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How Do We Measure Supply Chain Due Diligence? GLI Labor Outcomes Metrics

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The approval in May of the E.U.'s Corporate Sustainability Due Diligence Directive (CSDDD) represents a watershed moment in the regulation of labor in global supply chains--a transition from voluntary private regulation to binding public regulation. This shift reflects widespread acceptance by policy makers that twenty-five years of private voluntary regulation and 'best practices' guidance in supply chains has done little--in the aggregate--to limit harms to people and planet.

One week after the European Union gave its final go-ahead to CSDDD, we launched our Labor Outcomes Metrics—a lifeline of sorts for regulators there charged with managing this transition in global labor governance.

Under CSDDD and the related German and French laws, covered companies or 'lead firms' will have to identify, assess, prevent, mitigate and remedy the negative impacts (and those of their upstream and downstream partners) their undertaking has on people and the planet. These firms will also be required to communicate publicly regarding their due diligence policies and monitor their effectiveness. National administrative agencies will monitor whether companies comply with their obligations and can impose fines on non-compliant companies. Third parties can sue lead firms in member states' courts for violations of their due diligence obligations.

In our new GLI Policy Brief (link) we focus on a crucial implementation question: How will regulators in Europe know who is harming workers or running big risks for the environment? (And in the U.S., regulators at the Securities and Exchange Commission?) How will lead firms themselves know? And, how will the rest of us—business partners and upstream suppliers, workers and their unions, investors and researchers—know which lead firms and which practices are failing and which ones are delivering good outcomes?

We have designed GLI's new set of 25 quantitative metrics to measure labor outcomes—actual impacts for workers. For regulators, the metrics point them to the hard measures required of firms to measure their performance against their due diligence obligations. The metrics also allow regulators to track the effectiveness of company efforts to reduce risks or remediate harms to people along their value chains and to compare performance across companies. For firms, our metrics make possible a clear-eyed and quantitative assessment of risks and outcomes—long overdue.

Regulators and firms alike will be able to compare outcomes over time and across suppliers, countries and tiers. And public disclosure under the accompanying Corporate Sustainability Reporting Directive (CSRD) can balance the need-to-know against legitimate business confidentiality claims so that unions, campaigners, investors and researchers can see and compare outcomes.

Taken together, these metrics are a sort of 10-K—the U.S. SEC's uniform annual financial reporting framework for firms—but for labor.

What does labor outcomes-based reporting look like? What data and analysis does it require? In the case of working hours, for example, inputs-based reporting might require firms to describe the policies that they have put in place to ensure that there are no violations of working hour standards among suppliers. Outcomes-based reporting would require that firms break out regular and overtime hours and report monthly averages by facility. Gender discrimination efforts in input-based reporting could invite firms to describe supply chain policies and number of managers or workers trained. Outcome-based reporting would require firms to show, for example, male-to-female earnings ratio (controlling for job types and years of service) by supplier.

These two metrics and 23 others boil down what we think regulators need to know about outcomes. There are, of course, other data and more elaborate approaches. But these outcomes metrics have six clear upsides. One, they focus on results, i.e. actual impacts on workers. Two, they help us measure double materiality and both financial (e.g. SEC 10-K) and non-financial (labor) information. Three, they are parsimonious: 25 metrics instead of hundreds of reporting prompts and pages and pages (and pages) of description of inputs. Four, they're useful in every constituency. Lead firms can analyze risk and report effectiveness and progress. Regulators and stakeholders can assess and compare outcomes over time and across suppliers, countries and tiers. Five, we can generalize. That is, while we have designed these metrics to measure outcomes in apparel production, they are easily adaptable to other industries. And finally, they are relevant and at-hand. Our research shows most lead firms already collect this data from their (tier 1) suppliers.

We have organized our metrics into six groups. Group 1 includes measures relevant to sourcing risk. Do firms source responsibly and have the management systems to reduce the risk or harms to which their sourcing practices contribute? Group 2 metrics relate to upstream workforce risks. Group 3 metrics focus on labor rights and working conditions outcomes among firms' producers. Group 4 metrics capture outcomes for worker representation rights. Group 5 metrics, arising out of our research on climate change on workers in apparel, focuses on work and pay standards due to heat and flooding. (A final group of metrics focus on the quality and diligence of firms' intelligence-gathering processes. This last group is not outcome measures, to be sure, but are contextual in that they provide information that is relevant to the interpretation of the metrics in Groups 2 – 5).

Table 1: GLI Labor Outcomes Metrics.

No.	Group	Measure	Metric
1	Sourcing	Overall Sourcing Risk	Sourcing share by volume (by country)
2	Sourcing	Leverage/Relevance	Sourcing share of production (by factory)
3	Sourcing	Length/Quality of Relationship	Number of years and changes in volume/value (by factory)
4	Sourcing	Supplier Turnover	Annual change (percent) in suppliers (all suppliers, and by volume)
5	Sourcing	Sourcing and Labor Performance Alignment	Sourcing volumes and labor compliance scores (by factory)
6	Workforce	Legal Status	Migrant (foreign) workers as percentage of workforce (by factory)
7	Workforce	Precarious employment	Temporary/Casual workers as percentage of workforce (by factory)
8	Workforce	Worker Turnover	Average annual turnover (by factory)

9	Workforce	Gender Pay Equity	Female pay as a percentage of male pay for same/comparable jobs and tenures (by factory)
10	Workforce	Gender Equity, GB Harassment and Violence	Female supervisors as share of all supervisors vs female share of total workforce (by factory)
11	Working conditions	Factory working conditions violations	Total violations by labor standards category (by factory)
12	Working conditions	Hours	Average working hours with disaggregation of overtime hours, monthly (by factory)
13	Working conditions	Wages	Average monthly production worker pay (with disaggregation of overtime, bonuses, and deductions, by factory)
14	Working conditions	Accidents	Number of recorded injuries, accidents and work-related illnesses (by factory)
15	Working conditions	Grievances	Existence of worker-trusted grievance system/hotlines/mechanisms and (where trusted), number of grievances/calls (by factory)
16	Rights (Representation)	Freedom of Association Union Presence	Share of workers in activist unions (unions that bargain/challenge management on fundamental issues) (by factory)
17	Rights (Representation)	Collective Bargaining Agreement Presence	Share of workers covered by collective bargaining agreement(s) (w/negotiated provisions are better than state-specified minimums) or enforceable agreements (by factory)
18	Rights (Representation)	Workplace Governance Representation	Worker-chosen candidates serve on representative committees
19	Rights (Representation)	Workplace Governance Representation by Gender	Gender ratio of committee members to workforce
20	Work-Climate impacts	Extreme Heat	Indoor WGBT Exceeds 30 C WBGT and/or national standard (days per year, by factory)
21	Work-Climate impacts	Intense Flooding	Site inundation in 10 year flood projections (RP 10) > 0.25 m (by factory)
22.	Work-Climate impacts	Worker Health (workplace)	Paid breaks as share of work day on high heat-stress days (disaggregated regular and overtime, by factory)
23	Work-Climate impacts	Worker Health (illness)	Paid sick days used as share of available days (workforce, by factory)
24	Work-Climate impacts	Worker Health (force majeure)	Paid *force majeure* days (by factory)
25.1	Intelligence/ Audit	Auditors	Name of audit firm and auditor(s)
25.2	Intelligence/ Audit	Duration of Audit	Number of person-days (by factory)
25.3	Intelligence/ Audit	Costs	Paid by supplier or lead firm (by factory)

Of special import for us is the relevance of these metrics for the new German Supply Chain Act—already in effect. The 2023 Act requires companies to respect human rights and the environment in their global supply chains for which detailed guidance is available from BAFA, the German regulator. Our Policy Brief shows how our metrics match the requirements of the Act, and points to the ways in which regulators (and firms, for their own purposes) can combine and calibrate our metrics to suit their priorities.

This system of outcomes-based reporting represents a choice for firms and regulators. Adopting them could mean that both sides can avoid or radically reduce the long, detailed, time-consuming and obfuscatory--sometimes positively gauzy—sustainability reporting permitted under existing frameworks such as the Global Reporting Initiative (GRI). And shift instead to 25 simple metrics that, taken in combinations and all together, measure effectiveness and deliver meaningful data to stakeholders.

For firms there is a risk here—less control of their narrative. But the shift to clear, strong measures of outcomes for workers delivers two things that we hear about repeatedly from buyers across sectors: a lower reporting burden and a level playing field. These outcomes metrics check two big boxes for lead firms.

For regulators, the choice seems simpler, even unavoidable. These outcomes metrics will allow them to do their jobs: measure impacts, focus efforts on higher-risk firms, spur large-scale improvements in labor practices along supply chains, and make corporate governance more democratic, more inclusive and more accountable. Check. Check. Check. And check.

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