

January 2018

# Labour Relations

Why do labour relations matter to investors?



## Contents

- 3 Executive summary
- 4 The current environment
- 5 The regulatory framework
- 6 Key issues for companies
- 8 Assessing the management of labour issues
- 12 Factoring labour issues into financial valuation
- 14 Companies' management of labour issues – investor expectations

**“The basic resource in any company is the people”**

*Gary S. Becker,  
Nobel Prize-winning  
economist*

**“To win in the marketplace you must first win in the workplace”**

*Doug Conant,  
former president and CEO of  
the Campbell Soup Company*

# Labour Relations



**Amanda Young**  
ESG Investment Team



**Katharina Lindmeier**  
ESG Investment Team

## Introduction

### Why do labour relations matter to investors?

In this paper, we examine the issues involved in labour relations and the policies and practices required of companies in their treatment of employees. We discuss what, as investors, we should demand from those companies in which we invest.

Essentially, every company is a reflection of its employees – their collective attitudes, skills and abilities determine the success or otherwise of the company's products and services. Employees can enhance and protect a company's brand and reputation, as can those working at companies with which they do business.

It is in a firm's interests to look after its staff, investing in their learning and development, safeguarding their physical and mental wellbeing and ensuring fairness. Disgruntled, badly treated employees are unlikely to give of their best.

## Executive summary

Good employee relations and sound human capital management practices are critical to corporate success. Regulators and consumers are focusing more intently on labour issues. Companies need to be aware of their exposure to existing labour risks and also anticipate and plan for change.

Research shows that firms with strong labour relations and a high degree of commitment to staff outperform both operationally and financially over the longer term. Conversely, the consequences of poor labour standards can be catastrophic. A thorough assessment of a firm's labour risks should form a critical part of the investment process.

Globalisation and new methods of working facilitated by technology advances make it ever-harder for companies and investors to assess labour risk across the whole supply chain. While international labour regulations and standards have

Failure to address labour issues and manage workforces effectively, as well as influence the practices and behaviours of suppliers, can lead to significant operational and reputational risks for companies.

Strong employer/employee relationships promote loyalty and productivity, and reduce conflict. Firms with sound employer/employee relationships are more likely to succeed, which should ultimately manifest in higher shareholder returns.

Increasingly complex business models and the globalisation of world trade demand ever-greater effort from companies to understand and manage their workforce and that of their supply chain. Equally, for an investor to assess the true worth of a business and its return potential, a process for understanding and evaluating labour risk must be part of the investment process.

been established, the degree to which these are adopted and enforced varies across the globe. This places much of the onus on firms themselves to enforce standards throughout their supply chain, with consideration given to such issues as working conditions, discrimination, child labour and slavery.

Industry sector and geography can give a broad indication of the types of labour risk a company might face. However, we believe fundamental analysis of individual companies yields a more accurate profile of a company's labour risks. We identify the main ones as regulatory risk, operational risk and reputational risk.

Despite different patterns of labour management between companies, sectors and geographies, there are basic requirements which investors should expect all companies to fulfil.

## The current environment

Although significant progress has been made over the last century to improve workers' rights, labour relations are becoming an ever-more complex issue. In an increasingly globalised world, where companies of all sizes operate across numerous borders, labour relations issues extend beyond a company's own operations to its entire supply chain, often exposing a firm to the laws and practices of other countries.

## The need to look ahead

Successful companies recognise the importance of their employees and devote considerable resource to developing and retaining their people. They consider staff an asset, and see corporate expenditure on training, development, employee benefits and health and safety not as a cost but rather an investment.

Technological advancement presents both opportunities and challenges to companies. On the one hand, Artificial Intelligence (AI) should allow the automation of monotonous, low-paid jobs, or jobs that are potentially hazardous, benefiting both companies and workers. In many cases, automation will boost productivity of workers, rather than replace them. On the other hand, there are concerns over the extent to which technology will displace human workers altogether.

While, in the short term, AI remains cost-prohibitive for many corporations reliant on low-cost labour, recent reports suggest that it could replace up to 30% of jobs in the UK and 50% of low-cost jobs in the US by the early 2030s. Proponents

of automation often counter with the argument that AI will also create new jobs and increase productivity. However, research suggests that low-skilled, low-paid jobs will be hardest hit, while the jobs required for an automated world will demand a high degree of technical skill.

To an extent, technology is already disrupting traditional working models. The rise of the gig economy is one example. The gig economy refers to models of employment where workers are paid for separate pieces of work rather than receiving an hourly wage. Bank of England economist Andrew Haldane has likened it to working models from pre-industrial Britain. Even so, this style of working is becoming increasingly popular in an environment of low unemployment, low wage growth and a rising number of involuntary part-time workers. According to a Pew Research Center survey, in 2016, 24% of Americans earned money from the 'digital platform economy' (which includes apps and other online platforms), with 8% earning money from the gig economy.<sup>1</sup>

While for some, the gig economy provides a flexible opportunity to earn money to supplement their day jobs, an increasing number of people are relying on the gig economy as their primary source of income. 56% of respondents to the Pew Research Center survey said that the money they earned from the gig economy is important or essential to them.

<sup>1</sup>Smith, A. (2016). Gig Work, Online Selling and Home Sharing. Pew Research Center. Available online at: <http://www.pewinternet.org/2016/11/17/gig-work-online-selling-and-home-sharing/>



## The regulatory framework

The United Nations (UN), International Labour Organisation (ILO) and the Organisation for Economic Co-operation and Development (OECD) have each developed globally applicable labour standards. The key set of global labour standards is the ILO's Declaration on Fundamental Principles and Rights at Work, which was formed in 1998.

**The work of the ILO forms four of the 10 principles of the United Nations Global Compact. These state that businesses should:**

- uphold the freedom of association and the effective recognition of the right to collective bargaining **(Principle 3)**
- eliminate all forms of forced and compulsory labour **(Principle 4)**
- ensure the effective abolition of child labour **(Principle 5)**
- eliminate discrimination in respect of employment **(Principle 6).**

Countries are expected to conform to ILO labour standards. However, although pressure is applied, there are no legally enforceable penalties for non-compliance. In practice, labour laws differ significantly across jurisdictions. A number of governments have taken regulatory action to enforce labour standards, including the way companies address labour issues in other jurisdictions with a weaker rule of law. Below are some examples.

The Modern Slavery Act 2015 covering England and Wales, the Human Trafficking and Exploitation (Criminal Justice and Support for Victims) Act in Northern Ireland and the Human Trafficking and Exploitation Act in Scotland brought together previous legislation on trafficking and slavery. Businesses with global turnover of £36 million or more producing or supplying goods and services in the UK are required to produce an annual modern slavery statement and display it prominently on their website, with fines for non-compliance. Similar legislation was introduced in California in 2010 and, in 2017, the Australian government commissioned an inquiry into establishing a Modern Slavery Act.

In the US, the Dodd-Frank Act (Section 1502) requires companies using conflict minerals to disclose their source. The law aims to dissuade firms from engaging in trade that supports armed groups and human rights abuses, such as child labour.

Various European Union (EU) directives address the treatment of employees. For example, the Working Time Directive governs working hours. Member states must incorporate these directives into national law.

China's Labour Contract Law was introduced in 2008, partly in response to labour issues such as underpayment of wages and the abuse of employment contract. While the law is aligned with many of the standards set out in EU Directives, its lack of enforcement has been criticised.

### The role of wider stakeholders

Given the variation in local labour laws, other stakeholders (examples below) have stepped in to protect and support workers, address gaps in regulation and help clarify for investors and companies potential labour challenges.

- Global trade unions such as the International Trade Union Confederation (ITUC), which includes regional trade unions such as the TUC in the UK, and represents around 175 million workers.
- Industry bodies such as the Electronic Industry Citizenship Coalition (EICC), a not-for-profit coalition of electronics companies committed to supporting the rights and well-being of workers and communities worldwide affected by the global electronics supply chain.
- Non-governmental organisations (NGOs), like Labour Behind the Label that seeks to improve working conditions in the garment-manufacturing industry. This NGO supports garment workers around the world by highlighting challenging working conditions in the sector, campaigning for living wages and encouraging international solidarity between workers and consumers.
- Global alliances between charities, trade unions and NGOs are also active in promoting global labour standards. The Ethical Trading Initiative (ETI) is a leading alliance of companies, trade unions and NGOs that promotes respect for workers' rights around the globe.

## Key issues for companies

Several areas merit assessment when measuring the potential impact that labour issues might have on the companies in which we invest.

### Freedom of association

This is the right of an individual to associate with others, including the right to join a trade union, political parties, religious groups and other societies, and the right to free speech. It is enshrined in various laws, such as the Universal Declaration of Human Rights and the ILO Convention.

### Collective bargaining

Collective bargaining is a process of negotiation between employers and a group of employees, often represented by a union, aimed at reaching agreement on working conditions. Issues can include wages, working hours, health and safety, overtime, grievance mechanisms and the right to be consulted on and participate in matters affecting the workplace. The result of the negotiation is often a collective bargaining agreement between the company and its employees. Collective bargaining practices are very country-specific and vary even across countries within the EU.

### Modern slavery

Modern slavery includes forced or bonded labour and refers to any work people are forced to do against their will under threat of punishment or coercion. An ILO study published in 2017 estimated that more than 40 million people around the world are victims of modern slavery, of which almost 29 million are female.<sup>ii</sup> The UN estimates that modern slavery and human trafficking are now the second-largest criminal industry in the world with profits as high as \$36 billion per year.

Countries where modern slavery is most prevalent include India, Pakistan and parts of West Africa. European and North American companies often operate in, or source from, these countries. However, bonded and forced labour is not exclusive to developing countries. Migrant workers are often brought into developed countries by gangmasters to work in low-wage, labour-intensive jobs, for example, in the food and agriculture industry. Workers can be vulnerable to exploitation, often subjected to poor living and working conditions. Gangmasters may withhold a worker's passport and wages until they have repaid the cost of passage.

### Child labour

Child labour is work that deprives children of their childhood, interferes with their education and harms their development. Long gone are the days of the early 19th century industrial revolution in Europe, where children were frequently put to work in factories. Well-established laws in industrialised countries have eliminated the worst forms of child labour.

However, in developing countries, the use of child labour in agriculture and garment-making remains an issue. The ILO estimates that around 152 million children, aged between 5 and 17, are victims of child labour.<sup>iii</sup> While many countries now have minimum age laws in place, these are often not adhered to or enforced.

### Equal opportunities

All employees should be treated the same, unhampered by prejudices or preferences. Companies should offer jobs to the best qualified, avoiding arbitrary or irrelevant reasons such as circumstances of birth, friendship, associations, religion, caste, age, disability, gender, sexual orientation and race. Opportunities for advancement should be open to all without bias or discrimination.

### Anti-discrimination

Certain countries mandate that employment contracts explicitly state that all people are dealt with equally. However, discrimination still occurs and can be a significant challenge for companies. Employees can meet with discrimination from a number of aspects, including recruitment, remuneration, hours of work, performance and health and safety.

### Gender diversity

The representation of women in the workforce, especially at senior levels, has been a major topic for companies in Europe and the US. Indeed, for US firms, the number of shareholder proposals on diversity reached an all-time high in 2017.<sup>iv</sup> Regulatory pressure is also mounting, with some countries introducing mandatory reporting on pay differences between male and female employees. (The Bank of England disclosed it paid male staff almost 25% more than female staff in the year to end-March 2017). Encouragingly, some research indicates a positive link between diversity and financial performance.<sup>v</sup>

### Occupational health and safety

Many companies operate in industries that present health and safety risks to employees. The range of health and safety issues is broad and differs across sectors and geographies. The laws governing health and safety vary from country-to-country, presenting challenges for multinational firms. Keeping the workforce healthy and safe is important for moral, legal, operational and financial reasons.

### Minimum wage

The minimum wage is normally encompassed in a country's laws. Where no minimum wage laws exist or where there is weak rule of law, companies must explicitly state what level of minimum wage they deem acceptable.

## Living wage

The 'living wage' is generally higher than the minimum wage and is calculated on the basis of a full-time worker supporting him/herself and a small family with basic living costs. In the UK, a number of companies have signed up to become voluntary Living Wage Employers, committing to pay a living wage as set by the Living Wage Foundation. In 2016, the UK government introduced the National Living Wage for employees aged 25 and over, a rate below the Living Wage Foundation rate and with no regional weighting for London.

## Working conditions

Companies are expected to comply with working-hour directives and laws. For example, the EU Working Time Directive stipulates that weekly working hours should not exceed 48 hours on average including overtime, and employees should receive at least four weeks paid leave per year. Where countries lack such laws, companies should outline their policy on working hours and ensure employees are appropriately compensated for overtime.

## Worker wellbeing and mental health

Companies need also to consider the wider wellbeing of their workers, including the promotion of healthy lifestyles and a good work/life balance. Companies are encouraged to have effective processes for managing work-related stress, mental illness and employee engagement. In 2015, an estimated 8.6 million people in the UK were affected by common mental health problems like stress, depression or anxiety, representing almost 16% of the total employed population. £25 billion gross value is lost from the UK economy every year due to mental health problems, with the number expected to reach £32.7 billion by 2030 <sup>vi</sup>.

## Training, development and employee benefits

Ongoing investment in employee skills is crucial in fostering goodwill and promoting retention, as well as helping drive productivity. A number of countries offer programmes specifically to support younger workers - the UK's apprenticeship levy is an example. In addition to development opportunities, employers may offer various staff benefits like share save schemes, subsidised gym membership and private healthcare.

<sup>v</sup> International Labour Organisation (ILO) (2017). Global Estimates on modern slavery: Forced labour and forced marriage. Accessible online at: [http://www.ilo.org/global/publications/books/WCMS\\_575479/lang-en/index.htm](http://www.ilo.org/global/publications/books/WCMS_575479/lang-en/index.htm)

<sup>vi</sup> International Labour Organisation (ILO) (2017). Global Estimates of child labour: Results and trends, 2012-2016. Accessible online at: [http://www.ilo.org/ipecc/news/WCMS\\_575661/lang-en/index.htm](http://www.ilo.org/ipecc/news/WCMS_575661/lang-en/index.htm)

<sup>vii</sup> Mueller, Ronald O. and E. Ising, Gibson Dunn & Crutcher LLP (2017). Shareholder Proposal Developments During the 2017 Proxy Season. Published in Harvard School Law School Forum on Corporate Governance and Financial Regulation. Available online at: <https://corpgov.law.harvard.edu/2017/07/12/shareholder-proposal-developments-during-the-2017-proxy-season/>

<sup>viii</sup> Hunt V., D. Layton and S. Prince (2015). Diversity Matters. McKinsey & Company. Available online at: <https://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters>

<sup>ix</sup> Mental Health Foundation, Oxford Economics and Unum (2016). Added Value: Mental health as a workplace asset. Available online at: <https://www.mentalhealth.org.uk/publications/added-value-mental-health-workplace-asset>

Throughout the 1990s, Nike was criticised for selling goods produced in sweatshops. The firm originally denied the accusations, on grounds it didn't own the factories. Nike's image was severely tarnished. Sales fell and efforts at promotion attracted demonstrations of outrage. Nike spent years and substantial sums of money trying to recover its reputation.

In 2016, in the UK, Amazon came under fire for "intolerable working conditions" at its Dunfermline warehouse. Workers were allegedly penalised for sick days and missed targets, while low pay forced some to camp nearby to save travel money. Meanwhile, since 2013, a series of pay-related strikes at its German operations have hit sales and profits, the action recently spilling over into Italy.

## Assessing the management of labour issues

Labour-related risks will differ according to sector and geographic footprint. Identifying a company's specific risk exposures is an important first step in integrating them into the investment process.

### Direct versus indirect labour issues

For investors, human-capital management and employee issues fall into two areas: direct employees and indirect employees, the latter group working for the company's suppliers and contractors.

Companies are exposed to indirect labour issues along their supply chains, which are often complex and multi-tiered, creating operational and managerial challenges. Working conditions in developing countries often fall short of internationally recognised standards. Employees may face excessive hours, forced overtime, low wages, denial of trade union rights, poor health and safety practices, sexual harassment and mental stress.

Most consumers now expect businesses to ensure their suppliers adopt high standards of human-capital management practice. Companies need to understand the labour policies and procedures their suppliers are adopting to safeguard their own brand and reputation. Clothing is one industry where weak supply-chain oversight can damage a firm's brand and ultimately lead to a boycott of its products.

### Sector assessment

Table 1 provides an overview of the severity of direct and indirect labour risks across industry sectors. The retail industry is a good example of a sector that faces both direct and indirect labour issues. The issues include minimum and living wages, contract types and collective bargaining. Additionally, retailers must consider labour issues in their supply chains. Most textile production is outsourced to countries like India, China, Bangladesh, and increasingly Cambodia and Myanmar, where workers are often exposed to bonded labour, forced labour, low wages and, as in the case of the Rana Plaza complex, unsafe working conditions.

While the table provides a useful guide, it is only by examining companies individually that we can properly assess any potential risk stemming from labour relations issues.

**In 2009, Fruit of the Loom faced the largest ever student boycott after closing a factory in Honduras in response to workers unionising. Ninety-six US colleges and 10 UK universities terminated their contracts, leading to an estimated loss of \$50 million. Fruit of the Loom was forced to re-employ 1,200 workers, pay \$2.5 million in compensation and restore union rights.**

**The Rana Plaza garment-factory complex in Bangladesh collapsed in 2013 after the building's owners ignored warnings of cracks. Over 1,100 workers died and 2,500 were injured. Workers in the factories were producing garments for western high-street brands, including Benetton, Mango, Matalan and Primark.**

Table 1: Labour risks by industry sector

Sector	Workers' rights/ collective bargaining		Bonded labour/ Child labour		Anti-discrimination		Health & safety		Wages & overtime	
	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect
Materials & Mining	Red	Amber	Amber	Red	Amber	Amber	Red	Red	Red	Green
Energy	Amber	Amber	Amber	Green	Amber	Amber	Red	Red	Amber	Amber
Textile & Apparel	Amber	Red	Amber	Red	Green	Red	Green	Red	Amber	Red
Hotels & Leisure	Red	Red	Red	Red	Red	Red	Green	Green	Red	Red
Food, Beverage & Tobacco	Amber	Red	Amber	Red	Green	Red	Green	Red	Red	Red
Food & Staples Retailing	Amber	Red	Green	Red	Green	Red	Green	Green	Amber	Red
Automobiles & Components	Amber	Amber	Green	Red	Amber	Red	Amber	Amber	Amber	Red
Pharmaceuticals & Healthcare	Green	Amber	Green	Amber	Amber	Green	Amber	Amber	Amber	Amber
Telecoms & Media	Amber	Green	Green	Red	Amber	Red	Amber	Red	Amber	Amber
Industrials	Amber	Red	Green	Red	Green	Red	Red	Red	Green	Amber
Financials	Green	Amber	Green	Green	Red	Green	Green	Green	Red	Amber
Utilities	Amber	Amber	Green	Amber	Amber	Amber	Red	Red	Amber	Amber
Technology	Green	Red	Green	Red	Amber	Amber	Green	Red	Green	Red

red = high risk      Amber = medium risk      Green = low risk

Source: Standard Life Investments, November 2017



**Sports Direct, a UK-based retailer of branded sporting clothing and shoes, has faced ongoing criticism for the way it treats employees and agency workers at its distribution warehouse.**

**In December 2015, reports emerged of workers receiving less than the minimum wage, being forced to undergo unpaid security searches and threatened with dismissal/fines for offences like 'time-wasting' and lateness starting shifts. There were also allegations of serious health and safety breaches. After a government enquiry into working practices at Sports Direct, agreement was reached in August 2016 with HRMC and the Unite union to pay back £1 million in wages.**

**The case highlights the issue of indirect labour. Over half of workers at the Sports Direct warehouse were employed by two agencies, The Best Connection and Transline Group. Eighty percent of workers were on zero-hours contracts. Although the investigation highlighted the misdemeanours and disregard of employment law by the agencies, Sports Direct's failure to spot and address the abuses and its lack of oversight over contractors severely damaged its reputation. Aside from the financial cost, Sports Direct shares fell over 50% in the months after the story first broke.<sup>vii</sup>**

## Geographic assessment

The location of a company's operations often determines the types of labour issue it needs to consider. As a consequence of globalisation, most companies now have exposure to a range of countries with different labour practices and laws. The map opposite shows some of the more prevalent labour issues by region.

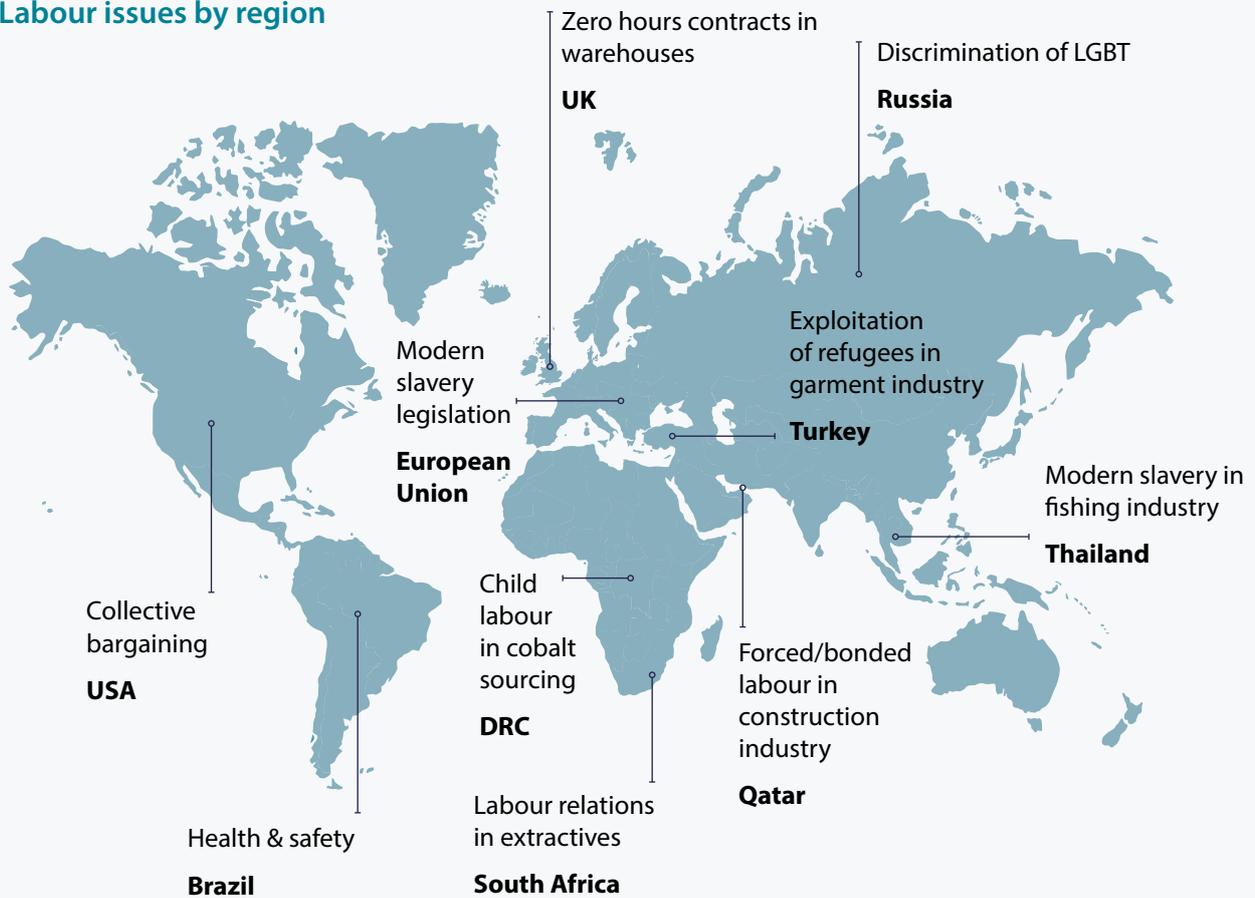
For a corporate's direct workforce, it is relatively straightforward to assess geographic exposure. More challenging to map are supply-chain risks. Companies lacking oversight of their suppliers and operating in countries with a high prevalence of labour issues are at greatest risk.

For example, following its successful bid to host the 2022 FIFA World Cup, Qatar has been subject to international criticism regarding the working conditions and exploitation of migrant workers brought in to build the infrastructure for the event.

While most of the criticism has been directed at the Qatari authorities, the lack of any legal framework protecting workers' rights presents a risk for companies operating in the region. Companies cannot rely on the government to address the issues and thus may be susceptible to human-rights violations. Given that most recruitment of construction workers is outsourced to agencies, companies need to spend considerable resource on mapping their supply chains in order to identify and mitigate potential risks.

<sup>vii</sup> Goodley, S, and J, Ashby (Dec 2015) A day at "the gulag": what it's like to work at Sports Direct's warehouse". The Guardian. Available online at: <https://www.theguardian.com/business/2015/dec/09/sports-direct-warehousework-conditions>

## Labour issues by region



Human Rights Watch claims thousands of Qatar World Cup workers are being subjected to life-threatening heat and accuses the Qatari authorities of failing to investigate hundreds of deaths at construction sites.

Other reports reveal squalid, overcrowded worker accommodation and dirty, dangerous cooking facilities.





## Factoring labour issues into financial valuation

Various research projects have demonstrated that a company's approach to workforce management can become financially material. A study conducted by Alex Edmans in 2012 showed that companies ranked among the '100 Best Companies to Work For in America' generated between 2.3% and 3.8% higher stock returns than their peers over a period of over 25 years.<sup>viii</sup>

The costs and benefits linked to employment practices are arguably some of the most difficult factors to integrate into the investment process. This is partly because of the quantity and quality of reported data, particularly on companies' indirect workforces. There is no common set of metrics to allow peer-set comparisons. Additionally, it is not easy to separate human capital from other sources of capital, making it hard to estimate the monetary value employees bring to a business.

Nevertheless, there are ways in which investors can integrate social issues into their financial valuation models.

### Key risks for companies

We see three key risks for companies that fail to take account of labour issues:

- regulatory or legal
- operational
- reputational.

### Regulatory/legal risks

Failure to comply with labour regulation can lead to fines and a loss of licence to operate. This may sound straightforward but labour laws are growing in number and complexity.

Moreover, advances in technology have led to new models of working where workers' rights are not clearly defined.

In the UK during 2016 and 2017, several landmark cases were brought by drivers and couriers working for gig-economy companies like Uber and Deliveroo. They were seeking 'worker' status, which would award them rights under the Employment Rights Act 1996, the Working Time Regulation and the National Minimum Wage Act 1998. The companies argued they simply provide a platform to connect self-employed drivers and couriers with customers. So far, tribunals have tended to rule in favour of the drivers and couriers.

In November 2017, the UK government's Work and Pensions and BEIS (Business, Energy and Industrial Strategy) committees jointly published a draft Bill to end exploitation in the gig economy. The key proposals include giving 'worker' status as default, with the onus on companies to prove that workers are in fact self-employed. The bill also seeks to eliminate the 'Swedish derogation' model, closing a loophole that allows companies to pay temporary staff less than permanent staff for the same work.

Additionally, companies have been under pressure to produce their first iterations of the Modern Slavery Statements, as highlighted above.

### Operational risks

Labour issues carry operational costs. Companies may lose suppliers that are found to be violating labour regulations. It may prove costly to switch to new suppliers with higher standards. There are also potential direct costs, for example due to strike action like the one that hit the South African



platinum industry in 2014.

Indirect costs are harder to quantify, but can include lost output, lower productivity and high absenteeism.

#### **Reputational risks**

Customers and the media are growing ever more vigilant over companies' supply chains. Consumer appetite for transparency and traceability is increasing, making brand association easier to identify. Moreover, the advent of social media provides a ready outlet for customers to express and share views, with potential to rapidly inflict huge reputational damage.

#### **Opportunities**

Labour issues are not only a source of risk – human-capital management can also be an opportunity to create value. Firms offering development opportunities to their employees and fostering their wellbeing are likely to experience greater employee engagement and lower staff turnover. This will save on recruitment costs and improved productivity. In 2016, a Gallup meta-analysis of 82,000 work units with nearly 1.8 million employees showed that work units scoring in the top quartile in employee engagement outperformed those in the bottom quartile by 10% on customer ratings, 21% on profitability and 20% on productivity.<sup>x</sup>

<sup>viii</sup> Edmans, A. (2012). The Link between Job Satisfaction and Firm Value, With Implications for Corporate Social Responsibility. *Academy of Management Journals*. Available online: <http://amp.aom.org/content/26/4/1.%20abstract?sid=1595351c-fad3-449b-9bad-cf2351fee376>

<sup>ix</sup> Ficene, J. (2015) Strikes cost South Africa platinum miners \$1bn . Published in *The Telegraph*. Available online at: <http://www.telegraph.co.uk/finance/newsbysector/industry/mining/10722633/Strikes-cost-South-Africa-platinum-miners-1bn.html>

<sup>x</sup> Gallup Inc. (2016). Gallup's Q 12 Meta-Analysis 2016. Available online at: <http://news.gallup.com/reports/191489/q12-meta-analysis-report-2016.aspx>

**In November 2014, workers at South Africa's major platinum producers went on strike demanding an immediate doubling of wages. The five-month strike cost the platinum industry around US\$2.25 billion.<sup>ix</sup>**

**Impala Platinum's management stated, "This strike has been enormously damaging. It has destroyed the relationships we have with employees, communities, the union and government. It has resulted in us taking an untold financial impact... it could substantially influence the shape of the future business."**

## Companies' management of labour issues – investor expectations

Although there are many different patterns of labour management across companies, sectors and geographies, investors should look for all companies to fulfil certain requirements.

- Companies should take responsibility for human resource issues at board level, for instance by setting targets for employee engagement and retention. The board should also consider how the company manages employee issues along its supply chain and how it expects its contractors to behave.
- Companies should have oversight of their direct and indirect employees and the key labour issues relevant to their sector and operations. Companies should identify the relevant risks and take steps to mitigate them, for example through supply-chain audits.
- Companies should abide by existing laws, including as a minimum the national labour laws of the countries in which they operate, as well as internationally recognised standards. Companies should ensure they uphold good labour standards, adopting health and safety policies and practices, enacting policies for equal opportunities and offering robust training and development programmes. Regular employee engagement is vital to understand the needs, challenges and opinions of those working for the business.
- Companies should report regularly and clearly on labour issues and how they are being managed. In the UK, the Pensions and Lifetime Savings Organisation's (PLSA) 2015 discussion paper suggested reporting be improved on four key areas: workforce composition, workforce stability, workforce skills and capabilities, and engagement and motivation of the workforce. Human-capital management indicators include turnover rates, workforce demographics, employee survey results, training and development, and health and safety statistics. In addition, a company should explain what standards it has set itself and show how it is abiding by the relevant international labour laws.

These issues will inevitably vary between sectors and companies. However, we see four main action areas that should form the basis of a company's approach to labour issues.

1. Regular risk assessments should be conducted on labour issues and fed into labour policies.
2. Compliance with labour standards should be routinely assessed.
3. Any non-compliance should be identified, promptly addressed and mitigated.
4. Reporting of these issues and on the progress of the company's overall labour strategy to the board and external stakeholders should be regular and consistent.

## Conclusion

As our case studies illustrate, failure of a company to manage human-capital issues, both in its own operations and across its supply chain, can do material damage. Companies have a responsibility to adopt and implement clear labour strategies and report on related programmes. Ultimately, good employee practice can enhance productivity, protect brands and reputations, and preserve the intellectual property of a business. Given the importance of the employer/employee relations in determining the fortunes of an organisation, it should remain a core focal point for investors. Understanding, measuring and monitoring the inherent risks should be an integral part of the investment process.



Investment involves risk. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results.

**Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments.**

All information, opinions and estimates in this document are those of Standard Life Investments, and constitute our best judgement as of the date indicated and may be superseded by subsequent market events or other reasons.

This material is for informational purposes only and does not constitute an offer to sell, or solicitation of an offer to purchase any security, nor does it constitute investment advice or an endorsement with respect to any investment vehicle.

Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the "Owner") and is licensed for use by Standard Life Aberdeen\*\*. Third Party Data may not be copied or distributed. Third Party Data is provided "as is" and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner, Standard Life Aberdeen\*\* or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Neither the Owner nor any other third party sponsors, endorses or promotes the fund or product to which Third Party Data relates.

\*\*Standard Life Aberdeen means the relevant member of Standard Life group, being Standard Life Aberdeen plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time.

Standard Life Investments Limited is registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Standard Life Investments Limited is authorised and regulated in the UK by the Financial Conduct Authority. Standard Life Investments (Hong Kong) Limited is licensed with and regulated by the Securities and Futures Commission in Hong Kong and is a wholly-owned subsidiary of Standard Life Investments Limited. Standard Life Investments Limited (ABN 36 142 665 227) is incorporated in Scotland (No. SC123321) and is exempt from the requirement to hold an Australian financial services licence under paragraph 911A(2)(l) of the Corporations Act 2001 (Cth) (the 'Act') in respect of the provision of financial services as defined in Schedule A of the relief instrument no.10/0264 dated 9 April 2010 issued to Standard Life Investments Limited by the Australian Securities and Investments Commission. These financial services are provided only to wholesale clients as defined in subsection 761G(7) of the Act. Standard Life Investments Limited is authorised and regulated in the United Kingdom by the Financial Conduct Authority under the laws of the United Kingdom, which differ from Australian laws. Standard Life Investments Limited, a company registered in Ireland (904256) 90 St Stephen's Green Dublin 2, is authorised and regulated in the UK by the Financial Conduct Authority. Standard Life Investments (USA) Limited is registered as an Exempt Market Dealer in Canada and as an Investment Adviser with the US Securities and Exchange Commission. Standard Life Investments (Corporate Funds) Limited is registered as an Investment Adviser with the US Securities and Exchange Commission. Calls may be monitored and/or recorded to protect both you and us and help with our training.

© 2017 Standard Life Aberdeen, images reproduced under licence

**Visit us online**  
[aberdeenstandard.com](http://aberdeenstandard.com)

**Aberdeen Standard**  
Investments