



**CAPITALS
COALITION**

SOCIAL & HUMAN CAPITAL PROTOCOL

a primer for business

1. Introduction

People are at the core of business.

The Capitals Coalition is a global collaboration transforming decision-making by including the value that flows from natural, social and human capital.

Businesses that understand the value they receive from people and communities are more successful – considering social and human capital performance is a core part of informed business decision-making.

This is a short introduction to the Social & Human Capital Protocol. It outlines how applying the Protocol and including social & human capital in your considerations will improve your decision-making.



2. Business Case: Value drivers

By incorporating the value of social & human capital into your decision-making you can both gather insights into significant risks, and also discover opportunities for adaptation, resilience and efficiency.

Applying the Protocol provides benefits in many areas:



3. Why Measure and Value?



“Understanding the value provided by social and human capital will deliver a much needed yardstick for humanity. It will provide an approach that is able to compare and contrast industries and understand the players that outperform in their sectors in a clear and meaningful way. In turn, this will empower governments to effectively shape policy and have a framework for auditing.”

Sonja Haut,
Head of Strategic Measurement and Materiality, Novartis



“The protocol helps us think of the possibilities in front of us and how to use valuation to drive strategy. It provides the fence posts and the guidance to make sure we follow best practice, involve all the right stakeholders, and account for what matters most. Using the valuation approach is creating awareness across our company and has helped our senior leaders get engaged with important issues.”

Andreza Souza,
Sustainability Manager, Natura



“Employee health and safety is a fundamental human right. At L'Oréal, we believe that if we can create a great place to work, where safety and health is a visible felt core value, that this is an important element of employee talent retention, happiness at work, company trust and ethics. If employees can align their own personal values and ethics with that of the company it's a win-win. Investing in all aspects of social and human capital and putting our employees at the centre, creates value and just makes good business sense.”

Malcolm Staves,
Global Vice President-Health & Safety, L'Oréal



“At ERM, we are a people business. For us, this means a focus on our people and on the communities in which we live and work. From our own experience and that of our clients, we see a greater need than ever to take a total worker health approach encompassing safety, physical and mental health, and wellbeing. In response to growing challenges, such as the COVID-19 pandemic, we will continue to evolve our responses to meet the needs of our workforce, clients and communities and continue to be at the forefront of developing the thinking around human and social and capital.”

Linden Edgell,
Global Sustainability Director, ERM

4. Conceptual Model

Social and human capital are integral to business success.

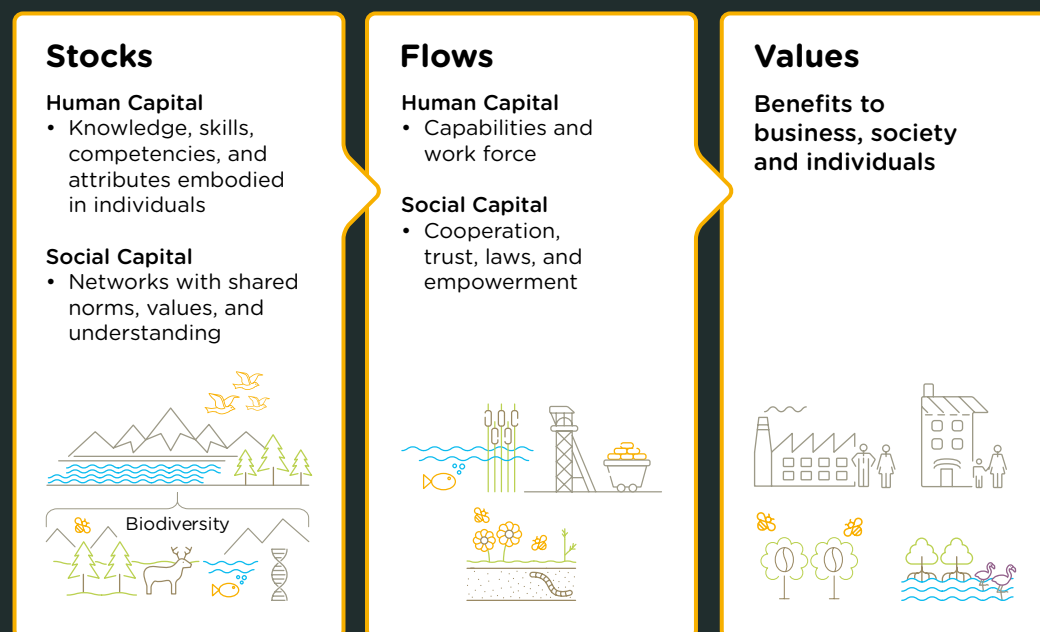


Figure 1: Capital stocks, flows and values

You may consider social and human capital in terms of stocks and flows in a manner similar to financial capital stocks and flows. In other words:

Human capital The knowledge, skills, competencies and attributes embodied in individuals that contribute to improved performance and wellbeing.

Social capital The networks together with shared norms, values and understanding that facilitate cooperation within and among groups.

Both social and human capital result in significant value to business, society and individuals.

The Protocol is part of a broader movement to enable businesses to integrate people, planet and profit as drivers of sustainable growth. To achieve an inclusive picture of an organization's impacts and dependencies, business should consider social and human capital, along with natural capital, as part of a holistic assessment of non-financial capital. Understanding the connections between business and society and the associated risks and opportunities will inform better, more timely decision-making.

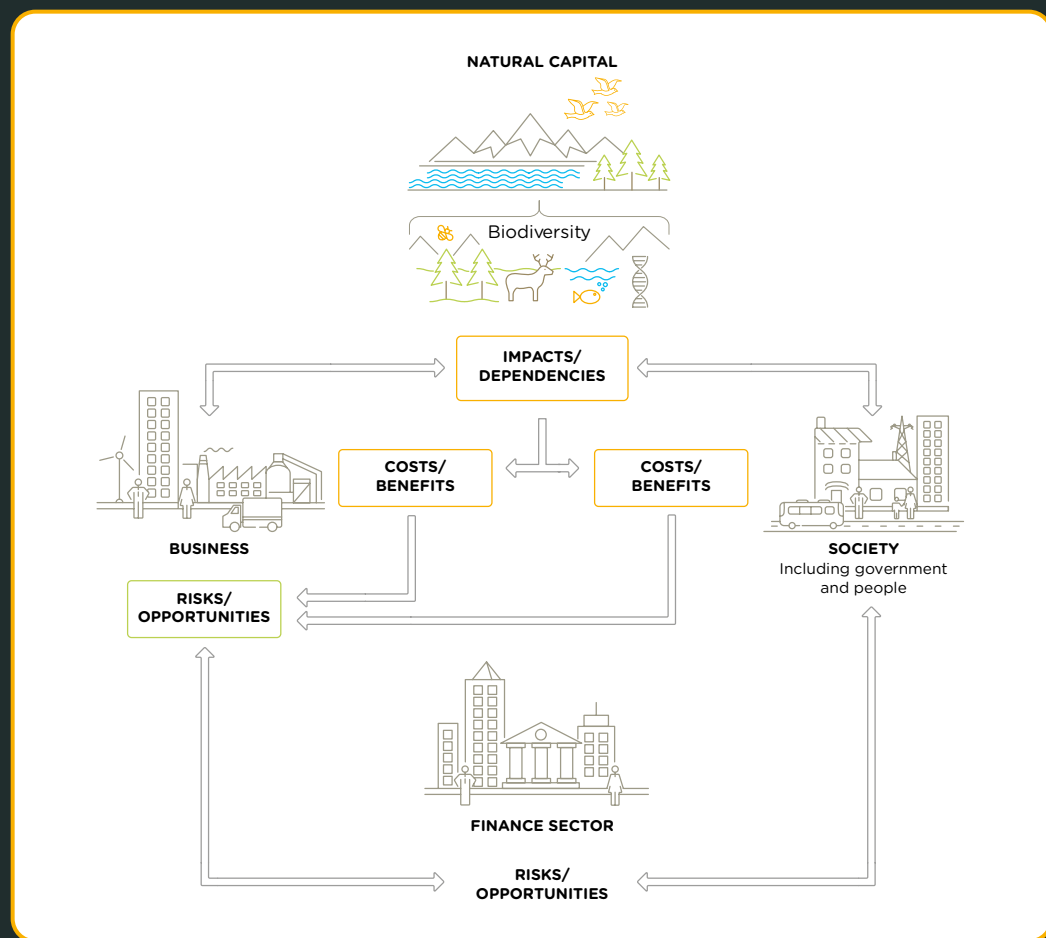


Figure 2: Capitals impacts and dependencies: conceptual model for business

All businesses interact with the capitals (social, human, natural and produced) in the following three ways (depicted in figure 2):

1. **Impacts on society.** These can be direct impacts, for example, through employment and the payment of wages, or indirect impacts, for example, through changes to natural capital, such as the emission of pollutants that cause respiratory problems and illness in local communities.

Impacts on social and human capital can be described as the extent to which a business' actions or decisions contribute positively or negatively to a persistent change in the well-being (i.e., capabilities, relationships, health, etc.) of people living in society.

2. **Business dependencies.** Businesses depend on healthy and skilled workers, customer relationships and trust, as well as the rule of law. Some businesses depend heavily on resources that local communities also use and are therefore dependent on a good relationship with these communities.
3. **Impacts on your business.** This internalization of impact takes place when an impact on society is reflected back on the business. For example, a business may practice unfair working conditions that lead to decreases in employee engagement and productivity, impacting the business bottom line.

5. Importance of Valuation

Valuation is essential for implementing a capitals assessment in an organizational environment. Understanding value highlights the significance of our impacts and dependencies and enables us to include their value in traditional decision-making processes. Being able to communicate the value that we create or erode by taking a certain decision provides us with the tools to make the most informed decisions that generate value across the capitals.

As the Protocol describes, valuation is very context specific and organizations need to carefully consider the appropriate choice(s). For example, the monetary valuation of a worker safety program could evaluate the value of the program to the company in terms reducing lost work days, employee turnover, or healthcare costs and/or the value as perceived by the workers, depending on the goals of the assessment.

Incorporating basic human rights issues, such as a living wage or child labour, can be an integral part of human and social capital assessments. However, attempting to place a monetary value on businesses' impacts on human rights is not always appropriate. Human rights represent a universally intrinsic value to society that has been collectively agreed upon globally. For the purposes of an assessment, consider introducing qualitative or quantitative valuation approaches where monetary valuation could be misleading. The final aim is to support decision-making understanding where value is created or eroded for stakeholders.

Valuing the impact organizations have on human and social capital leads to the realization that issues they had considered to be immaterial in fact directly underpin their success, which in turn leads to finding new opportunities to be successful and sustainable.

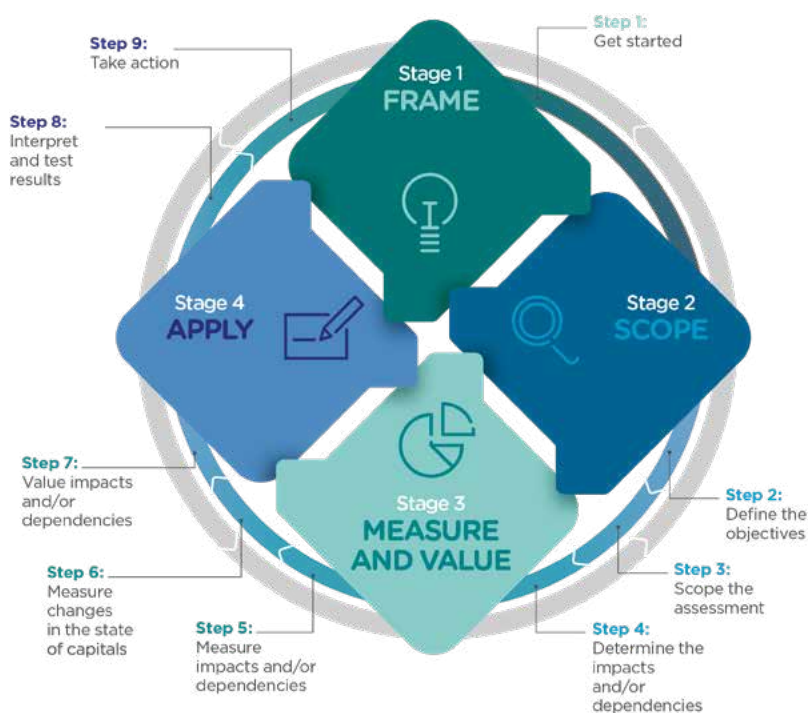
A different way of looking at value:

Valuation is the process of estimating the relative importance, worth, or usefulness of social and human capital to people. Validation can be qualitative, quantitative, monetary or a combination of these. As discussed in the Protocol, the appropriate valuation approach depends on the materiality of the impact or dependency, the available data and needs of stakeholders.

6. What is the Protocol?

Although many organizations provide guidance on external reporting and disclosure, businesses still struggle with understanding their impacts and dependencies in a way that provides useful and actionable information for internal decision-makers to strengthen their social and human capital for the benefit of society and business.

The Protocol is a framework designed to help generate trusted, credible and actionable information for business managers to inform decisions.



Stage 1: FRAME	Step 1	Get started
Stage 2: SCOPE	Step 2	Define the objectives
	Step 3	Scope the assessment
	Step 4	Determine the impact and/or dependencies
	Step 5	Measure impacts and/or dependencies
Stage 3: MEASURE AND VALUE	Step 6	Measure changes in the state of social and human capital
	Step 7	Value impact and/or dependencies
Stage 4: APPLY	Step 8	Interpret and test results
	Step 9	Take action

7. Business Case: Hypothetical example

Unison Biopharmaceuticals – Valuation of Diversity, Living Wage, and Employee Well Being.

STAGE 1: FRAME

In Stage 1 of the Protocol, you will develop an understanding of how all businesses interact with social and human capital, including the areas of your business that can function better with an improved understanding of these interactions.

Unison Biopharmaceuticals (UB) is a global business specialising in the production of innovative treatments for rare disease. UB is a large company, providing many job opportunities locally, but is struggling to retain and grow talent. They have anecdotal evidence that three issues are contributing to this challenge: their workforce does not reflect the diversity of the communities they serve; actual wages are not aligned with the living wage; and some workers are concerned about the company's health and safety programs. These issues may have hidden costs for the company and society. UB decided to carry out a social and human capital assessment to measure and value the relative importance of these three issues, in order to design appropriate programs to address these challenges.

STAGE 2: SCOPE

In Stage 2 of the Protocol, you will determine the key audiences and objectives and will set the boundaries of your measurement and valuation project.

UB seeks to measure and value the ways in which each of these factors is affecting employee productivity and profitability, as well as subjective measures of employee well-being, talent attraction and retention. In talking with internal stakeholders, the project proponents recognized that they need a company-wide evaluation in order to get support for the assessment and that it should cover the last three years, because the information needed for the evaluation would be found at the time when UB is compiling their statistics

STAGE 3: MEASURE AND VALUE

In this Stage, you will define fit-for-purpose indicators, metrics and data sources before conducting the technical measurement and valuation of your social and human capital impacts and/or dependencies.

Through previous employee surveys, HR statistics and financial data, UB was able to assemble a database, at the operating unit level, that contained the following information:

- ◆ Employee turnover (overall)
- ◆ Employee diversity (by race, ethnicity, age and gender)
- ◆ Operating income, per employee
- ◆ Employee satisfaction surveys (overall)
- ◆ Demographic information about the community around the business unit (race, ethnicity, age, gender)
- ◆ Information about local living wages
- ◆ Worker safety statistics

UB uses some simple statistical models and discovers there is generally a high degree of correlation between lower operating income, higher turnover, the lack of employee diversity, living wages, and lower worker safety. However, the relative importance of each issue varies on a regional basis.

STAGE 4: APPLY

In the final Stage of the Protocol you will interpret the results of Stage 3 and apply them to relevant business decisions. You will investigate how to integrate the social and human capital measurement and valuation approach into business processes and systems to make better decisions.

After considering the results of their assessment UB decided to:

- ◆ Create a program of fifty annual entry level jobs with stringent diversity and inclusion goals, to grow talent and offer equal opportunity employment.
- ◆ Introduce a variable compensation scheme linked to wellbeing KPIs, recompensing senior managers based on the wellbeing of employees.
- ◆ Invest greater resources into capturing data surrounding living wage and set appropriate levels based on this data in the future.
- ◆ Commission an independent study to understand the root causes of the issues surrounding workforce diversity, living wage and health and safety in each of their operating regions.

8. The Audience

The Protocol, although relevant for any organization, has been developed specifically for business.

The Protocol incorporates social and human capital into valuation and business decision-making, and is an iterative process suitable for actors at all levels of familiarity with the concept.

For those businesses who are more experienced or already understand their relationship with social and human capital, the Protocol offers a standardized approach for conducting assessments. For businesses who are new to the idea, the Protocol will allow them to begin to identify the costs and benefits of their relationship with social and human capital.

The Protocol also provides the information needed to understand when and how to involve external experts and other practitioners to help to build a credible approach and save time.

The Protocol is applicable to anyone who is involved in decision making. It is a technical document and therefore most likely to be applied by managers from finance, sustainability, health and safety, procurement, and operations departments. This will involve the outputs being applied by all departments and functions within the business and becoming an integral part of strategic and financial decision-making.



9. The Collaboration

The Social & Human Capital Protocol was developed by the Social & Human Capital Coalition, a broad collaboration of business, institutions, and experts who contributed their insights, experience and expertise.

The process was led by WBCSD and lent heavily on the experience and structure of the Natural Capital Protocol in order to create consistency.

Contributing Businesses



10. The Future

A single capital assessment can be helpful, but the capitals approach shows that everything is connected. Hence, the Social and Human Capital Coalition united with the Natural Capital Coalition in 2020, to simplify the space and deliver a harmonized approach.

Together the united community is working to standardize and mainstream capitals practice with the shared ambition that by 2030 most of business, finance and government will include all capitals in their decision-making, and that this will deliver a fairer, just and more sustainable world.





CAPITALS COALITION

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L'ORÉAL

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