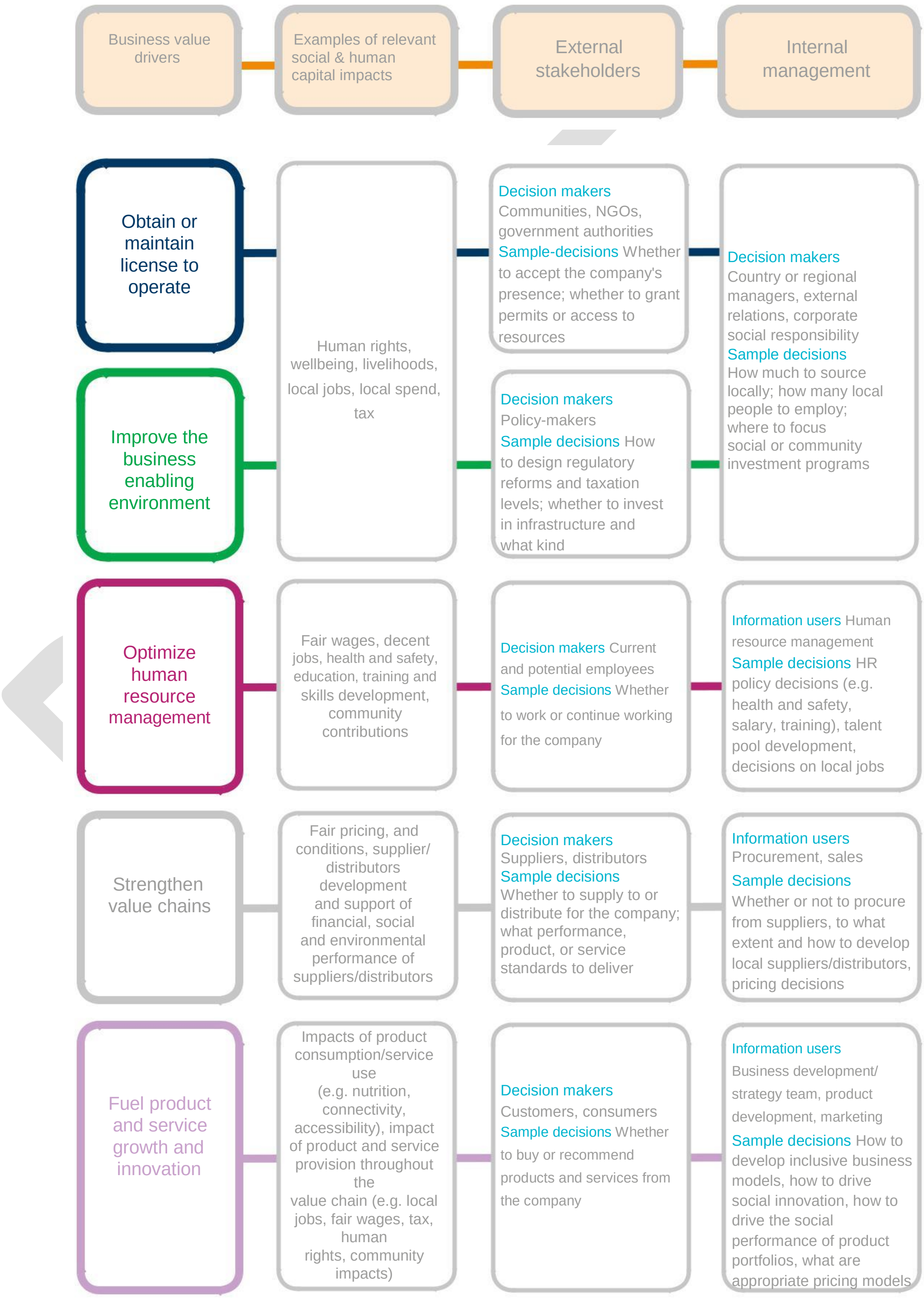


Figure 11. Example mapping of social & human capital dependencies against business drivers, decision-makers and sample decisions:

Business value drivers	Examples of social & human capital impacts	Executive leadership and investors	Internal management
Obtain or maintain license to operate	Community, NGO and government acceptance	Decision-makers Executive leadership, (country) management, investors Sample decisions How much budget to allocate to social programs; Appropriate strategic responses to in-country risks and opportunities	Decision-makers Country and regional managers, external relations and corporate responsibility teams Human resource managers Sample decisions Selecting plant or operational locations; how to enter or grow in new markets; which social programs to continue or scale; how to manage local sourcing and resourcing; how to reduce the time and cost of social or regulatory disruptions
Improve the business enabling environment	Supportive regulatory frameworks, infrastructure, access to resources		
Optimize human resource management	Employee engagement and loyalty, access to a skilled talent pool	Decision-makers Executive leadership, (country) management, investors Sample decisions How much budget to allocate to employee and talent pool development; Appropriate strategic responses to challenges in local content requirements or meeting skills gaps	Information users Human resource management Sample decisions Selecting which employee programs to continue and how to improve or scale their performance; how to manage local sourcing and resourcing; how to improve loyalty and skills
Strengthen value chains	Supplier/distributor loyalty, quality and volume, compliance	Decision-makers Executive leadership, (country) management, investors Sample decisions How much budget to allocate to inclusive business and social innovation initiatives; Appropriate strategic responses to challenges and opportunities in supply chains, new market entry, and market growth.	Information users Procurement, marketing and sales Sample decisions Supplier and distributor selection and acceptance; selecting and improving supplier and distributor programs; how to increase quality and capabilities of local suppliers and distributors; how to reduce transaction times and costs
Fuel product and service growth and innovation	Customer interest and loyalty	Decision-makers Executive leadership, (country) management, investors much budget to allocate Sample decisions How to social business and social innovation, and to measurement of results	Information users Business development and strategy team, product development, marketing Sample decisions Developing local markets, developing inclusive and social business, stimulating and managing innovation, portfolio development decisions

STEP 3: Prioritize social & human capital issues

Step 3 brings the previous two steps together to determine the most material social & human capital issues that can be used as a starting point for identifying the company's social & human capital impacts or dependencies so they can be measured and valued.

Companies should prioritize issues that substantively affect the company's ability to create value both for the business and key stakeholders over the short, medium and long term, and hence those issues that should be included in decision-making. At the same time, companies that are starting their social & human capital measurement and valuation journeys may also wish to be pragmatic, identifying a starting point that is feasible for the resources they have at their disposal and that can stimulate engagement and further adoption across the organization (it should be noted that this approach risks omitting social issues that may be material for decision-making).

RECOMMENDATIONS

A well-accepted way to prioritize social & human capital issues is by combining the stakeholder and company perspective in a materiality assessment, which many companies carry out as part of their sustainability strategy development and reporting processes. For the purposes of the Social & Human Capital Protocol, a materiality assessment should be viewed as a systematic approach to prioritizing issues, and not a process necessary to meet corporate reporting legal disclosure requirements or expectations.

Materiality can be thought of as determining the relevance and significance of an issue to an organization and its stakeholders.[30] In the context of the Protocol, this should be applied in terms of:

- **Relevance:** which social & human capital issues are relevant when considering the activities that occur across a company's value chain (see Step 1).
- **Significance:** the relative importance of these issues to a company and their stakeholders (see Steps 1 & 2).

The output of a materiality assessment should provide a company with a clear understanding of which, of the relevant social & human capital issues it has identified, are most significant to its stakeholders and therefore most relevant to its business. The output of this will then determine the focus of the social & human capital assessment.

OPTIONS

Some companies will use this information to prioritize all the social & human capital issues that have been identified as most significant to stakeholders and the business for inclusion in its social & human capital assessment. Others will focus on a smaller, pragmatic selection of issues or a cluster of issues within a priority area, e.g. supply chain or product impact issues.

Regardless of the number of priority issues chosen, the key objective is to ensure the Protocol is not framed as a one-off assessment, but as a continuous process and an ongoing movement for change within the organization.

Companies that are at early stages of using the Protocol are encouraged to start where they can build internal momentum for further measurement and valuation to eventually expand their resulting approach across the organization. For these companies, who are at the beginning of their journeys, there are some pragmatic entry points that could be considered for pilot studies:

- Decide how you want to use the results of a pilot study, e.g. communication, reporting, monitoring, strategy, decision-making, steering, KPI setting.
- Start with any social & human capital measurement and valuation approaches that are already familiar to the organization, which can be improved, built upon and expanded through the Social & Human Capital Protocol.
- Start within the remit of a particularly influential and engaged individual or group who can dedicate appropriate resources, serve as an example to others and act as a champion going forward.
- Add a social & human perspective to the scope of ongoing natural capital assessments within the organization.
- Take the opportunity to tackle a challenging issue within the organization which already has stakeholder and senior leadership attention.

30 Adapted from Social Value International Supplementary Guidance on Materiality

BOX 5.
CONSIDERATIONS FOR A PRAGMATIC APPROACH TO KICKING OFF THE SOCIAL & HUMAN CAPITAL PROTOCOL JOURNEY

The WBCSD publication “Social & Human Capital and Decision-Making” consolidates the lessons learned through interviews and conversations with companies on how they began their social & human capital measurement and valuation journeys. Their advice is captured in the three points below:

KICKING OFF THE JOURNEY

- Every company we spoke to highlighted one important point; that they are all at the beginning of their measurement and valuation journeys. Each company strongly felt that this is an iterative process that cannot be precisely planned, but that getting started is the most important step.
- Focus your efforts and work step-by-step towards concrete results: start with pilots that have a feasible scope.
- Select pilots that are closely connected to the core business of your organization to show the value of a measurement exercise and use these good examples to demonstrate the business case for measurement internally.

BUILDING INTERNAL BUY-IN, COLLABORATION AND OWNERSHIP

- Use a committee of board members as ambassadors and to test results. Board-level ambassadors support you in creating awareness and commitment throughout the company.
- Create a small core team with team members that represent several departments of your organization (finance, business development, procurement, HR, etc.) to encourage ownership and leverage different perspectives. Consider involving the CFO/finance function before involving communications to avoid the risk that a project will be labelled internally as ‘marketing’ or ‘for external reporting purposes’.
- Consider allocating a dedicated change management person within the company at an early stage.
- Secure local input, particularly for multinational companies, as you cannot fully understand social & human capital issues from a headquarters position.

LEVERAGE EXTERNAL EXPERIENCE AND DIALOGUE

- Involving external experts and other practitioners can help to build a credible approach, and can save a company a lot of time ‘re-inventing the wheel’.
- At the same time, carefully consider in which phase of the project it is most suitable to involve which external stakeholders, and be clear with your messaging around how your company aims to use the outcomes of the measurement and valuation project.

STAGE 1, FRAME: CONCLUSION

OUTPUTS

At the end of Stage 1, companies should have clearly identified:

- The most relevant social & human capital issues for the business;
- Business decisions that could be informed by the measurement and valuation of these social & human capital issues; and
- Which of these issues will be prioritised for further measurement and valuation using the Protocol.

These outputs are the foundation for building the company's frame for social & human capital measurement and valuation. They define the starting point for measurement activities, and set out a longer-term plan for mainstreaming the consideration of social impacts within the organization.

PRACTICAL CONSIDERATIONS

Stage 1 lays the groundwork for the rest of the Protocol, which is why it is critically important that companies give sufficient thought to the issues and decisions in these three steps. However, it does not always need to be a resource-intensive step, as most leading companies already have existing systems and processes that they can leverage. Below are a few considerations for completing Stage 1:

- **Skills/Expertise:** Companies can draw on internal knowledge/expertise for most of this stage but may want to consider involving external advisors and stakeholders to inform and validate the selection of issues.
- **Timing:** For companies that have already conducted a materiality analysis of social & human capital issues, this stage should take a relatively short time to complete (i.e. less than a week). For companies that are new to issue prioritization, it may take longer depending on their capacity to access information on relevant issues and to gather input from internal and external stakeholders.
- **Stakeholder engagement:** External engagement is optional but highly recommended as it adds credibility and quality (see Box 3). Ideally this stage should be conducted with internal stakeholder engagement (key department heads, local/national managers, etc.) to gain buy-in and validate decisions among a cross-section of the company for your corporate approach and priorities. This could be done via surveys, workshops, interviews, or other means. Before moving on to Stage 2, companies should ensure that they secure senior level support and appropriate resources.

RECOMMENDED RESOURCES

STEP 1. UNDERSTAND SOCIAL& HUMAN CAPITAL AND ITS RELEVANCE TO THE BUSINESS

Background on social & human capital and prioritization:

1. GRI, UN Global Compact, WBCSD, (2015), SDG Compass
2. IIRC, (2013), The Capitals: Background Paper for Integrated Reporting.
3. ILO, (2014), Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy
4. UN, (1948), UN Universal Declaration of Human Rights.
5. UN Human Rights, Office of the High Commissioner, (2012), UN Guiding Principles on Business and Human Rights.
6. UN Sustainable Development, (2015), UN Sustainable Development Goals

Stakeholder Engagement:

1 GRI, (2013), Principles for Defining Report Content: Stakeholder Inclusiveness.

2 IFC, (2007), Stakeholder Engagement Handbook, Stakeholder Identification and Analysis.

3 IFC, (2007), Stakeholder Engagement Handbook, Stakeholder Consultation.

STEP 2. IDENTIFY POTENTIAL BUSINESS DECISIONS

1 Accounting for Sustainability, (2014), Natural and Social Capital Accounting: An Introduction for Finance Teams.

2 WBCSD, (2015), Social & Human capital in Decision Making: How social information drives value creation.

STEP 3. PRIORITIZE SOCIAL CAPITAL ISSUES

1 GRI, (2013), Principles for defining report content: Materiality.

2 GRI and RobecoSAM, (2015), Defining Materiality: What Matters to Reporters and Investors.

3 IIRC and the International Federation of Accountants, (2016), Materiality in Integrated Reporting: Guidance for the Preparation of Integrated Reports.

4 KPMG, (2014), The essentials of materiality assessment.

5 Social Value International (2012), Supplementary Guidance on Materiality.

Inequality:

1 Mark, M. 2017. Inequities and evaluation influence.

2 In S. Sridharan, K. Zhao & A. Nakaima (Eds.), Building Capacities to Evaluate Health Inequities: Some Lessons Learned from Evaluation Experiments in China, India and Chile. New Directions for Evaluation, 154, 127-138.

3 AEA Cultural Competence Guidelines http://www.eval.org/ccstatement

4 House, E. 2017. Evaluation and the Framing of Race. American Journal of Evaluation. 38(2) 167-189.

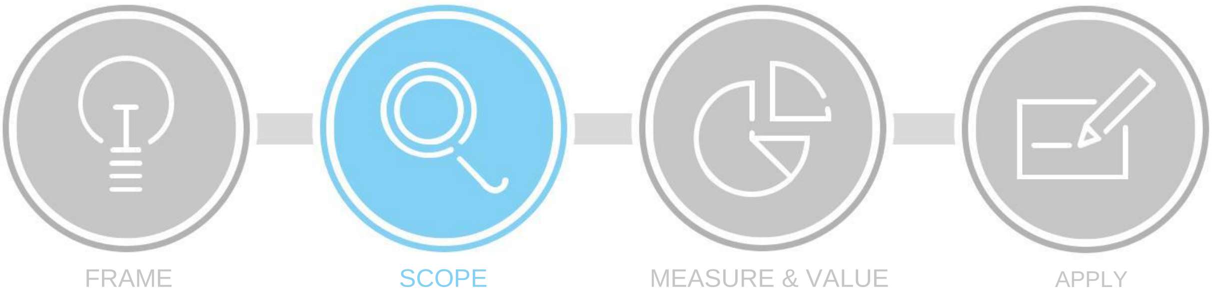
5 OECD, 2015, Executive Summary “In it Together: Why less inequality benefits all, OECD Publishing, Paris.

6 Cook, A. & Glass, C. 2015. Do minority leaders affect corporate practice? Analyzing the effect of leadership composition on governance and product development. John M. Huntsman School of Business Strategic Organization, 13(2), 117 – 140.

7 Campbell, K. & Minguez-Vera, A. 2008. Gender diversity in the boardroom and firm financial performance. Journal of Business Ethics, 83: 435 – 451.

8 Coulson, A. B. and Bonner, J., 2015. Living Wages Employers: evidence of UK Business Cases. January. London: Citizens UK on behalf of the Living Wage Foundation.

STAGE 2 SCOPE



WHAT:

Stage 2 guides companies in setting a practical scope for the measurement and valuation of identified social & human capital priority areas that will provide the desired information for the business decisions chosen in Stage 1. For each priority social & human capital issue identified in Stage 1, companies will determine the key audience and objectives and set the organizational, geographic, and temporal boundaries for measurement and valuation. These will be used to develop an 'impact pathway' (or 'dependency pathway') that provides a hypothesis for how business activities translate into social impacts and/or dependencies and helps identify what the company should assess. The steps in this stage are likely to be iterative and to inform one another, so the results of one step may require revisiting a preceding step. This is normal and should be factored in to any assessment timeline.[31]

WHY:

This stage ensures that the effort of measurement and valuation is targeted appropriately and produces fit-for-purpose results.

HOW:

	KEY OUTPUTS
STEP 4 Determine target audience and objectives	Primary and secondary audiences and key objectives
STEP 5 Set boundaries	Organizational, geographic and temporal boundaries
STEP 6 Define the impact or dependency pathway	Impact and/or dependency pathways for each priority social & human capital issue

31 Adapted from the Natural Capital Protocol (p.25)

STEP 4: Determine target audience and objectives

The first part of setting the scope of the assessment is determining the target audience and the specific objectives for measurement and valuation. The prospective audience should influence how the Protocol is implemented, informing the level of detail of the assessment, the valuation approach chosen, and the type of outputs delivered. Objectives for measurement and valuation should be set based on the needs and interests of the target audience, considering the type of decisions for which they require social information, and their value perspective - i.e., who are they interested in creating value for. This step should draw on the outputs of Step 2 as a starting point.

RECOMMENDATIONS

DETERMINE THE AUDIENCE FOR THE RESULTS

The audience can be a group of stakeholders the business wants to share results with for either communication or decision-making purposes.

Either type of audience could be internal and/or external stakeholders. An audience for decision-making purposes will be stakeholders who have an interest in the company's social & human capital impacts and dependencies and whose actions can have a significant influence on a company's success.[32] This is likely to be drawn from the list of decision-makers identified in Stage 1. Providing these decision-makers with the right information is essential in order to integrate relevant social considerations into business thinking and action.[33]

Table 4 below identifies some of the potential internal and external audiences for the Protocol results. Companies should identify the target audience(s) for each of the priority social & human capital issues that they plan to measure and value, where possible pinpointing the specific individuals whom the results will inform. These individuals should then be involved throughout the analysis as key stakeholders.

Table 4: Examples of internal and external audiences

INTERNAL AUDIENCES MAY INCLUDE:	EXTERNAL AUDIENCES MAY INCLUDE:
• Senior executives and directors (i.e., board members or "C-suite" members)	• Shareholders (if applicable)
• Heads of sustainability, social investment, health and safety, human rights, site managers and operations	• Investors
• Departments such as finance, strategy, procurement, marketing and communications, reporting, public or government affairs, investor relations, human resources, or auditing and compliance	• Suppliers
• Employees and contractors	• Civil society (NGOs, labour unions, etc.)
	• Community/other affected stakeholders (e.g., local residents, schools, farmers, etc.)
	• Governments
	• Regulators
	• Customers
	• Indigenous communities

[32] Note that this is different set of criteria to identifying those stakeholders who are affected by a company's activities, which should be considered when identifying material social & human capital issues and the impacts/ dependencies themselves.
33WBCSD Social & human Capital in Decision-making.

DETERMINE THE OBJECTIVES OF THE ASSESSMENT

Identifying the target audience and understanding what drives them will also inform the objective for using the Protocol. When setting objectives, companies should consider:

- **Business decisions** - Companies should refer to the output of Stage 1 that mapped relevant social & human capital issues to the business drivers and potential decisions. With a specific target audience in mind, companies should set their objectives based on how the results can inform key business decisions. Business decisions could include whether to invest in a specific program or product portfolio or how to reduce the negative impacts or improve the effectiveness of a specific investment. Companies may want to communicate the assessment results in order to influence or inform decisions by governments regarding local employment, project location, or scale of co-investment.
- **Audience perspective** - This means considering whether identified audiences are interested in information about impacts on society, impacts on business and/or business dependencies on society. For example, if companies want to decide whether to continue investing in a specific training program, they may want to understand the impact of the training on the employees (the impact on society) as well as the impact on the company itself. Governments may be interested in a more macro view of the way the company generates profits and losses via its impacts on social & human capital. Similarly, internal decision makers may be interested to measure and value their dependency on skilled workers and how that could be impacted by changes in the stock or availability of skilled workers due to migration to other regions.

OPTIONS

Described below are some example objectives for measurement and valuation of social & human capital based on current practice. These are not exhaustive, but provide an illustration of common applications of measurement and valuation among multi-national corporations:[34]

1.DEEPENING STAKEHOLDER ENGAGEMENT AND MANAGING RELEVANT SOCIAL IMPACTS

Target audiences:

- External - government, media, customers, communities, general public, employees
- Internal - national level leadership, project managers

Understanding and demonstrating social & human capital impacts for external stakeholders remains the starting point for many measurement and valuation initiatives, however, many companies move on from their initial analysis to apply their findings in internal decision-making. Studies that highlight how government and community priorities intersect with the activities of a company can be used to guide impact improvement activities, inform discussions and enhance the company's relationships and reputation. This is particularly effective in situations where government ambitions are clear or when the company has been provided with a clear framework to align with.

2. IMPROVING 'LOCAL CONTENT' PERFORMANCE

Target audiences:

- Internal - local community investment managers, human resource and procurement managers, social performance and community engagement staff. Where investments are significant, global business unit presidents and top management can be involved.

Where companies have large operations, license to operate can be highly dependent upon 'local content'- the extent to which local workers, suppliers and distributors are included in the company's value chain. Companies are using measurement and valuation approaches to ensure that their local content strategies strengthen both the local economy and community as well as the company's performance.

34 These objectives are drawn from WBCSD publication Social & human Capital in Decision-making. The publication also includes company examples for each of the objectives.

3. SUPPORTING ENTRY INTO NEW MARKETS

Target audiences:

- External - government, institutional customers, individual customers

Governments are often the initial gatekeepers for new market entry. Social & human capital assessments can help companies to hold more informed discussions with government about the impact that their planned investment may have on a country or region, and so help establish their license to operate. They can also inform the development and growth of new products and services by helping to understand the market and inform new local stakeholders.

4. FACILITATING GOVERNMENT SALES AND CONTRACT DEVELOPMENT

Target audiences:

- External - government clients, general public, employees
- Internal - bid and contract managers, social innovation initiative managers, resource allocation managers

Governments can be important decision-makers when it comes to product sales and innovative service solutions. This is even more pronounced when the government is the customer. In the UK in particular, the Social Value Act is driving companies to apply monetary valuation techniques to understand and improve their performance in government contracts.

5. BETTER HUMAN RESOURCE MANAGEMENT BY SHIFTING THINKING ON HUMAN CAPITAL

Target audiences:

- External - stakeholders and clients
- Internal - executive leadership, client managers, functional leaders, training managers

Human capital is essential to all companies, but it is generally measured as a cost rather than as an asset, impact or dependency. Human capital-intensive companies are beginning to look at how shifting their perspective might lead to better decisions and performance for the company and its employees.

6. DRIVING INTEGRATED THINKING THROUGH INCLUSIVE BUSINESS

Target audiences:

- External - external stakeholders, investors
- Internal - executive leadership, board, managing directors, national managers, sales managers, procurement managers

Inclusive business initiatives[35] are commercially viable, scalable business models that expand access to goods, services and livelihood opportunities for the economically disadvantaged. In this area, companies are applying social and business information side-by-side. Measurement and valuation initiatives are being used to understand, demonstrate and manage the social & human capital impacts and dependencies related to these emerging business models.

35 For more information on inclusive business see: Said Business school & Deloitte, In Pursuit of Inclusive Capitalism

STEP 5: Set boundaries

Agreeing on the boundaries of the approach from the outset is important from both a conceptual and practical perspective. It not only provides clarity and focuses the approach, but also ensures that resources are used efficiently and effectively.

RECOMMENDATIONS

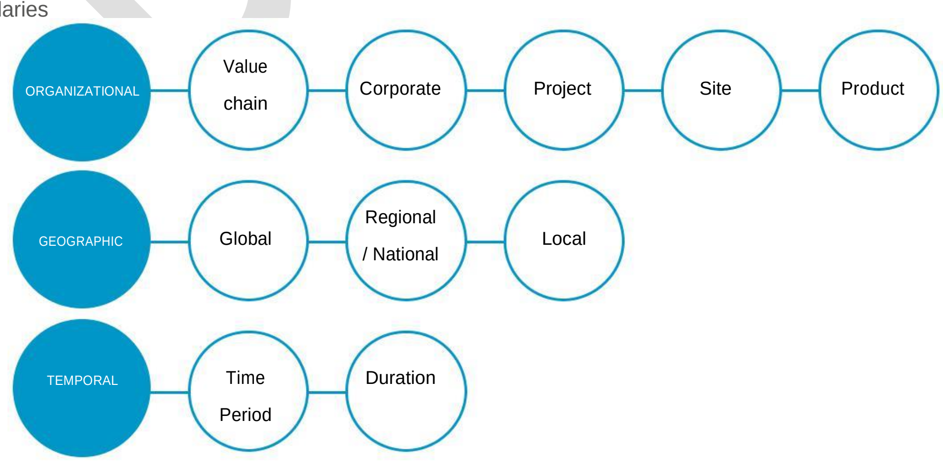
The three key boundaries that should be considered are organizational (or value chain), geographic, and temporal. Companies may decide to start with a narrow approach to the Protocol focused on one part of the value chain, in one location, within a narrow timeframe. For example, a company could decide to assess impacts and dependencies related to professional advancement of women in one supplier factory in Bangladesh over the last three years. Once the methodology is established, the company could expand the approach to include all suppliers and/or other parts of the value chain, such as retail workers.

When setting the boundaries of the assessment, companies should consider the following:

- **Stakeholder and audience interest** - There may be certain operations, projects, or regions where there is a more urgent need for the Protocol, where there is greater scrutiny by external stakeholders, or where using the Protocol has more support from senior leadership.
- **Likely effectiveness of tackling high priority social & human capital issues** - Some issues may be higher priorities for certain locations, projects, or parts of the value chain. For example, living wage could be a priority for one country/region but may already be addressed in other manufacturing regions.
- **Company ambition level and available resources** - There may be boundaries that would provide meaningful results quickly and therefore would help build momentum for further measurement.
- **Data availability** - Some data may be difficult to access or not meet high enough quality standards to be used. For example, this could be the case when companies depend on surveys or other data sets from resource-constrained governments or when measurement requires capturing data from thousands of Tier one and two suppliers without already established data collection systems in place.
- **Objectives and scope of impacts** - The audience and objectives identified in previous steps could dictate clear boundaries for the assessment.

Figure 12 provides a snapshot of the boundaries, which are explained in more detail overleaf.[36]

Figure 12: Types of boundaries



36 This draws on some material in the Natural Capital Protocol that refers to the organizational focus, value chain boundary, value perspective, and other technical issues. The Natural Capital Protocol (p.30-40).

ORGANIZATIONAL BOUNDARY: When determining the organizational boundaries, companies should consider the business operations or activities that will be measured and valued.

Options for some of the different organizational foci could be:

- **Value chain** - this looks at individual phases of the value chain, upstream or downstream, such as raw material extraction, manufacturing, distribution, product use phase, or disposal/ end of life. Alternatively, it could look at the full value chain.
- **Corporate** - this includes everything within the direct control of the company. For example, a company could develop an approach for safety promotion for all of its direct employees.
- **Project** - this looks at a specific initiative or project, such as a skills building program for small-medium enterprises in the supply chain.
- **Site** - this focuses on impacts and dependencies at specific sites or operations. For example, this could include looking at all manufacturing operations in the company.
- **Product** - this includes an approach focused on a specific product or brand. Depending on the impacts and dependencies this could cut across the value chain if considering the product lifecycle.

GEOGRAPHIC BOUNDARY: The spatial boundaries of the assessment should be determined not only by where the company is operating but by its influence and reach. For example, companies might focus on the impacts on employment in the community where they operate. But, the migration of workers from other regions into this community could have impacts on those other regions.

Narrowing the approach to focus on the community in the immediate vicinity of the plant or operation could miss significant changes in social & human capital that result for those other regions; e.g. from employee remittances back to workers' families. In these cases, companies could set the boundary to include those regions that receive the most remittances.

Options for spatial boundaries to consider include:

- Global - this includes anywhere that the company has an impact.
- Regional / National - this looks at one country or several countries within a defined region.
- Local - this includes one specific geographic area such as one city, town, county or state.

TEMPORAL BOUNDARY: This means determining an appropriate time horizon for the approach. This has significant implications for the measurement and valuation methods used, particularly regarding baselines and the use of counterfactuals (see Stage 3). Some companies may want to compare impacts and value before and after a certain intervention.

The temporal boundaries that should be considered are:

- Time Period - past, present or future impacts and dependencies.
- Duration - the period of time (and the impacts and dependencies associated with this). This could be in years, months or a snapshot in time.

Example options for temporal boundaries include a company's assessment covering a financial year with the aim to establish an annual measurement inventory, or an assessment looking at all impacts that result from an activity for as long as those impacts persist.

STEP 6: Define the impact pathway

The last step in Stage 2 draws the links between the social & human capital issues identified in Step 1 and the business activities that affect or rely on them. This should be done by building an impact or dependency pathway (also called a logical framework, results chain or theory of change), which outlines the potential and empirically testable relationships between the companies inputs, activities and impacts on social & human capital creation, destruction or reliance.

RECOMMENDATIONS

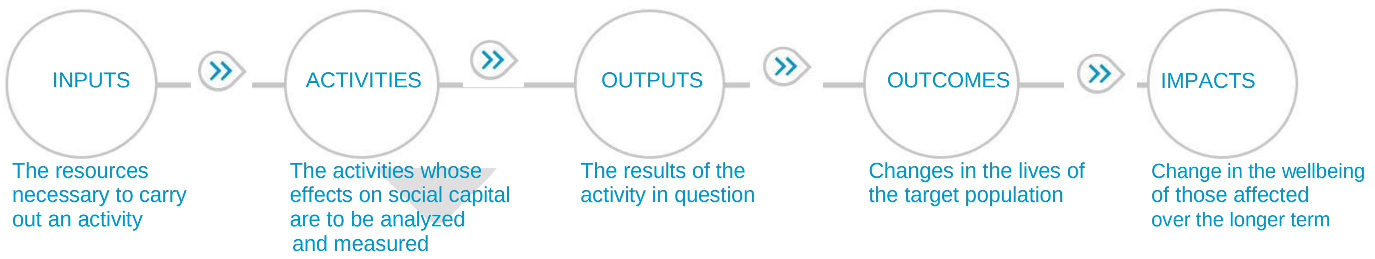
Depending on the results of the previous steps, a company may conclude that it is most important to focus on social & human capital impacts, dependencies, or a combination of the two. Whereas dependencies, by definition, are felt by the business, social & human capital impacts may be experienced by a variety of stakeholders in society, including the business itself.

An impact or dependency pathway can equally be used to show an impact on the business (i.e. financial cost) or to show a pathway outlining a specific social & human capital dependency the business has.[37]

Figure 13 explains the core elements of an impact pathway from inputs to impacts. Impact pathways are well-established as the foundation for social impact assessments. It is important to note that there may be more than five links in the chain, especially between “outputs” and “impacts.” Similarly, results chains do not have to be linear. For example, “activities” can lead to multiple “outputs,” which each lead to multiple “outcomes” and so on.[38]

It is important to keep a record of any references, assumptions or justifications that have been used to make causal links in the pathway. These should be cited in any analysis of the data in validation exercises or sensitivity analysis (see Step 10).

Figure 13: Elements of an impact pathway



37Refer to Natural Capital Protocol (p.46) for more guidance on drawing dependency pathways.
38WBCSD, Measuring Socio-economic impact: A guide for business.

Companies should refer to the outputs of Steps 3, 4 and 5 of the Protocol to frame their impact pathway(s), looking in particular at the organizational and geographic scope to define the business activities that will be included, as well as the audience perspective to define who is impacted. Companies should develop separate impact pathways for each social & human capital issue they plan to measure and value. Within each social capital issue, there may be a number of specific outcomes or impacts. Benefits of using the impact pathway approach:

- Impact pathways can help a company understand how business activities are traced all the way through outputs to outcomes and impacts.
- Impact/dependency pathways can highlight unintended consequences or indirect effects of a business activity that might occur despite not being the primary intention of the activity.
- Impact/dependency pathways can demonstrate the causal links between a business' activity or product and downstream impacts. This can be particularly useful when the company wants to demonstrate the societal value of the use of its products.

Figure 14: Example impact pathways from WBCSD's "Measuring Socio-economic impact: A guide for business"

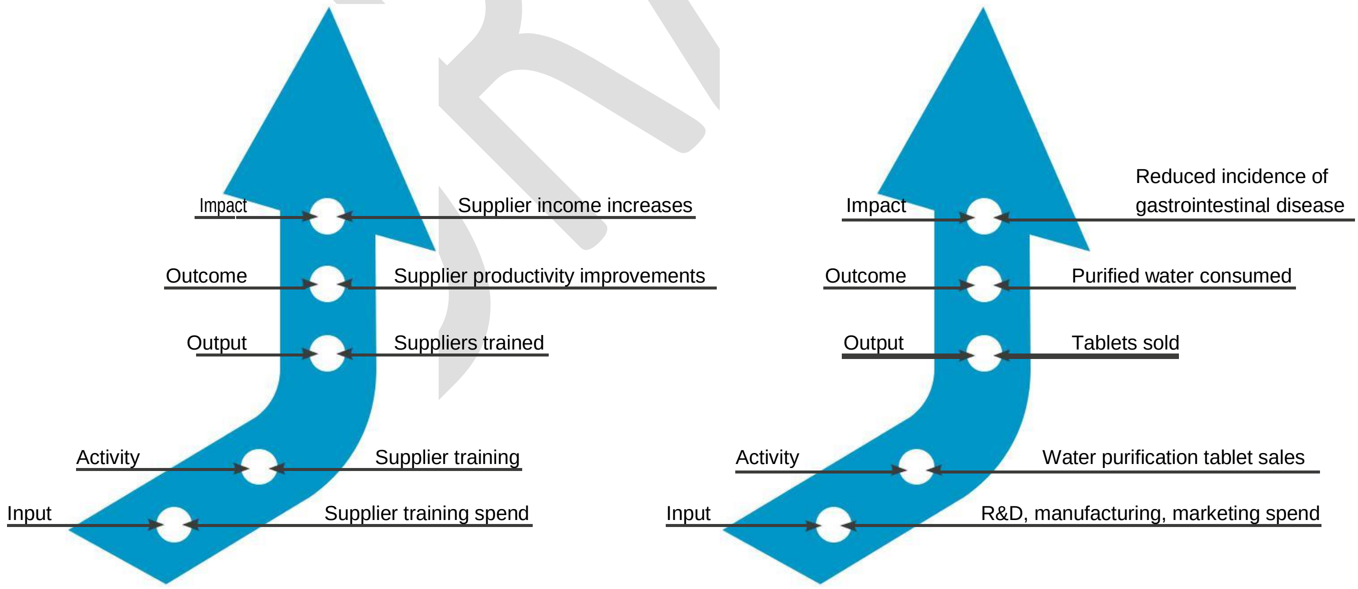
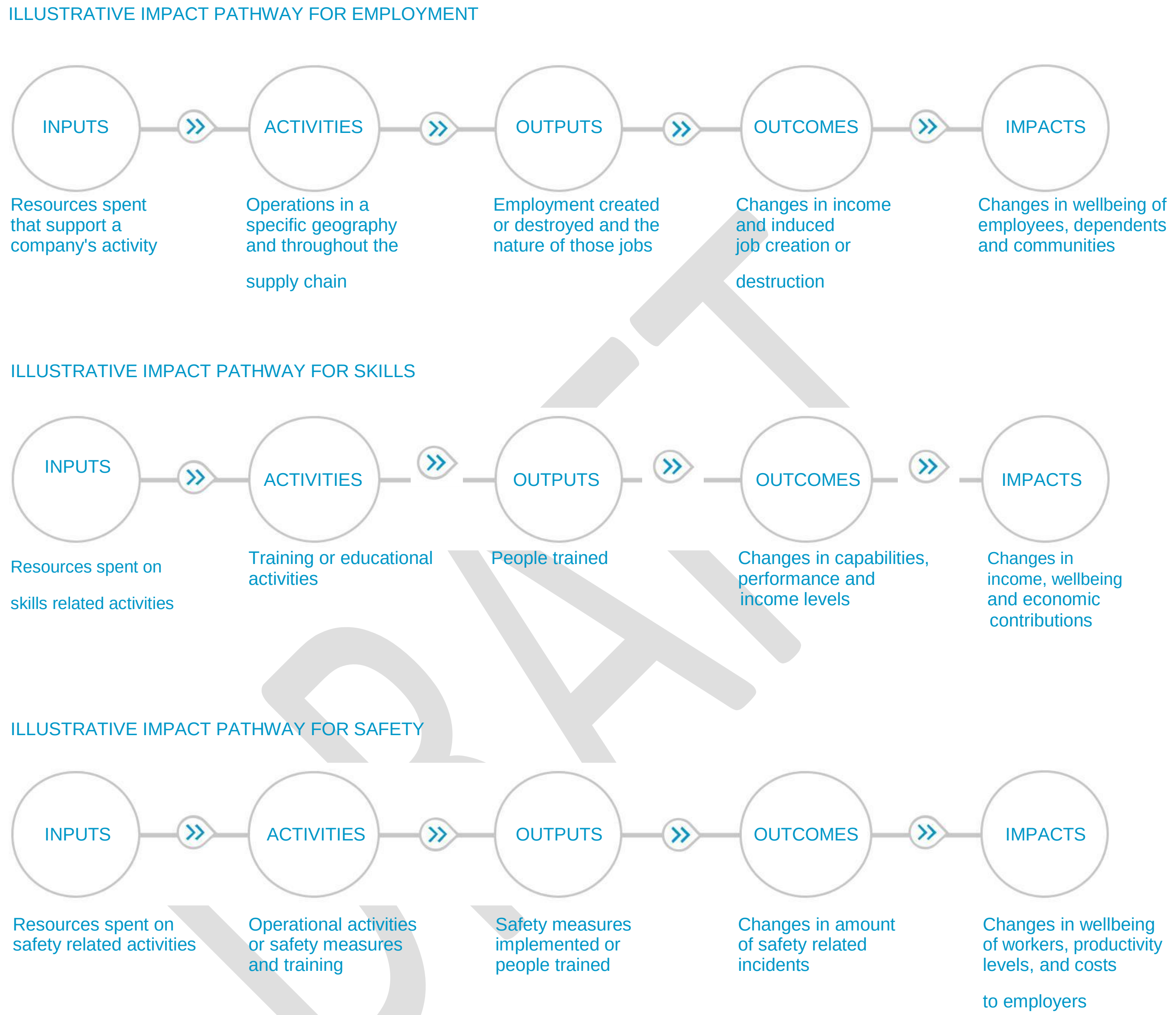


Figure 15: Example impact pathways from WBCSD's "Building the Social Capital Protocol: Insights into employment, skills and safety."



2.4 STAGE 2, SCOPE: Conclusion

OUTPUTS

By the end of Stage 2, companies should have an understanding of:

- Who the target audience(s) is(are) for the assessment and how their needs might be reflected in the choice of scope and objective;
- What organizational, geographic, and temporal boundaries the assessment is going to cover within the limits of the resources available;
- The links in the pathway that connect a business activity to the material social & human capital issues identified in Stage 1, and any indirect or unintended effects that are caused by the business activity; and
- Which material outcomes and impacts the company should measure and value to achieve the objective of the assessment.

PRACTICAL CONSIDERATIONS

This stage can be completed fairly quickly depending on the level of buy-in and support of senior leaders and decision-makers. Some key considerations include:

- **Skills/expertise:** This stage does not necessarily require specific technical skills. Companies may benefit from referring to the more detailed guidance within the recommended resources section, and potentially from support from external experts.
- **Timing:** While this stage is not necessarily time or labor intensive, it is important to allocate sufficient time to socialize the proposed scope internally, to ensure that the key audience / decision-makers have the opportunity to inform the process and decisions on boundaries; and that they recognize the impacts or dependencies that result from the mapping process.
- **Stakeholder Engagement:** Input from internal stakeholders, particularly the target audience, is essential to ensure that the scope aligns with their objectives. Input from external stakeholders will enrich the process and can be particularly valuable when mapping impacts on specific stakeholders.

RECOMMENDED RESOURCES

STEP 4. DETERMINE TARGET AUDIENCE AND OBJECTIVES

1. WBCSD, (2015), Social Capital in Decision Making: How social information drives value creation

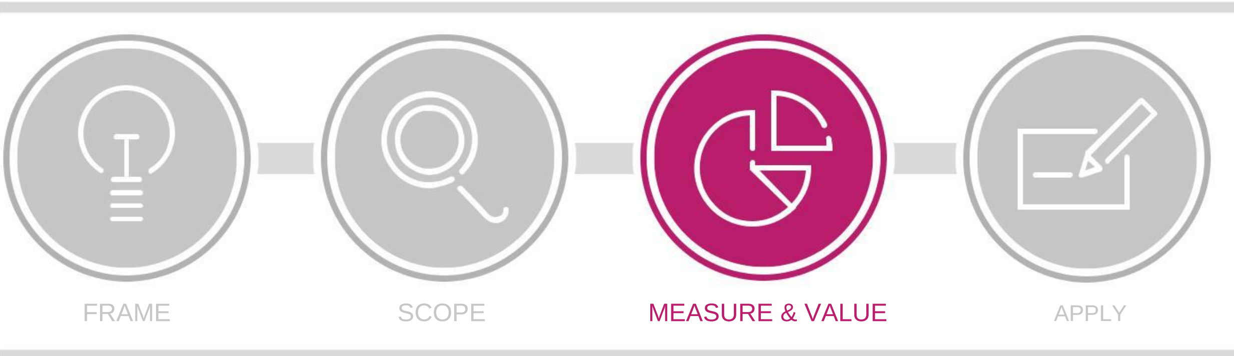
STEP 5. SET BOUNDARIES

2. GRI, (2005), GRI Boundary Protocol.
3. GRI, (2014), The GRI G4 Sustainability Reporting Guidelines: Report Content and Boundary.

STEP 6. DEFINE THE IMPACT OR DEPENDENCY PATHWAY

4. NPC, (2013), Outcomes and Impacts Map: Employment and Training.
5. Roundtable for Product Social Metrics, (2016), Handbook for Product Social Impact Assessment.
6. Social Value International, (2016), Supplementary Guidance for Principle 2: Understand what changes - Part One: Creating well defined outcomes.
7. World Bank and IFC, (2012), Designing a Results Framework for Achieving Results: A How-to Guide.

STAGE 3: MEASURE & VALUE



WHAT:

In this stage, companies will select the type of valuation most useful for their target audience and key decision-makers. Companies will identify the most appropriate valuation techniques based on the selected valuation type. Based on the valuation techniques, companies will define fit for purpose indicators, metrics and data sources, before conducting the technical measurement and valuation of their social impacts and/or dependencies.

WHY:

Measurement and valuation is at the core of the Social & Human Capital Protocol. Establishing reliable access to tailored information will support informed action from decision-makers. When comparable values are allocated to social & human capital impacts and dependencies, they can be used alongside other business information. This is key to integrating and mainstreaming the consideration of social & human capital within business operations and decision-making.

There are still many challenges for business in conducting social impact measurement and valuation, but the field is rapidly evolving. This guide contains current good practice, but improved methods and resources are becoming available as companies continue to strive for credible, useful and comparable valuation of social & human capital particularly in relation to Big Data, Real Time Data and Big Indicators. [39]

HOW:

	KEY OUTPUTS
STEP 7 Select appropriate valuation technique	Selection of valuation technique
STEP 8 Choose indicators and metrics	List of indicators and metrics
STEP 9 Undertake or commission measurement and valuation	Results of measurement and valuation

39 Stanford Social Innovation Review, Can measures change the World? Better Evaluation present examples of why a business may want to combine different types of value data

STEP 7: Select appropriate valuation technique

Valuation is the process of determining the relative importance, worth, or usefulness of something in a particular context. Valuation may involve qualitative, quantitative, or monetary approaches, or a combination of these.

In Step 7, companies will first identify the appropriate type of value to be used for each impact or dependency identified and then choose a fit-for-purpose valuation technique. This will guide the selection of indicators and metrics for measurement in Step 8.

RECOMMENDATIONS

To identify the appropriate valuation technique, a company should select the type of value most suited to the information needs of their audience, the objectives of the assessment, and the time and resources available. Based on these criteria they can then select an appropriate valuation technique. For example:

- Type of value - Is the audience interested in qualitative, quantitative, or monetary values or a mix of these values[40] depending on the issue being assessed?
- Fit for purpose valuation technique - Which valuation technique aligns with the chosen scope and objectives?

SELECT THE APPROPRIATE TYPE OF VALUE

Definitions of different types of value, are given below:[41]

- **Qualitative valuation** is usually descriptive and focuses on more subjective perceptions of change. Normally implemented through questionnaire surveys, deliberative approaches, or expert opinions, qualitative valuation is often useful for a preliminary identification of impacts and/or dependencies. Qualitative valuation may express relative value using terms such as “high, medium, or low”, “yes or no”, or ranking options using defined categories. Qualitative valuation may also take the form of stories, case histories, selected quotations, or expressions of emotional responses to changes in social & human capital.
- **Quantitative valuation** is about expressing the value of impacts and/or dependencies in numerical, non-monetary, terms. It is different from quantitative measurement in that quantitative valuation relates to the importance, worth, or usefulness of the impact and/or dependency by taking into account the context and ideally including affected stakeholders. So, for example, a company creating 1,000 jobs in an area with high levels of unemployment may cause an impact of far greater value to other stakeholders than a company creating 10,000 jobs in an area where there is generally low unemployment. Quantitative measures (e.g. the number of jobs created) are typically required as an input for quantitative valuation, and are a pre-requisite for monetary valuation (see below).
- **Monetary valuation** is used to determine the value of impacts and/or dependencies in a common unit of measure, like US dollars, euros, etc., for ease of comparison with financial values (e.g., business costs or revenue). This approach, (if sufficient information is available) is best used to provide information on the marginal value/net costs or benefits of an intervention that alters the quality and/or quantity of social & human capital, either at a point in time or over a given period. It can be useful to assess how costs and benefits are distributed among different stakeholders, and to assess the magnitude of potential financing or revenue sources. Monetary valuation can also be used to assess the cost efficiency of different interventions in delivering non-monetary impacts and trends in value as a function of changes in supply and demand conditions. Both market and non-market approaches to monetary valuation aim to measure social preferences—using observed prices in the market in the former case, and “revealed” or “stated” preference methods for impacts or dependencies that do not have explicit market prices. Monetary valuation of social & human capital impacts and/or dependencies may require statistical techniques to be carried out by qualified experts.

40 Better Evaluation present examples of why a business may want to combine different types of value data)
41 Adapted from the Natural Capital Protocol (p.37, p.82-83 and p.112-113).

Different audiences will have different needs and preferences about the information they use to make decisions, including preferences for quantitative measurement or qualitative, quantitative or monetary valuation.

- An approach designed for external stakeholders, such as local communities, might focus on qualitative and quantitative valuation data that are transparent and easily understood by non-experts, e.g. total jobs created or stated job satisfaction.
- If governments are an intended audience for the results, they may be interested in monetary valuation of social & human capital impacts. Certain forms of monetary valuation can reflect the preferences and priorities of citizens, or identify opportunities for governments to save costs as a result of welfare improvements or improved efficiency in use of resources. Examples include a company's direct contribution to GDP through employment, government savings from the avoided spend on welfare and unemployment benefits, and the monetary value of welfare changes among citizens due to business activities.
- Internal stakeholders may be more interested in performance against targets or Key Performance Indicators alongside impacts on departmental budgets.

The table overleaf highlights some of the advantages and disadvantages of these qualitative, quantitative, or monetary value approaches.

SELECT A FIT-FOR-PURPOSE VALUATION TECHNIQUE

When choosing the valuation technique for the assessment, companies should consider:

- **Type of valuation** - For each social & human capital assessment, companies should select an appropriate valuation technique based on whether they will assess values in qualitative, quantitative, or monetary terms. If companies have multiple audiences and objectives, they may need to employ more than one method.
- When using a mix of techniques and/or measuring different value perspectives, care should be taken to make sure that values are consistent with one another – especially if they are to be directly compared or aggregated. For example, when considering monetary values associated with providing a vocational training course, it is possible to measure in monetary terms both the resource cost to a company of running the course and the welfare value or benefits to an individual from the increased earnings they can expect as a result. However, these two monetary values represent entirely different things and should not be aggregated.
- Level of rigor and granularity - Companies should determine the appropriate level of rigor to apply. Some may decide that relatively broad estimates are sufficient to inform key business decisions and will withstand critique from internal and external stakeholders, whereas other companies may choose techniques that have higher levels of accuracy and credibility but may be time and labor intensive. Whatever the judgement, it is advisable to be transparent about the level of uncertainty in the results, such as by conducting sensitivity analysis into the effect on results from changes in key data that may be reported with low confidence or accuracy, or from changes in key assumptions.

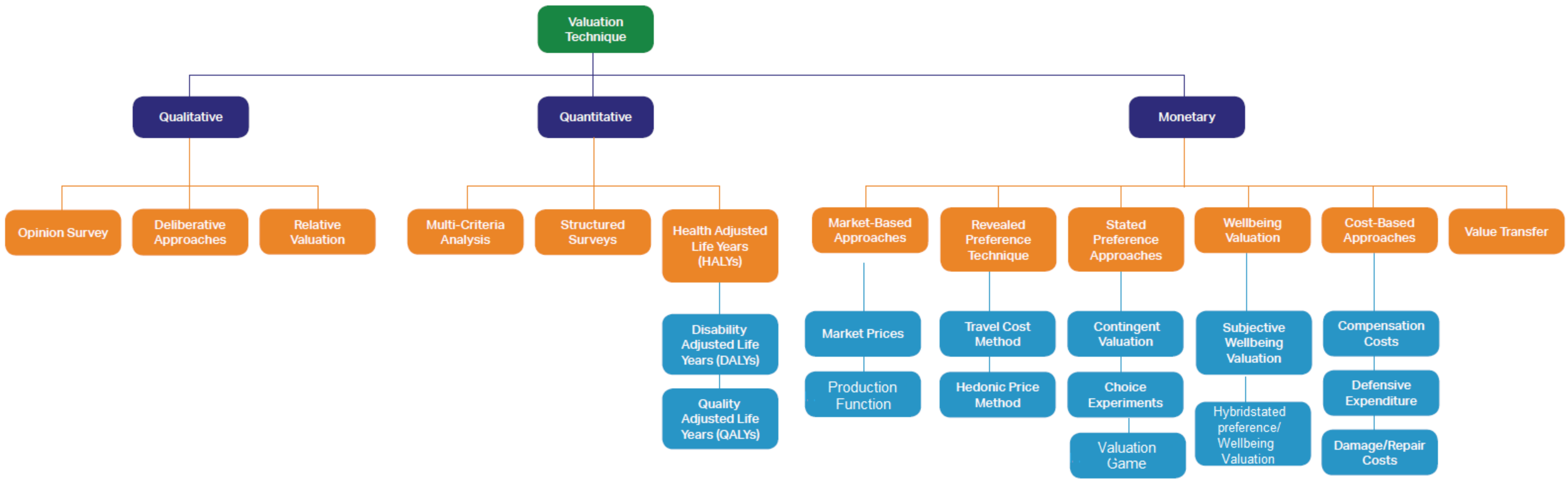
OPTIONS

Valuation techniques should be carefully chosen in the context of the audience, key stakeholders, types of impact, and how the information will be used. Figure 16 sets out a number of categories under which different qualitative, quantitative and monetary valuation techniques can be organised. This is followed by a description of these techniques and in what situations they are most suitable.

Table 5: Advantages and disadvantages of applying the three types of value

TYPE OF VALUE	ADVANTAGES	DISADVANTAGES
Qualitative	Useful when there are many different impacts, or many different perspectives on those impacts. Offers insight into context, motivations, and sentiments that can serve as a complement and/or clarification of monetary data. Can be used when there is a lack of data for quantitative measurement. Can be used when important stakeholders find quantities or monetary values difficult to understand, accept or interpret, such as when impacts and/or dependencies are perceived to have a strong moral or ethical dimension.	Outputs are based on subjective assessment and so may be: • Difficult to validate or reproduce; • Subject to bias; and/or • Difficult to compare directly with other qualitative valuations, and so provide less information about the relative importance of different social & human capital impacts or dependencies.
Quantitative	Good for evaluating progress towards a target or over time. Can include both direct and proxy measures as well as natural and constructed scales. May be more appropriate when important stakeholders find monetary values difficult to accept or interpret, such as when impacts and/or dependencies are perceived to have a strong moral or ethical dimension.	Some stakeholders may find it difficult to accept the quantification of certain changes (e.g. in spiritual values, cultural identity, historical significance, health). Without contextual analysis - such as that from a qualitative case study, or from monetary valuation techniques - it may be difficult to interpret or compare results. The units of measurement may be technical and so not easily understood by all stakeholders.
Monetary	If monetary values are estimated correctly and on a consistent basis (e.g. using the methods of welfare economics), they can be broadly comparable and offer meaningful information to help assess trade-offs between different social capital impacts. Essential for determining economic values, or for direct comparison with financial information, where these are required for decision-making. Monetary valuation has the potential to reflect, in a single measure, a variety of contextual complexities, such as differing stakeholder perspectives and different starting conditions in different locations.	May be time-consuming and expensive, especially if primary research is required to generate data and advanced tools/techniques are needed to determine monetary values. Some stakeholders may find it difficult to accept or interpret monetary valuation of certain benefits or issues (e.g. change in spiritual value of a site, or health state). The assumptions built into the chosen valuation methods are not always readily accessible. Monetary values ascribed to impacts may change over time due to factors such as exchange rates, inflation, or purchasing power adjustments. These changes will change the company's valued impact but are outside the company's control.

Figure 16: Example of different valuation techniques



1. QUALITATIVE VALUATION TECHNIQUES

- Opinion surveys provide a means of representing the views of a broad group of relevant stakeholders through a series of questions (e.g. through questionnaires or semi-structured interviews). The relative importance or worth of social & human capital in a given context can be elicited to estimate the value in a qualitative sense. Questions may be based on actual or hypothetical scenarios and seek responses from a range of relevant stakeholders. Surveys can be delivered in person, or remotely via telephone or the internet. It is essential to consider potential sources of bias in survey design, including in sample selection, scenario framing, the wording of questions, and data analysis. Surveys are often also used for quantitative analysis, but should always include qualitative questions to corroborate results and to validate respondents' understanding of quantitative questions.
- Deliberative approaches are structured frameworks, such as facilitated group discussions or focus groups, for stakeholders to debate the relative values of social & human capital in a given context. They are particularly useful where there are divergent opinions that would benefit from facilitated discussion, in order to understand the key drivers of different points of view, and to work through these differences in an attempt to reach consensus around an appropriate qualitative valuation.
- Relative valuation involves allocating high/medium/ low values, scales or scores to performance indicators in order to determine the relative value of costs and/ or benefits in categorical terms. It can be done using workshops, available data and/or expert judgment. Scores can then be weighted and aggregated to give an overall view of performance.

2. QUANTITATIVE VALUATION TECHNIQUES

- Multi-criteria analysis involves selecting a range of indicators and rating and ranking their value through scoring and weighting in order to derive a single number outcome. This can be done using workshops, available data and/or expert judgment.
- Structured surveys allow for quantitative information about respondents' views or preferences to be collected, through the use of closed questions and predefined scales, such as Likert scales,[42] which can be aggregated over the sample and used to estimate the views or preferences of a population of interest - such as a specific stakeholder group.
- Health Adjusted Life Years (HALYs) are a family of techniques that can be used for measuring the morbidity and mortality associated with different health conditions (i.e. injuries and illnesses) using a consistent and comparable unit of measurement.

  There are a number of different HALY measures, which have been developed by different health agencies over the years. Two such techniques, which have become particularly prominent, are Disability Adjusted Life Years (DALYs)[43] and Quality Adjusted Life Years (QALYs). These techniques measure health states in different ways, so care should be taken when using more than one type of HALY, and they should not be directly compared or aggregated. In addition, there are approaches to value HALYs in monetary terms.

42 A type of scale used to establish people's preferences. A common version is to ask people to select their level of agreement with a statement on a scale of: Strongly Disagree, Disagree, Neither Agree or Disagree, Agree, Strongly Agree.
43 For more information on DALYs see: World Health Organization, Health statistics and information systems

3. MONETARY VALUATION TECHNIQUES

There are a number of ways of categorizing techniques for monetary valuation of social & human capital, where each category captures different dimensions of value. These categories are market-based approaches, revealed preference techniques, stated preference techniques, wellbeing valuation, cost-based approaches, and value transfer techniques.

- Market-based approaches: use existing market prices for specific goods and services, where relevant, to represent changes in social & human capital.
- Revealed preference techniques look at the way in which people reveal their preferences through market production and consumption. Where direct markets for goods or services exist, the value people place on the good is revealed directly using market prices, either for that or a similar good.
- Stated preference techniques ask consumers to "state their preference" directly for a good or service using survey techniques in order to define an appropriate value.
- Wellbeing Valuation (WV) values changes in life circumstances by calculating the increase in income which would be necessary for an equivalent increase in wellbeing.
- Cost-based approaches estimate the value of non-market goods or 'bads' in terms of the cost of compensating those affected, mitigating damage or providing repair or remedy following negative impacts.
- Value Transfer, also known as benefit transfer, is not a valuation technique in itself, but involves transferring value estimates from existing economic valuation studies to the study site or context in question, making adjustments where appropriate.

The monetary valuation techniques table overleaf provides a detailed comparison of these methods, including their advantages and disadvantages, as well as the data, time, budget and skills required to perform them.

Table 6: Comparison of monetary valuation techniques[56]

TECHNIQUE	DESCRIPTION	DATA REQUIRED	TIME / BUDGET	SKILLS REQUIRED	ADVANTAGES	DISADVANTAGES
MARKET-BASED APPROACHES						
Market prices	How much it costs to buy a good or service, or what it is worth to sell.	• Market price of goods or services. • The costs involved to process and bring the product or service to market (e.g. a training course).	Days / Low	Basic	+ A readily transparent and defensible method since based on market data. + It reflects an individual's willingness to pay (WTP).	- Only applicable where a market exists for the goods or services and this data is readily available. - Risk of undervaluation.
Production function techniques	The effect of changes in non-market factors on the value of production output, as a way to value these factors. A subset of these techniques is the Human Capital approach to value the loss of a worker from the workforce in terms of the corresponding foregone economic output.	• Data on changes in output of a product. • Data on cause and effect relationship (e.g. marginal product of labor).	Days-Weeks / Medium	Economic analysis	+ If all required data are available, the technique can be implemented fairly easily. + Can link social & human capital dependencies to financial accounts.	- Necessary to understand the relationship between a change in social & human capital (i.e. labor) and output of product. - Can be difficult to obtain data on relevant changes in social & human capital and effect on production.
REVEALED PREFERENCE TECHNIQUES						
Travel Cost Method	Based on the observation that social and marketed goods and services are often complements (i.e. you need to spend money and valuable time on travel to visit a place of cultural importance). Measures travel and other costs incurred when visiting a cultural asset for recreation or leisure, to elicit a value per visit.	• The amount of time and money people spend visiting a site for recreation or leisure purposes. • Motivations for travel.	Weeks-Months / High	Questionnaire design, interviewing and econometric analysis	+ Based on actual behaviour (what people do) rather than a hypothetically stated WTP. + Results are relatively easy to interpret and explain.	- Approach is limited to use of recreational benefits. - Difficulties in apportioning costs when trips are to multiple places or are for more than one purpose.
Hedonic Price Method	The difference in property prices or wage rates that can be ascribed to the different qualities or attributes. In the case of wages, this could include e.g. skills, years of experience and training.	• Data related to house prices and how they are affected by relevant qualities. • Data related to wage rates or productivity increases as a result of training expenditures, education or partnerships with other organizations.	Weeks / Medium	Econometric	+ Wage data and employee health (insurance) expenditures readily available.	- Difficult to measure things like on-the-job training or spill-overs resulting from partnerships.

44 This draws on valuation techniques featured in the Natural Capital Protocol (p.83-87), and builds upon a table originally produced for the WBCSD Guide to Corporate Ecosystem Valuation.
45 Social Value International, A Discussion Document on the Valuation of Social Outcomes.

TECHNIQUE	DESCRIPTION	DATA REQUIRED	TIME / BUDGET	SKILLS REQUIRED	ADVANTAGES	DISADVANTAGES
STATED PREFERENCE TECHNIQUES						
Contingent valuation (CV)	Infer values by asking people directly what is their willingness to pay (WTP) for a social bene-fit or their willingness to accept (WTA) compensation for their loss. There are different ways in which people can be asked for their WTP or WTA value, including through open-ended questions, being provided a price with the option to turn it down ('dichotomous choice'), and auction games.	• Stated value that people place on a good or service (e.g. job security, increased confidence); demographic and biographical information on survey respondents. Obtained through survey questionnaires.	Weeks-Months / High	Questionnaire design, interviewing and econometric analysis.	+ Captures both use and non-use values. + Extremely flexible - it can be used to estimate the economic value of virtually anything. + Gives a much more accurate outcome than benefit transfers.	- The results are subject to numerous different biases from respondents: - respondents may express a positive WTP to promote a "warm glow" effect, overestimating value. - if the cost is perceived as a tax, respondents may express a negative WTP, underestimating value. - if the respondent is opposed to placing any financial value on a good or service, they may place a "protest bid" which vastly overstates their WTP.
Choice experiments (CE)	Presents a series of alternative resource or use options, each defined by various attributes set at different levels (including price), and asks respondents to select which option (i.e. sets of attributes at different levels) they prefer (e.g. numbers of species present and percentage coral cover).	• As for CV above, although CE contrasts several different scenarios. An appropriate set of "levels" are required for the different parameters (e.g. ranging from 0% to 100% loss of access to a spiritual site).	Weeks-Months / High	Questionnaire design, interviewing and econometric analysis.	+ Captures both use and non-use values. + Provides theoretically more accurate values for marginal changes (e.g. values per % loss of access to a spiritual site). + Can give a much more accurate outcome than contingent valuation or benefit transfers.	- The results are subject to numerous different biases from respondents. - Can be mentally challenging for respondents to truly weigh up the alternative choices given to them in the time available.
Valuation game	Participants asked to place value on outcomes by comparing preferences or by comparing goods or services which have known market values.	• Relative values that people place on goods or services or preferences to outcomes. Demographic and biographical information.	Days / Low	Questionnaire design and interviewing.	+ Extremely flexible and useful for defining outcomes, recognizing subgroups of stakeholders. + Captures both use and non-use values.	- The results are subject to numerous different biases from respondents. - Preferences need to align with market costs where more than one outcome is being valued for service design purposes.

TECHNIQUE	DESCRIPTION	DATA REQUIRED	TIME / BUDGET	SKILLS REQUIRED	ADVANTAGES	DISADVANTAGES
WELLBEING VALUATION						
Subjective Wellbeing Valuation (WV)	Wellbeing valuations assess the relationship between life circumstances (e.g. employment status, health status, levels of volunteering, safety of local area) and levels of self-reported wellbeing.	• Large statistical datasets (e.g. the British Household Panel Survey).	Weeks / Low	Econometric / statistical analysis.	+ Necessary data sets publicly available. + Additional data sets can be created.	- Data needed may not be available for either the outcome or for a specific stakeholder group, in which case costs will be higher. - Provides only general correlations and not company/organization-specific analysis (see “benefits transfer” below).
Hybrid stated preference / Wellbeing Valuation	Respondents asked directly for their willingness to accept compensation for a loss such that their level of wellbeing does not change.	• Large statistical datasets (e.g. the British Household Panel Survey). • Stated value that people place on the wellbeing associated with a good or service (e.g. access to a library service); demographic and biographical information on survey respondents. Obtained through survey questionnaires.	Weeks-Months / High	Questionnaire design, interviewing and econometric / statistical analysis.	+ Avoids the need for willingness to pay scenarios which rely on hypothetical costs.	- Data needed for wellbeing valuation may not be available, in which case costs will be higher.

TECHNIQUE	DESCRIPTION	DATA REQUIRED	TIME / BUDGET	SKILLS REQUIRED	ADVANTAGES	DISADVANTAGES
COST-BASED APPROACHES						
Compensation costs	The cost of compensating an individual or group of individuals for experiencing a negative impact.	• Compensation costs from the company or from public sources for a particular incident.	Low	Secondary data collection.	+ Does not rely on hypothetical scenarios to provide a WTA value. + May be possible to obtain from existing data from company or public sources.	- Data needed may not be available for either the outcome or for a specific stakeholder group. - Only represents a lower bound for WTA. - Results may be misleading if demographic differences are not controlled for.
Defensive expenditure	The value people are willing to pay for goods that mitigate a perceived risk or disamenity, e.g. expenditure on safety equipment along with the associated % reduction in risk of mortality or injury.	• Data on the price levels of specific defensive products along with the perceived or real reduction in risk or disamenity they provide.	Weeks / Medium	Econometric.	+ Does not rely on hypothetical scenarios.	- Data needed may not be available for either the outcome or for a specific stakeholder group. - Provides only general correlations and not company/organization specific correlations. - Only represents a lower bound for WTP or WTA.
Damage / repair cost	Cost of restoring a site to its previous condition, for example following damage to a site of cultural importance.	• Data on actual or estimated repair costs.	Basic / simple	Secondary data collection.	+ Does not rely on hypothetical scenarios.	- Data needed may not exist for specific context. - May not be possible to restore the site to its original or unspoiled condition, in which case value provided may significantly underestimate WTA or WTP value held by those affected.

TECHNIQUE	DESCRIPTION	DATA REQUIRED	TIME / BUDGET	SKILLS REQUIRED	ADVANTAGES	DISADVANTAGES
VALUE TRANSFER						
Value Transfer	Involves transferring value estimates from existing economic valuation studies to the study site in question, making adjustments where appropriate. While a primary valuation technique is preferred, it may not be feasible and value transfer is increasingly used by companies in place of primary techniques due to its practicality for business applications.	Valuations from similar studies elsewhere. Data on key variables from different studies (e.g. GDP per person).	Days / Low	Basic or econometric analysis if using bid functions.	+ Can be quick and require relatively less resource than many other techniques. + Useful for scaling up valuation projects from geographically specific or project-based initiatives to a company wide strategy. + Can increase the credibility of a company study through reference to a reputable source. + Means multiple companies can use the same value, with the potential to make values and performance analysis more comparable across companies and industries.	- The results may not be relevant to the stakeholder group for which the value is being calculated. Decision-makers must be attuned to socio-economic and cultural discrepancies among groups and individuals and should carry out at least basic location-specific research as a “goodness-of-fit” test. - Existing valuation studies may be more robust and numerous for some goods/ services than for others.

STEP 8: Choose indicators and metrics

Before companies can conduct a valuation exercise, they need to measure their social & human capital impacts or dependencies. The key decisions to make at this point are:

- At what level of the pathway (i.e. outcome or impact) to collect data; and
- The most appropriate indicators and metrics for measurement at the chosen levels of the pathway.

These decisions will be driven by a combination of:

- The objective of the analysis (as determined in Steps 2 and 4);
- The impact or dependency pathway (as identified in Step 6); and
- The informational requirements of the valuation approach (as identified in Step 7).

For example, if the objective of the analysis is monetary valuation of several different impacts so that their relative size can be compared or so that they can be aggregated, it will be important to define and measure indicators at the same level of the pathway (i.e. all at the impact level). The nature of these indicators will be determined by the monetary valuation technique chosen to value them and it is important that the indicators will support comparable monetary valuation techniques (i.e. they should not represent a mix of value perspectives such as one value to society and one cost/benefit to the business).

RECOMMENDATIONS

When choosing the most appropriate indicator to measure changes in social & human capital, companies should consider whether:

- An indicator is good quality;
- To use proxy measures or not; and
- To use baselines or counter factual scenarios, or neither.

IDENTIFY A GOOD QUALITY INDICATOR

Indicators consist of information that signals change. An indicator can be quantitative or qualitative. Ideally, it should provide a simple and reliable means to reflect the changes connected to an activity or intervention. This means that it must be relevant to the changes that are expected, and sensitive or granular enough to reflect the expected magnitude of these changes.

There are various sources of detailed guidance about what good quality indicators and metrics look like[46] but, put simply, effective indicators can be thought of as having five 'SMART' characteristics:[47, 48, 49]

- **Specific.** Indicators should reflect simple information about what is being measured, without being affected by other factors, and should be easily understood and easy to communicate. Is it clear exactly what is being measured? Has the appropriate level of disaggregation been specified?
- **Measurable.** They should be objectively verifiable. Are the indicators objective? Are the indicators verifiable? Are they reliable and clear measures?
- **Attainable.** Indicators and their measurement units must not be impractically time-consuming or expensive to collect, and able to withstand/be sensitive to changes in context.
- **Relevant.** Indicators should reflect information that is meaningful. Does the indicator capture the essence of the desired result? Is it relevant to the intended outcome and impact?
- **Time bound.** Progress can be tracked at a desired frequency for a set period of time. Is there a clear timeframe within which impacts should be captured?[50]

Applying the SMART characteristics sounds simple, but many social indicators that are commonly used by companies lack alignment with these characteristics, particularly with regards to specificity.

46 For example, see the UNEP/SETAC, Guidelines for Social Life Cycle Assessment of Products or the Roundtable for Product Social Metrics, Handbook for Product Social Impact Assessment version 3.0
47 Search for Common Ground, Designing for Results: Indicators.
48 UNDP, Selecting indicators for impact evaluation
49 World Bank, Designing a Results Framework for Achieving Results (p.33).
50 These explanations also benefited from research conducted by MBA students as the European School of Management and Technology

In many cases, indicators are too vague or too subjective and hence open to discretionary use. Sometimes this is an issue around definitions, for example clarifying what is considered a 'minor' or 'serious' health and safety incident. In other cases it is the use of ratios or percentages that lack details - for example, total number of incidents vs. total number of incidents per 10,000 people.

DECIDE WHETHER TO USE PROXY MEASURES

Measuring can be a challenging and costly endeavor. Measuring "impacts" in the technical sense is difficult to do, due to the length of time it can take for impacts to materialize, influences beyond business activities that affect the impacts measured, and the need for data outside of the scope of business operations. Companies often focus on measurement at the outcome or output level as a proxy for impact, and use data modelling techniques to understand what their longer-term impacts might be.[51] Organizations must be judicious in their use of proxy indicators.[52] Outcomes are stronger proxies for impacts because they are one link closer in the results chain, but neither output nor outcome proxies guarantee that impacts will be delivered or appropriately captured.

DECIDE WHETHER TO USE BASELINES AND COUNTER FACTUAL SCENARIOS

At this point when developing indicators, companies should consider whether the change in social & human capital they wish to measure can be meaningfully measured 'by itself,' or whether it needs to be measured with reference to some kind fixed point: either a baseline or an alternative scenario (also known as a 'counter factual').

In some cases, it may be sufficient to measure a change in social & human capital without reference to a fixed point.

For example, a company can measure its impact on employment in terms of the number of direct jobs it supports, and the data is likely to be readily available from the HR department.

But this does not measure whether that employment has changed over time, or whether those individuals are likely to have gained employment anyway. To measure these kinds of changes in social & human capital, comparison to a baseline or counter factual scenario is necessary.

These two terms are used widely in the field of impact measurement and Life Cycle Analysis (LCA), and can be defined in different ways. For the sake of simplicity and comparability, the definitions set out in the Natural Capital Protocol indicate:

- **Baselines:** A baseline is the starting point or benchmark against which changes in social & human capital can be compared. For most assessments, an explicit baseline is required to enable meaningful conclusions to be drawn. The type of baseline will vary depending on the nature of the assessment, and can include:[53]
  - The historical situation during a specific period of time, such as a comparison of this year's number of health and safety incidents relative to last year's (the 'baseline year').
  - The state of social and/or human capital (e.g. employment level) at a point in time, for example, the state immediately before a project began.
  - A sector-wide or economy-wide average level of a given social and/or human capital impact or dependency (i.e. an industry benchmark for salary level).
- **Counter factual scenarios:** A counter factual describes a plausible alternative state that would have resulted if the business activity or intervention had not occurred. This may be achieved by measuring, or estimating, consecutive change over the same time period in a comparable population or control group who did not benefit from the intervention. If a suitable counter factual is available, this can add significant credibility to the measurement results, in particular to help justify a causal relationship between an activity or intervention and the change in social & human capital that is being measured. However, these techniques can add to the time and cost required for measurement and are not always feasible for a company to conduct.

51 WBCSD, Measuring socio-economic impact: A guide for business.
52 Ibid
53 The Natural Capital Coalition, The Natural Capital Protocol

When undertaking an assessment that covers an extended period (e.g. to assess the impacts of a project over 20 years), the assessment will need to take into account how the baseline social & human capital would have changed anyway in the absence of the company's activities. This is the challenge of proving the 'net' benefit of an intervention and is known as 'additionality.'[54] Additionality is calculated by the gross benefits less the benefits that would have occurred in the absence of the intervention (the 'deadweight'[55]) less the negative impacts elsewhere (including 'displacement'[56]).

CHOOSE BALANCED AND TRANSPARENT METRICS

Defining standardized social metrics and gaining access to appropriate and reliable data, in a way that is practical, affordable, and pragmatic for business, remains a huge challenge. The following are recommendations for strengthening existing indicators and metrics used by companies and moving towards standardization:

- Take a balanced view of positive and negative impacts: There is often an assumed positive impact in the way many social impact indicators are designed and often, negative consequences are not taken into account. Many indicators use "increases" or "improvements" but ignore some of the risks of negative direct or indirect outcomes for different stakeholder groups.
- Take a view on the attribution of impacts (where relevant): For some social & human capital issues, there may be many different actors who have contributed to a change in the state of the social & human capital (e.g. a training program funded by multiple parties). In this case it is important to acknowledge that not all the social & human capital impact is directly attributable to the company. In some instances, acknowledgment of the attribution issue might be sufficient; however, in other instances it may be possible to use some method to attribute between parties - e.g. the percentage split of financial investment provided to the training course by each party.
- Disclose calculation methodologies: Ideally, companies should provide information about the methodology employed to calculate an indicator. This can be a major contributor in the drive towards increased standardization and comparability. Not only does it increase accountability and transparency, it also supports the potential for increased awareness of best practices and their wider adoption among companies.
- Disclose assumptions: It is important to disclose the assumptions that were used throughout the analysis and therefore the limitations of application of the analysis. Being open about the limitations is likely to increase credibility among stakeholders and facilitate learning and collaboration.

54 Additionality' is the extent to which something happens as a result of an intervention that would not have occurred in the absence of the intervention (UK Treasury Green Book)
55'Deadweight' refers to outcomes which would have occurred without intervention (UK Treasury Green Book)
56 Displacement' measures the extent to which the benefits of a project are offset by reductions in benefits elsewhere (UK Treasury Green Book)

ILLUSTRATIVE OUTPUTS

The following illustrative impact pathways for the subjects of skills, employment and safety include examples of qualitative and quantitative indicators at different levels of the pathway, along with the relevant 'value perspective' and illustrative data sources.[57]

Table 7: Illustrative impact pathway and common indicators for skills

ILLUSTRATIVE IMPACT PATHWAY FOR SKILLS					
INPUTS		ACTIVITIES	OUTPUTS	OUTCOMES	IMPACTS
Resources spent on skills-related activities.		Training or educational activities.	People trained.	Changes in capabilities, performance and income levels.	Changes in income, wellbeing and economic contributions.
COMMON INDICATORS					
Money and time spent on training, audits and development programs.	WORKERS	• Employee education and training.	• # employees trained / achieved new qualifications.	• Change in income. • Change in performance.	• Change in wellbeing of workers and dependents.
	CUSTOMERS	• Customer skill development.	• # customers reached.	• Change in income, behavior or employment (based on nature of training).	• Change in wellbeing (based on nature of training).
	COMMUNITIES	• Supplier training and improvement. • Community programs.	• # suppliers trained. • # people trained from local	• Change in number of people employed. • Change in number of people building a business. (entrepreneurship)	• Change in earnings. • Change in wellbeing.
		• Collaboration to improve and scale vocational training.	• # people trained.	• Tax contributions. • Change in employment rates. • Change in skills gaps.	• Economic changes.
ILLUSTRATIVE DATA SOURCES					
Internal data - management accounts, payroll and headcount data, training records, supplier audit data External data - from customers, communities and governments on skills gaps.				External data - Input- output tables, employee surveys, stakeholder interviews or questionnaires, national employment data.	

57 Taken from WBCSD, Building the Social & Human Capital Protocol: Insights into employment, skills and safety.

Table 8: Illustrative impact pathway and common indicators for employment

ILLUSTRATIVE IMPACT PATHWAY FOR EMPLOYMENT					
INPUTS ►	ACTIVITIES ►	OUTPUTS ►	OUTCOMES ►		IMPACTS
Resources spent that support a company's activity.	Operations in a specific geography and throughout the supply chain.	Employment created or destroyed and the nature of those jobs.	Changes in income and induced job creation or destruction.		Improvement in wellbeing of employees, dependents and communities as a result of increased income.
COMMON INDICATORS					
• Consumer demand for goods and services. • Company investment in a new geography or product line.	• Qualitative description of the site, country, product or supply chain covered.	• # of direct jobs created or lost. • # of indirect jobs • # or % of jobs created or lost by type / qualification / skill level.	WORKERS	• Change in income of direct workers and workers in the supply chain.	• Improvement in wellbeing of workers and dependents relative to a situation where the company did not exist (qualitative or quantitative data)
			CUSTOMERS	• Change in output (beyond wages) as a result of change in employment levels. • Number of people dependent on the company's activities. • # or % of local jobs.	
			GOVERNMENT	• Total jobs created or lost (direct, indirect and induced). • Tax contribution. • Avoided benefits payments.	• Total economic contribution (GDP)
ILLUSTRATIVE DATA SOURCES					
Internal data - Payroll and headcount data, procurement spend data, supplier audit data.			External data - Input-output tables, national employment data, employee surveys, stakeholder interviews.		

Table 9: Illustrative impact pathway and common indicators for safety

ILLUSTRATIVE IMPACT PATHWAY FOR SAFETY				
INPUTS ►	ACTIVITIES ►	OUTPUTS ►	OUTCOMES ►	IMPACTS
Resources spent on safety-related activities.	Operational activities or safety measures and training.	Safety measures implemented or people trained.	Changes in number of safety related incidents.	Changes in wellbeing of workers, productivity levels, and costs to employers.
COMMON INDICATORS				
• Money and time spent on training, risk assessments and other measures to improve safety performance.	• Qualitative description of the training, assessment or measure.	• # of people trained. • # of new measures • # of risk assessments conducted.	WORKERS: • # of incidents in own operations (accidents, injuries, illnesses, fatalities). CUSTOMERS: • # of incidents in supply chain (accidents, • # of records injuries, illnesses, fatalities). • # of public complaints. • # of incidents amongst customers.	• Changes in income. • Treatment costs. • Compensation(s) ($). • Non-financial human impact (quality of life, pain, suffering, grief).
ILLUSTRATIVE DATA SOURCES:				
Internal data - management accounts, payroll and headcount data, procurement spend, LCA and supplier audit data.			External Data - input-output tables, stakeholder interviews, economy-wide H&S incidents and costs data from International Labour Organization (ILO) and national governments.	

STEP 9: Undertake or commission measurement and valuation

The final step in Stage 3 involves collecting and analyzing the data needed to complete the selected measurement and valuation approach adopted in Steps 7 and 8. Tasks in this step are likely to fall into two categories:

- Collect data for measurement and valuation;
- Analyze and combine measurement and valuation data to obtain valuation results.

RECOMMENDATIONS

COLLECT DATA FOR MEASUREMENT AND VALUATION

Companies may have already identified some of the data sources and the best collection methods in Steps 7 and 8. This information is likely to have contributed to the choice of indicators and valuation techniques; however, it is valuable to review at this stage.

It is equally important to determine when and how data is collected as it is to determine what data is collected. For example, if you are trying to gather information about the impact of an investment in training for farmers it is important to keep in mind the cropping or harvest season. If companies are comparing performance year to year it is important to clarify the baseline, as well as ensure consistency in the timeframe and methods for measurement. This allows for comparability.

It is important to make sure that the right data is going to be collected to support whatever analysis or calculations are required to produce the social & human capital valuation. If incorrect, or insufficient, data is collected, then time and resources will be wasted by having to fill data gaps or re-run data collection.

The following is an overview of the different data sources that companies might use in the context of the Protocol.

PRIMARY DATA: Data collected by the company (or externally contracted party) specifically for the assessment. This offers more precise results but can also be more time-consuming and require more specialized skills. Some sources of primary data include:

- Internal business data: this includes data collected by the company, e.g. on hiring and recruitment from human resources, spending with suppliers, or performance of sales teams.
- Data collected from suppliers or customers for the assessment being undertaken

Data related to the above can include survey, interviews and focus groups.

- Surveys: this includes surveys conducted by the company of a specific population such as employees, suppliers, users or customers.
- Interviews or focus groups: seeks to gather the perspectives of the target population.

SECONDARY DATA: Data that was originally collected and published for another purpose or a different assessment. Secondary data sources include:

- Published, peer-reviewed, and grey literature (e.g., life-cycle impact assessment databases; industry, government or internal reports):
    - Government statistics or World Bank/UN databases, such as household budget surveys, demographic health surveys, or other routine data collection databases.
    - Interviews with third-party/proxies: These include interviews with experts such as local NGOs who can provide insight into communities that may be inaccessible to the company.
- Past assessments.
- Estimates derived using modeling techniques (e.g., EEIO, productivity models, mass balance).

Most businesses use a combination of primary and secondary data as this is more practical and can be sufficient to achieve the purpose of the assessment.[58] Both primary and secondary data-gathering techniques can be used to collect data beyond a company's own operations, i.e. upstream or downstream in the value chain. In some cases, the engagement required to collect primary data from upstream suppliers or with downstream customers can be of business benefit in itself by strengthening business relationships. Care should be taken so that data collection requests from suppliers or customers are not overly frequent or onerous. Where possible and in the case of suppliers particularly, feedback should be given to the data provider to help them understand how they compare to their peers, to help them improve performance and to help them see the benefit of their efforts in providing data.

One important factor to be aware of with surveys and focus groups - whether designing primary data collection or when interpreting secondary data - is sampling and sample bias. Instead of collecting information from all individuals or households in the community, companies may select a representative sample, and based on that sample produce an estimate of the indicators of interest, which can be generalized to the entire population. Where this is done, care should be taken to ensure the sample shares the same key characteristics as the population is it being used to represent.

BOX 6.
ETHICAL CONSIDERATIONS IN DATA COLLECTION

The Protocol is not intended as a guide to all of the different data-gathering methods. However, there are some important ethical requirements and principles for data collection, especially when engaging directly with communities. This not only ensures respect for the rights of participants but also strengthens the accuracy of the results. Anyone engaged in collecting data from communities should be aware of:

- **Informed consent:** This is the process of getting approval from participants for the sharing and use of data. It is an ethical requirement for most research. To ensure that consent is informed, consent must be freely given with sufficient information provided on all aspects of participation and data use.

With regards to indigenous communities, companies should abide by specific principles around free prior and informed consent as specified by the UN[59].

- **Cultural norms:** Companies should be sensitive, aware, and respectful of cultural norms when determining appropriate data collection techniques. This could include, for example, being conscious of gender dynamics and whether women will speak freely in front of male peers.

- **Legal requirements:** Companies should review data laws and regulations in the country and locations where they are collecting data to ensure they comply.

Other factors to be aware of include education and literacy levels, privacy and anonymity, as well as safety in some contexts.

58 Adapted from the Natural Capital Protocol (p.62)
59 Free, Prior and Informed Consent of Indigenous Peoples

ANALYZE AND COMBINE DATA TO PRODUCE VALUATION RESULTS

Consideration may already have been given to how the collected data sets are to be combined in order to produce a valuation result during the previous steps. If not, this should be done now. Additional technical support may be required - internally or externally - to complete more complex calculations or modelling. There are a few considerations companies should keep in mind when conducting valuation:

- **Acceptability of valuation approach to stakeholders:** As has been discussed in Step 7, it is important to recognize that not all stakeholders will recognize valuation - and in particular monetary valuation - of some impacts or dependencies. For example, while it is common in government policy appraisal to value a human life in monetary terms[60] some stakeholders may disagree that this is ever appropriate. Whether or not stakeholders are likely to accept the type of approach used to value social capital is a key part of identifying an approach that is fit for purpose (and should be decided upon prior to data collection).
- **The ethics of making trade-offs:** Just because it is possible to value an impact does not, by itself, justify trading one impact off against another that may have been valued more highly. Similarly, the net value of the impacts from an activity may be positive but there may be negative impacts as well. For example, there may be situations where employment and wage payments create value for workers but working conditions are unfavorable. It is important to look both at the total value and the individual parts to ensure that the company isn't overlooking any key risks.
- **Double Counting:** Companies should aim to avoid double counting when conducting valuation (and measurement). This can occur, for example, when intermediate costs and/or benefits, rather than only final costs and/or benefits, are assessed. For example, the value of wheels is included in the price of a car sold. So recording both the price of wheels and the price of cars themselves on a balance sheet is a classic example of double counting.
- **Assumptions:** Companies should identify and communicate all assumptions used. This can include for example the use of average or minimum wages to capture changes to employee incomes and any adjustments made to include other benefits paid by the company.

It is important to note that the practice of valuing social & human capital impacts and dependencies by companies is in its infancy, and its application is still a challenge. Particularly challenging is that different social & human capital impacts require tailored approaches to apply values to them and there may be a number of alternatives to choose from for each. Differences between these alternatives may include their level of precision, their granularity and the completeness of the value that they represent. As discussed in Step 7, care should be taken to make sure that any values are consistent with one another - especially if they are to be directly compared or aggregated - and that they are fit for purpose. It is also important to conduct sensitivity analysis, and to be transparent in your level of confidence in the results.

60 See, for example the OECD, Mortality Risk Valuation in Environment, Health and Transport Policies

STAGE 3
MEASURE & VALUE

OUTPUTS

By the end of Stage 3, companies should have:

- Decided which type of value, or combination of values, will be most useful for achieving the aims of the assessment and the needs of the audience;
- Used this to choose an appropriate valuation technique;
- Chosen the most appropriate indicators and metrics to support this valuation technique that are, as far as possible, SMART;
- Decided whether or not measurement should be done relative to a baseline or counter factual scenario and, if so, decided what baseline or counter factual to use;
- An understanding of the issues of additionality and attribution and disclosed any relevant assumptions that have been made concerning these issues;
- An understanding of the ethical considerations around data collection; and
- Undertaken the collection of primary or secondary data (or a mix of both) and documented data sources, assumptions and limitations.

PRACTICAL CONSIDERATIONS

This stage is the most time and resource-intensive stage and many companies using the Protocol for the first time will likely engage external experts to capture, analyze, and validate the data and results.

- **Skills/expertise:** Many of the measurement and valuation techniques require economics/ econometrics expertise. Some companies may also engage specialists, academics or civil society partners - including sociologists, ethnographers, or anthropologists - in field work.
- **Timing:** The amount of time to complete the data collection and analysis varies significantly depending on the approach and the data available. As highlighted above, a narrowly focused value transfer approach using available corporate-level data sets could take less than a month. Any primary data collection is likely to take more time.
- **Stakeholder engagement:** Most companies will choose to engage external stakeholders at some point in the process. Capturing the perspectives of the stakeholders impacted by the company strengthens the quality and credibility of the results and analysis. Stakeholder engagement is also potentially needed to gather or confirm the interpretation of data. When engaging stakeholders in data gathering and analysis, there are ethical considerations which should be kept in mind - please refer to Box 6.

RECOMMENDED RESOURCES

STEP 7. SELECT VALUATION TECHNIQUE

1. IFC, (2011), Measuring Returns on Community Investments in Mining.
2. Office of National Statistics, Measuring National Wellbeing.

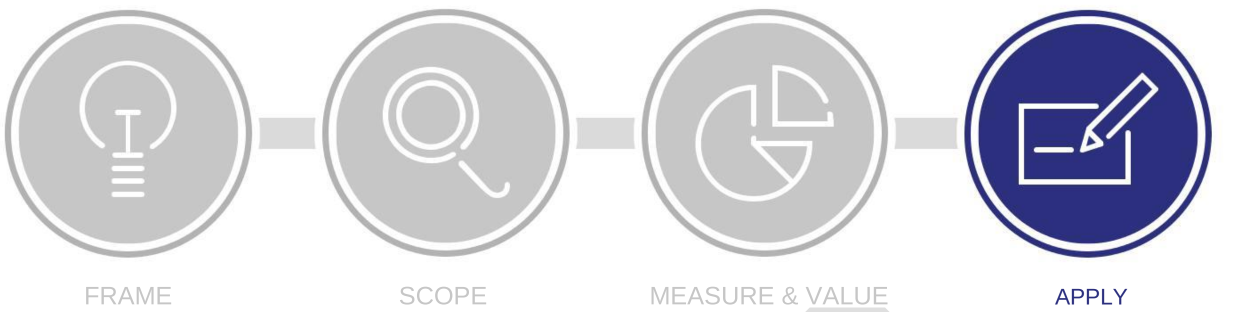
STEP 8. CHOOSE INDICATORS AND METRICS

1. B Analytics, Global Impact Investment Rating System.
2. OECD, (2013), OECD Guidelines on Measuring Subjective Well-being.
3. UNEP, SETAC, (2009), Social Life Cycle Assessment Guidelines, p.49.
4. UNEP, SETAC, (2013), The Methodological Sheets for SLCA.

STEP 9. UNDERTAKE OR COMMISSION MEASUREMENT AND VALUATION

1. European Commission, (2014), Proposed Approaches to Social Impact Measurement.

STAGE 4: APPLY



WHAT:

In the last stage of the Protocol, companies will interpret the results of Stage 3 and apply them to relevant business decisions. They will investigate how to integrate the social & human capital measurement and valuation approach into organizational processes and systems to do things better. They will also consider how the organization could change its contribution to sustainable growth in society to do better things.

The Protocol concludes with a call to companies and stakeholders to help mainstream social & human capital measurement and valuation both within their organizations and in the broader business community, by acting as advocates and continuing to share lessons, methods, and data to advance this important practice.

WHY:

Appropriate interpretation and communication of results will ensure that the effort of measurement and valuation drives tangible, meaningful improvements in the way social & human capital is managed. Embedding the assessment into companies' processes and systems will promote more integrated thinking, thereby aligning the consideration of social, human, environmental and financial issues to drive better decision-making and improve social & human capital performance management. Through the process of applying the Protocol it is certain that each company will encounter and overcome challenges related to classifying definitions, identifying fit-for-purpose indicators and metrics, and sourcing appropriate data. Sharing both challenges encountered and solutions found will help to advance, further standardize and build the credibility of the field of social & human capital measurement and valuation for business.

HOW:

KEY OUTPUTS

STEP 10
Apply results to key business decisions

Analysis or results, key assumptions and recommended actions

STEP 11
ntegrate social & human capital into business processes

Plan for integrating social & human capital measurement and valuation into business systems and processes

STEP 12
Contribute to mainstreaming

Plan for wider application and advocacy of social & human capital measurement and valuation, internally and externally

STEP 10: Apply results to key business decisions

Step 10 puts the results of social & human capital measurement and valuation into the context of business decision-making. It aims to help companies analyze, interpret, and communicate the results in a way that they can be used effectively by the target audiences identified in Step 4. In Step 10 companies should not only ask what do the results mean for your business, but also how reliable the results are.

RECOMMENDATIONS

There are several factors that should be considered when analyzing and applying the results of measurement and valuation:

- **Discounting:** Where social & human capital valuation relates only to private costs or benefits to a business, it is appropriate to use the business's normal financial discount rate to express future costs or benefits in present value terms, i.e. the standard "hurdle rate" used for project appraisal, or the business's weighted average cost of capital (WACC).

  However, it is rare that decisions relating to social & human capital have purely private consequences attributable only to the decision-maker. It is therefore much more likely that valuation will need to consider costs or benefits accruing to third parties (in the Protocol referred to as impacts on society).

  Where these future societal costs or benefits are concerned, it is appropriate to apply a discount rate which reflects the balance of preferences (among all the affected stakeholders) for consumption now versus consumption in the future—this is referred to as a societal or social discount rate (SDR).

  Societal discount rates vary, but are almost always lower than normal financial discount rates, principally because they attempt to reflect the well-being of future generations as well as generations alive today. This can be particularly important in the context of social & human capital which, unlike most other forms of capital, can continue to provide benefits sustainable and long term benefits.

  Typical social discount rates range between 2–5%, but in some contexts higher, lower, and even negative discount rates can be justified. A common approach to address potential debate about the appropriate discount rate is to test the sensitivity of results and conclusions using multiple different discount rates.

- **Aggregation and Collation:** To interpret and present the results, they must be collated in a way that makes sense for the company and audience. This is likely to involve some type of analytical framework such as a cost-benefit analysis, total profit and loss account, or total contribution. Some companies may take a macro picture of their performance across various capitals - social, human, natural, and financial - identify relative positive and negative performance for each, and, in some cases, for each part of the value chain. It is important that when aggregating and comparing results, thought is given to what can and cannot be added together. For example, care must be taken to avoid double counting between different levels of the value chain.

  When using non-monetary valuation methods, there can also be challenges when different denominators have been used depending on the context (e.g. current unemployment in one region compared to another). Using weighting or monetary valuation can help overcome this challenge.

- **Sensitivity:** Some estimation and approximation will likely be involved in any social & human capital measurement and valuation. As the social & human capital assessment field evolves, new data and methods will help improve accuracy and reliability of results. However, all companies will need to weigh up the benefits of precision with the resources required for collection of large swaths of data.

As a result, it is critically important that companies understand and clearly communicate what level of confidence they have in the results so that this is taken into consideration when applied to business decisions. For example, when using value transfer for monetary valuation, existing estimates of values in the literature can vary greatly, giving vastly different results depending on the reference value chosen. This variation should be made explicit and its implications discussed, especially if this information is being used alongside other monetary values. In areas of uncertainty, it is usually preferable to choose the most reasonable assumptions, rather than defaulting intentionally towards best or worst case assumptions. However, there are situations where a more precautionary approach to social & human capital valuation is warranted, in these cases, the most conservative values should be applied. An alternative is to present ranges of likely values, rather than one single data point.

Furthermore, in the case of monetary valuation, the values may be sensitive to changes that are outside the company's control, e.g. fluctuations in exchange rate, inflation, and purchasing power parity. This can mean that a company's impact could change between assessments without the company having changed their actions. Where possible and particularly in the case of monetary valuation, companies should carry out a sensitivity analysis to test their assumptions and communicate the results of the sensitivity analysis alongside the assessment results.

Prioritization: Companies should consider how to prioritize their findings and recommended actions. The starting point should always be tackling any risks, concerns or negative impact areas that require urgent attention.

Presentation: Companies should present the findings in a language and format that resonates with each target audience and thus may choose to use different formats to present to different stakeholders. Some companies may choose a stand-alone report while others will integrate the findings into existing KPI reporting or measurement tools. It is increasingly common for companies to use scorecards to communicate results assessed against objectives or goals.

Action: Most importantly, companies must take action on the results. Companies should track and monitor progress against their baseline results and use this to reinforce the business case for continuing to measure and value their social & human capital performance.

OPTIONS

- **Validation and Verification:** Formal verification or external audit is not a mandatory feature of the Protocol, but may be required if you intend to communicate the assessment results to certain audiences (e.g. for external reporting). Verification provides both internal and external stakeholders with the confidence that the data and methods are fit for purpose and the results are sufficiently robust to be used for decision-making. Validation checks the accuracy and completeness and may be required to use the results for certain internal decisions. Validation and verification may cover the process, or the results, or both. Regardless of whether validation or verification is conducted, companies should identify and communicate any critical uncertainties, key assumptions, and important caveats that will help communicate the strengths and weaknesses of the assessment, and reliability of the results.[61] The Protocol's four principles, described in the Introduction, will help when validating and verifying results i.e.: relevance, rigor, replicability, and consistency.
- **Communication and transparency:** In addition to the intended audience, companies may also consider communicating results to a wider group of stakeholders internally and externally. There are a number of benefits to doing so. It demonstrates leadership in integrating sustainability into the business. Sharing the results in a clear and transparent way can also strengthen relationships with stakeholders and unlock new opportunities for collaboration to both address any identified challenges but also improve the practice of social & human capital measurement and valuation. With this in mind, it is important that companies disclose the process and any weaknesses in the methodology and how they plan to both respond to the results and improve the process going forward. Many companies are also including lessons learned to help advance the broader valuation field.
- **Distributional Analysis:** Distributional analysis is used to understand who is affected by a decision, and whether they gain or lose. This is an important step in determining whether planned actions would increase or decrease inequalities between groups of stakeholders.

61 This draws from the Natural Capital Protocol (p.99).

STEP 11: Integrate social & human capital into business processes

In Step 11, companies should debrief on the strengths and weaknesses of their current approach. With this, companies can identify opportunities for improvement and consider how they can integrate the process and results of measurement and valuation within the organization.
The vision of the Social & Human Capital Coalition is that social & human capital will be consistently measured and valued in corporate, investor, government and organizational decision-making. This can only happen if social & human capital measurement and valuation becomes a part of the way a company does business. This integration will take time, which is why it is important that companies view the Protocol as an iterative process whereby an organization develops, strengthens and expands its approach over time.

RECOMMENDATIONS

Many companies start with a pilot study, which generates momentum internally for further studies. Other companies start with a corporate-wide study that is adapted at a site level or product level or expanded to include other parts of the value chain. Regardless of the path to integration, every company should continue to advance the approach drawing on internal lessons and new tools and resources as they become available.

OPTIONS

The following are a few example business processes that could leverage the Social & Human Capital Protocol process:[62]

- **Cost-benefit analysis:** Social & human capital measurement and valuation is useful for analyzing net benefits or internal rates of return of specific investments. In doing so, it can provide another level of confidence to both business and social value creation.
- **Strategic planning and goal setting:** Social & human capital information can help guide corporate strategy by providing additional/different data on the company's role in society and impacts and dependencies. A growing number of companies are incorporating the language of sustainable value creation into the way they communicate their business mission and contribution to society.
- **Management systems:** The Protocol process can be used in continuous improvement planning (particularly where real time data indicators are available). For example, including safety indicators and the valuation process into the structured Plan-Do-Check-Act cycle can help translate the results into corrective actions for operations managers and make the valuation of social & human capital a part of regular measurement and performance evaluations.
- **Social impact assessments:** Companies can align their operational processes with existing environmental, social and financial impact assessments of new projects/ operations, or human rights impact assessments that are part of due diligence outlined in the UN Guiding Principles on Business and Human Rights. This will help to better connect these activities to the wider business and provide a more complete view of social performance.
- **External reporting:** Companies can integrate the Protocol into existing sustainability and financial reporting. The Protocol process provides a structured way to prioritize issues and strives to create credible, comparable data that is useful for stakeholders and shareholders. It is designed in particular to provide a solid foundation for Integrated Reporting.
- **Risk assessment:** Through an analysis of the risks of a company's products or operations to people and society, including impacts on people directly exposed or affected via various media. This can add valuation elements to inform decision making, thereby providing richer information to operations, finance, strategy, etc., and can introduce a broader range of measures of value to assess risk in context.

There are many other business processes and systems into which the Protocol could be integrated. Some of these depend on the company structure and operations, as well as their current maturity with regards to integrating sustainability into core business functions. One way to help drive further integration is by customizing the Protocol to company-specific needs and building implementation tools and guidance that help embed the process and ensure that it is applied consistently across operations.

62 This draws from the Natural Capital Protocol (p.108-109). It is a condensed version of the original table with more specific references to social & human capital.

STEP 12: Contribute to mainstreaming

In this final step of the Protocol, companies should revisit the outputs of Stage 1 to confirm the next priority area they will tackle to further expand and mainstream the measurement and valuation of social & human capital across the organization. They should seek to record and apply the lessons learned to date in applying the Protocol to improve and streamline the process, as well as re-engage the internal stakeholders who have been involved so far as advocates within the company.

We end the Protocol with a call to action for companies to reach beyond their own organizations and contribute to the strengthening and alignment of the evolving practice of social & human capital measurement and valuation for business. While the measurement and valuation of social & human capital holds the power to transform how companies think and do business, there is some way to go to truly integrate people, planet and profit as drivers of sustainable growth. Wherever possible, companies should seek to share their stories, methodologies, indicators and values applied. They should discuss the challenges, benefits and opportunities of their experience, as well as sharing their ambitions and goals, and acting as advocates for mainstreaming social capital & human measurement and valuation for business. Remember, even if an organization is new to this practice, the field is young and all companies are at the beginning of their journeys. The experience and insights of leading businesses are essential to inform and advance this important capability.

RECOMMENDATIONS

MAINSTREAM SOCIAL & HUMAN CAPITAL ASSESSMENT WITHIN THE ORGANIZATION

Companies should refer to the outcomes of Stage 1 of the Protocol to define their next priority areas. This could be addressing an area of high risk, interest to stakeholders, or importance to the business. When making a longer-term plan, companies should keep the following points in mind:

- Don't be afraid to address negative social issues that could be caused by the company, impact the company's operations and/or supply chains, or pose a potential risk. Addressing the many societal challenges that touch upon business operations is often a more essential, credible and valuable initiative than seeking new opportunities.
- Shift mind-sets towards transformation. Although the assessment may be moving on to a new subject, or to pilots in a new business function, efforts to implement the Social & Human Capital Protocol should be clearly framed as part of a cross-cutting change effort which will eventually affect the entire organization.
- Share long-term ambitions, goals and objectives with staff across the company. This is most powerful if the messages come from senior leadership. Where the measurement and valuation effort impacts your supply chain, seek opportunities to begin broader expectation-setting with your suppliers, customers and stakeholders.
- Leverage the experience, insight and enthusiasm of measurement and valuation team members to engage additional employees. Focus on the impact of the effort on society, but also on the benefits it has brought to the business - in terms of improving decision-making capabilities and ultimately in reducing risk and increasing performance, profit or recognition.

OPTIONS

MAINSTREAM SOCIAL & HUMAN CAPITAL MEASUREMENT AND VALUATION FOR ALL BUSINESS

There are a number of actions companies can consider to contribute to the broader field of social & human capital measurement and valuation:

- **Produce a case study** - Consider appropriate channels and events to feature, discuss and advocate for your approach with stakeholders and peers.
- **Go beyond sustainability reporting** - Look for opportunities and angles to feature the initiative, results and plans in the company's corporate and/or integrated report.
- **Join relevant initiatives, platforms or groups – Including the Social Capital Coalition (www.social-capital.org) -** Combine forces with peers and experts to advance specific areas of interest, relevance, expertise or challenge. This could include:
  - Industry or value chain - bringing together companies facing similar or shared contexts, challenges and opportunities.
  - Subject-specific - for example, platforms specifically addressing human rights, supply chain transparency, or the Sustainable Development Goals.
  - Technical - groups of companies and experts tackling specific technical challenges related to measurement and valuation. This could include initiatives which are working on defining standardized indicators, building joint databases, or advancing monetization techniques.
- **Share indicators, metrics, data sources, valuation techniques and values** - Sharing and aligning best practice is crucial to moving towards standardization. In particular, it will be interesting to understand where companies have applied, tailored or improved indicators and metrics from existing standards or databases, or where companies have managed to source suitable data, and what values companies and their stakeholders have found to be useful, credible and appropriate.
- **Engage your senior leadership and senior stakeholders as external advocates** - Within the organization, CEOs, CFOs and the heads of human resources are important voices to add weight to this movement. This is essential to gain the interest and buy-in of investors and capital markets. In addition, if you have worked with an external organization that holds expertise or credibility in an area of social impact, consider engaging this stakeholder to communicate and advocate on your joint achievements. For example, companies that have worked with international NGOs, UN agencies, leading academics or expert organizations on a particular social issue gain an additional level of credibility, while stakeholders can advocate for improved business awareness, engagement and performance.

STAGE 4: Conclusion

OUTPUTS

At the end of Stage 4, companies should have:

- Communicated the results to the target internal and external audiences;
- Used the results to inform the business decisions as set out in the objectives;
- Clearly outlined the assumptions and limitations of the assessment and have an understanding of the sensitivity of the results to key assumptions;
- Identified opportunities for improvements that could be made to the assessment process in the future;
- Considered how the results of this, and future assessments could be integrated into business strategy, decision-making and communications processes; and
- Considered sharing the results, challenges, tools, and data sources of the assessment with other organizations to contribute to advancing the capability of social & human capital measurement and valuation (e.g. through the Social & Human Capital Protocol online platform).[63]

PRACTICAL CONSIDERATIONS

This final stage of the Protocol is critical to consolidate and capitalize on the work done over the last three stages. Its application will vary greatly among companies but, as it lays the foundations for future action, it is important to allocate sufficient time and attention to this stage.

- **Skills/expertise:** Companies may want to consider additional support from change management professionals, communications professionals, and stakeholder engagement teams. Companies should also ensure they have recorded the skills, expertise and support that was needed to apply the previous three stages. Finally, they should consider additional skills that might be needed within the organization on an ongoing basis.
- **Timing:** The time required for this stage can vary. The key consideration is to ensure enough time is allocated to record progress and lessons learnt to-date, and to gain an appropriate level of awareness and engagement, while still keeping up momentum on the broader journey.
- **Stakeholder engagement:** Look back at the full range of stakeholders that were engaged throughout Stages 1, 2 and 3. Define which stakeholders can be called upon to record their experience and expertise, and to act as advocates going forward. This is an appropriate point to re-engage internal stakeholders at more senior levels and to kick off communications with a wider range of external stakeholders.

RECOMMENDED RESOURCES

STEP 10. APPLY RESULTS TO KEY BUSINESS DECISIONS

1. Accounting for Sustainability, (2014), Natural and Social Capital Accounting: An Introduction for Finance Teams.

STEP 11. INTEGRATE SOCIAL & HUMAN CAPITAL PROTOCOL PROCESS INTO BUSINESS

1. Accounting for Sustainability, (2012), Future Proofed Decision-Making.

STEP 12. CONTRIBUTE TO THE ONGOING DEVELOPMENT OF THE SOCIAL & HUMAN CAPITAL PROTOCOL

2. The Social & Human Capital Coalition, Protocol online platform

63 The Social & Human Capital Coalition, Protocol Online Platform.

Next Steps

Our understanding of what creates value is changing and with it, so is the way we measure, communicate, and manage value. No longer is financial value, void of social and environmental externalities, enough to assess the health of the economy or of a business. This is why more governments are looking to go beyond GDP indicators to help identify and tackle issues that not only help the economy grow but address the needs of citizens. This is also why more investors are asking for social and environmental impact to be incorporated into valuation and pricing of risk. It is also why more companies are creating social and environmental profit and loss statements and talking about sustainability risks and opportunities in corporate boardrooms.

The Social & Human Capital Protocol was developed to help companies tackle this challenge by harmonizing and advancing the field of social measurement and valuation. This document reflects the starting point of an ambitious movement.

This Protocol is intended to serve as a catalyst for ongoing alignment, consolidation and advancement of this field, but this cannot be a journey that we take alone. We therefore ask you to join us in driving this movement forwards as part of the Social & Human Capital Coalition, which will provide the foundations for broader external engagement, for expanding the Protocol toolkit, collecting and publishing case studies, producing additional guidance, and championing the agenda for change.

FIND OUT MORE AND JOIN THE MOVEMENT

AT WWW.SOCIAL-CAPITAL.ORG

We look forward to your input!

Social & Human Capital Coalition Contacts:
Mike Wallace,
Interim Executive Director,
Wallace@social-capital.org
Mark Graham,
Interim Technical Director,
Graham@social-capital.org
WBCSD Contacts:
Eva Zabey,
Director, Redefining Value
Zabey@wbcsd.org
Matthew Watkins,
Associate, Redefining Value,
Watkins@wbcsd.org

Figure 17: Scaling up the social capital movement

Acknowledgements

We would like to extend sincere thanks to WBCSD for leading the development of the Social & Human Capital Protocol. We would also like to thank the companies and experts who contributed their insights, experience and expertise.

The coordination, writing and publication of the first version of this document was managed by Kitrhona Cerri, Director, Social Impact and Matthew Watkins, Associate, Redefining Value at the WBCSD.
This public consultation and current draft of the Protocol was managed by Eva Zabey, Director, Redefining Value; Matthew Watkins, Associate, Redefining Value; Mike Wallace, Interim Executive Director, the Social & Human Capital Coalition; and Mark Graham, Interim Technical Director, the Social & Human Capital Coalition.

We would also like to warmly acknowledge the support of Jessica Davis-Pluess, Gerald Pachoud and Beth Jenkins in the development of this document, the contributions of Janne Dietz at KPMG and Matthew Archer at Yale University to the underlying analysis, and the European School of Management and Technology for their additional analysis of indicators and metrics by Oliver Bley, Andrian Gavrilita, Aniket Ghosh, Viara Ivanova and Jalol Khodjaev.

Finally, we would like to warmly thank the Natural Capital Coalition for their support and advice, as well as their willingness to reference and reuse significant elements of the Natural Capital Protocol in this version of the Social & Human Capital Protocol. The Natural Capital Protocol is available at www.naturalcapitalcoalition.org/protocol/.

CONTRIBUTING COMPANIES

Accenture	Axel Franck, Katharina Beck
Alliance Trust	Lynne Dalgarno
APRIL	Jemmy Chayadi, Lukman Hakim Moeslich
Arcadis	Bianca Nijhof, Lia Belilos, Philip Youell, Alessandro Casartelli
ArcelorMittal	Annie Heaton, Chifipa Mhango
Argos	Paula Cristina Perez Gonzalez, Andrés Salazar González
AkzoNobel	Caterina Camerani, Klas Hallberg
BASF	Christian Heller, Dr. Gerwig Kruspel
BMW Group	Dr. Marzia Traverso, Peter Tarne
BT	Anna Easton
CEMEX	Alexander Röder, Henning Alts Schoutz
Chanel	Guy Morgan
Deloitte Touche Tohmatsu Limited	Eric Dugelay, Stasha Santifort
Deloitte Canada	Edward Thomas
Dow	Mark Weick
DSM	Gaelle Nicolle, Jacobine Das Gupta
ENI	Gloria Denti, Francesca Palmisani, Roberto Bossi, Fabrizio Pecoraro
ERM	Linden Edgell, Sabine Hoefnagel
Evonik	Guido Vornholt
EY	Anne Munaretto, Roel Drost
Fujitsu	Nozomi Takayanagi, Sogo Fujisaki, Takafumi Ikuta, Takahiro Yamauchi
Godrej	Vikas Goswami
Honda	Shuhei Nakano
JP Morgan	Ali El Idrissi, Yasemin Saltuk

Kering	Michael Beutler
KPMG	Ana Perez Uematsu, Barend van Bergen, Brad Sparks, Isabel Beitia, Janne Dietz, Jerwin Tholen, Stephanie Hime, Wim Bartels
LafargeHolcim	Alan Kreisberg, Anne-Laure Denis, Antonio Carillo, Ariane Lüthi, Jim Rushworth, Pier Gribaudi
Masisa	Francisca Tondreau, Regina Massai
Mitsubishi	Julie Rogers, Emily Minton, James Gomme
Mondi	Arnavaz Schatten, Neil Burns
PWC	Geoff Lane, Stephen Hogan, Stuart Jefford, Laura Plant, Alisha Kapoor
Nestlé	Anna Turrell, Duncan Pollard, Luiz Montenegro, Samuel Vionnet (Valuing Nature)
Roche	Ursula Fischler-Strasak
SABMiller	Anna Swaithes, Cecilia Zevallos, Lauren Iannarone
SABIC	Gretchen Govoni
Santander	Etienne Butruille
SCA	Anna Brodowsky, Kersti Strandqvist, Per Brattberg
Schneider Electric	Thomas Andre
Shell	David Atkins, Joanne Bole, Miguel Ruiz-Larrea
Siemens	Daniela Proust, Dominic Kerner, Ian Bowman, Emily Wright
Skanska	Christina Houlgrave, Bobin Kan
Smurfit Kappa	Angela Concha, Beatriz Mejia, Outi Marin
Solvay	Joachim Poesch, Pierre Coers, Thomas Andro
Sompo Japan Nipponkoa Insurance Inc.	Adam Ichikawa
Tata	Manjula Sriram
The Navigator Company	José Ataide
Vale	Vitor Libanio, Adriana Verdier
Veolia	Helene Lebedeff, Kevin Hurst, Sonia Ouldali
Veracel	Debora Jorge, Renato Filho

THE SOCIAL & HUMAN CAPITAL PROTOCOL ADVISORY GROUP

Accounting for Sustainability	Kathryn Jackson
AIM PROGRESS	David Lawrence
ANDE	Genevieve Edens
CIRAIG	Jean-Pierre Revéret, Sara Russo Garrido
Cooperability	Ernst Ligteringen
Ford Foundation	Graham Macmillan
Forum for the Future	David Bent
GIIN	Kelly McCarthy
GIST Advisory	Pavan Sukhdev
IDB	Roland Michelitsch
IFC	Elizabeth White
Independent Advisor	Paul Druckman
Initiative for Global Development	Helen Mant
International Integrated Reporting Council	Neil Stevenson
Natural Capital Coalition	Mark Gough
RobecoSAM	Rashila Kerai
Roundtable for Product Social Metrics	Mark Goedkoop
Said Business School, Oxford University	Richard Barker, Robert Eccles
Social Value International	Jeremy Nicholls
The B Team	Holly Dublin, Keith Tuffley
The William Davidson Institute	Colm Fay, Heather Esper

References

Users of the Protocol are recommended to visit the Protocol Online Platform for a more complete set of tools, resources and data sources

RECOMMENDED INTRODUCTORY RESOURCES

WBCSD RESOURCES:

1. Building the Social Capital Protocol: Insights into employment, skills and safety.
2. Measuring socio-economic impact: A guide for business.
3. The SDG Compass.
4. Social Capital in Decision-making: How social information drives value creation.
5. Towards a Social Capital Protocol: A Call for Collaboration.

KEY CONCEPTS AND BACKGROUND:

6 Accounting for Sustainability, (2014), Natural and Social Capital Accounting: An Introduction for Finance Teams.

7 Forum for the Future (2016), The Social Lexicon: Sorting out the Muddle.

8 IIRC, (2013), The Capitals: Background Paper for Integrated Reporting.

9 Natural Capital Coalition, (2016), Natural Capital Protocol.

10 Social Value International, (2012), The SROI Guide.

11 UN Human Rights, Office of the High Commissioner, (2012), UN Guiding Principles on Business and Human Rights.

STAGE 1: RECOMMENDED RESOURCES

STEP 1. UNDERSTAND SOCIAL & HUMAN CAPITAL AND ITS RELEVANCE TO THE BUSINESS

Background on social capital and prioritization:

12 GRI, UN Global Compact, WBCSD, (2015), SDG Compass

13 IIRC, (2013), The Capitals: Background Paper for Integrated Reporting.

14 ILO, (2014), Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy

15 UN, (1948), UN Universal Declaration of Human Rights.

16 UN Human Rights, Office of the High Commissioner, (2012), UN Guiding Principles on Business and Human Rights.

17 UN Sustainable Development, (2015), UN Sustainable Development Goals

Stakeholder Engagement:

18 GRI, (2013), Principles for Defining Report Content: Stakeholder Inclusiveness.

19 IFC, (2007), Stakeholder Engagement Handbook, Stakeholder Identification and Analysis.

20 IFC, (2007), Stakeholder Engagement Handbook, Stakeholder Consultation.

STEP 2. IDENTIFY POTENTIAL BUSINESS DECISIONS

21 Accounting for Sustainability, (2014), Natural and Social Capital Accounting: An Introduction for Finance Teams.

22 WBCSD, (2015), Social Capital in Decision Making: How social information drives value creation.

STEP 3. PRIORITIZE SOCIAL & HUMAN CAPITAL ISSUES

23 GRI, (2013), Principles for defining report content: Materiality.
24 GRI and RobecoSAM, (2015), Defining Materiality: What Matters to Reporters and Investors.
25 IIRC and the International Federation of Accountants, (2016), Materiality in Integrated Reporting: Guidance for the Preparation of Integrated Reports.
26 KPMG, (2014), The essentials of materiality assessment.
27 Social Value International (2012), Supplementary Guidance on Materiality.

STAGE 2: RECOMMENDED RESOURCES

STEP 4. DETERMINE TARGET AUDIENCE AND OBJECTIVES

28 WBCSD, (2015), Social Capital in Decision Making: How social information drives value creation.

STEP 5. SET BOUNDARIES

29 GRI, (2005), GRI boundary protocol.
30 GRI, (2014), The GRI G4 Sustainability Reporting Guidelines: Report Content and Boundary.

STEP 6. DEFINE THE IMPACT OR DEPENDENCY PATHWAY

31 NPC, (2013), Outcomes and Impacts Map: Employment and Training.
32 Roundtable for Product Social Metrics, (2016), Handbook for Product Social Impact Assessment.
33 Social Value International, (2016), Supplementary Guidance for Principle 2: Understand what changes - Part One: Creating well defined outcomes.
34 World Bank and IFC, (2012), Designing a Results Framework for Achieving Results: A How-to Guide.

STAGE 3: RECOMMENDED RESOURCES

STEP 7. SELECT VALUATION TECHNIQUE

35 IFC, (2011), Measuring Returns on Community Investments in Mining.
36 Office of National Statistics, Measuring National Wellbeing.

STEP 8. CHOOSE INDICATORS AND METRICS

37 B Analytics, Global Impact Investment Rating System.
38 OECD, (2013), OECD Guidelines on Measuring Subjective Well-being.
39 UNEP, SETAC, (2009), Social Life Cycle Assessment Guidelines, p.49.
40 UNEP, SETAC, (2013), The Methodological Sheets for SLCA.

STEP 9. UNDERTAKE OR COMMISSION MEASUREMENT AND VALUATION

41 European Commission, (2014), Proposed Approaches to Social Impact Measurement.

STAGE 4: RECOMMENDED RESOURCES

STEP 10. APPLY RESULTS TO KEY BUSINESS DECISIONS

42 Accounting for Sustainability, (2014), Natural and Social Capital Accounting: An Introduction for Finance Teams.

STEP 11. INTEGRATE SOCIAL & HUMAN CAPITAL PROTOCOL PROCESS INTO BUSINESS

43 Accounting for Sustainability, (2012), Future Proofed Decision Making.

STEP 12. CONTRIBUTE TO THE ONGOING DEVELOPMENT OF THE SOCIAL & HUMAN CAPITAL PROTOCOL

44 Social & Human Capital Protocol, (2017), SCP Online Platform.

Social & Human Capital Coalition:

www.social-capital.org