

Advance: a stewardship initiative for human rights and social issues

Sector and company selection methodology

Advance is a collaborative stewardship initiative where institutional investors work together to take action on human rights and social issues. Investors use their collective influence with companies and other decision makers to drive positive outcomes for workers, communities, consumers, and society. The objective of the Initiative is to advance respect for human rights, minimising negative outcomes and driving positive outcomes for people. This is an important responsibility for investors as explained in the PRI's "[Why and how investors should act on human rights](#)".

The below document outlines the methodology used to select the sectors and companies for engagement within the Initiative. The methodology was developed by the PRI executive and was reviewed by the signatory advisory committee and technical advisory group of Advance for feedback. The PRI executive made recommendations around sector selection for Phase I. These recommendations were put forth to the Advance advisory groups and discussed with both groups. In light of these dialogues, the PRI executive finalised the sector selections for Phase I of the initiative.

I. RESEARCH METHODOLOGY OVERVIEW

The methodology was developed to provide a framework for selecting the companies and sectors that investors will engage with in support of the overall objectives of the Initiative. This includes identifying the sectors and companies where human rights risks and impacts are most severe; and determining where investors within the Initiative can influence those sectors and companies to advance respect for human rights through stewardship.

In order to select sector(s) for Phase 1 of Advance, 15 sectors that have already been covered by benchmarks were examined. Sector designations and labels are in accordance with the World Benchmarking Alliance's (WBA) sector categorisation in the SDG2000 list, which identifies the 2,000 most influential companies in the world¹.

The 15 sectors are:

- Agricultural products
- Apparel and footwear
- Automobiles and components

¹ For more details on the methodology used by WBA to identify the SDG2000, see [this FAQ](#) and [here](#) for the more detailed methodology

- Banks
- Construction materials and supplies
- Electronics
- Food and beverage
- IT software and services
- Metals and mining
- Oil and gas
- Personal and household products
- Pharmaceuticals and biotechnology
- Retail
- Telecommunications
- Utilities

II. SECTOR SELECTION METHODOLOGY

The sector selection process constitutes two broad levels of analysis: (i) sectoral risk and impact assessment (see steps 1 to 3 in Table 1 below), and (ii) feasibility and leverage assessment (see steps 4 to 6 in Table 1 below). The first assessment identifies high-risk sectors, incorporating issues across supply chains, and the second assessment evaluates the practicality of engaging with these sectors, to further narrow down to two sectors of prioritisation.

Table 1 below summarises the six-step process that was followed to select focus sectors for Phase 1 of the initiative. Please see Section V for more information on the indicators and sources consulted for each step.

Table 1. Advance Sector Selection methodology

Step	Approach
Risk and impact assessment – This assessment identifies high-risk sectors by adopting an outcome-based approach to assess human rights risks and outcomes across three key stakeholder groups.	
1. Communities	Human rights risks and impacts on communities were assessed by consulting data on attacks on human rights defenders, allegations, and litigations, as well as a commercial ESG risk index. This step captures controversies broadly which is recognised to include human rights impacts on workers and end-users/consumers.
2. Workers	Human rights risks and impacts on workers were assessed by evaluating their scale and scope across supply chains. Data on size of workforce, forced and child labour, health and safety at work, wage levels, as well as freedom of association and collective bargaining were consulted.
3. End-users/consumers	Sectors with services and products which have direct links to social and human rights outcomes have been examined to capture the scale and severity of human rights risks on end-users and consumers.
Feasibility and leverage assessment – This assessment is conducted on the high-risk sectors identified in steps 1 to 3. It allows for further prioritisation based on the level of leverage and influence institutional investors have on these sectors and the potential for this initiative to drive change within these sectors.	

<p>4. Existing investor initiatives</p>	<p>The level of engagement and coverage by existing investor initiatives were evaluated. The initiatives were classified into three types: (i) disclosure initiatives and benchmarks, (ii) thematic initiatives with focus on a subset of human rights and social issues and/or a specific geographical location, and (iii) initiatives that cover human rights issues more broadly. Sectors with structured investor action on human rights issues broadly have not been selected for Phase 1 of the initiative to avoid overlap with existing initiatives and to maximise the value-add that PRI can bring.</p>
<p>5. Ownership structures</p>	<p>The ownership structures of companies across sectors were analysed to identify sectors in which institutional investors have the most leverage. While not an unconditional eliminating factor, where these types of ownership structures are dominant, the leverage of signatories was deemed to be comparatively lower.</p>
<p>6. Other considerations</p>	<p>Other considerations – such as timing - have been taken into account to determine how effective an engagement with a specific sector may be. For example, it was deemed that it may be more suitable to engage with a specific sector in a later phase of the engagement when a policy engagement strategy has been developed which may enable greater engagement with that sector.</p>

III. COMPANY SELECTION METHODOLOGY

Four criteria were assessed to identify the Advance Company Focus List among the sectors chosen. Table 2 summarises these criteria.

Table 2. Advance Company Selection methodology

Criteria	Approach
<p>1. Performance</p>	<p>Companies’ performance on human rights in selected benchmarks (World Benchmarking Alliance; Corporate Human Rights Benchmark) and on RepRisk was analysed. This process allowed to identify some of the worst performers in the sectors selected.</p>
<p>2. Ownership structure</p>	<p>Ownership structures of companies were examined to exclude companies above a certain threshold (<50%) of state and cooperative ownership. This was done to ensure that there was sufficient investor leverage to</p>

	influence change in the behaviour of the companies selected for Phase 1 This aspect was then balanced against the aim of regional diversity which means that in certain geographies, companies with a higher state or cooperative ownership were included (<70%).
3. Regional diversity	Regional diversity among the companies engaged through the initiative is an important priority. To ensure this, company headquarter information was used as an indicator along with countries of operations. Geographical spread of the company's value chain was also considered in this exercise.
4. Systemic importance	This criterion aimed to identify whether a company could be considered systemically important and therefore likely to affect change within the broader sector. To this end, proxies including workforce size and revenue were assessed.

IV. FINAL SECTOR SELECTION

The initiative's signatory advisory committee and technical advisory group were consulted on the research and provided both strategic and issue-specific insights on the sectors. Combining the findings of the research with feedback from both committees, the PRI executive decided to focus on the following two sectors: (i) Metals and Mining and (ii) Renewables.

The PRI executive will work with the two advisory groups and the broader investor working group to design sector transformation strategies for each of the sectors targeted by Advance. These strategies will focus on specific severe human rights risks identified within these sectors and the PRI executive will work with participants to implement these strategies and drive change within these sectors around these specific human rights issues.

Metals and Mining Sector

The Metals and Mining sector was selected for the following reasons:

- High risk profile according to the human rights risk and impact assessment – the sector ranked 'high risk' for the assessments on both communities and workers
- Relatively limited issues around ownership structures allowing for greater potential influence by investors
- Limited collaborative investor action that covers human rights issues more broadly and potential for this initiative to complement existing efforts on specific human rights issues covered by existing investor initiatives focussed on this sector
- Rising importance amidst global transition to clean energy, and the subsequent rise in demand for transition minerals

Renewables Sector

The WBA sector categories which were used for the initial sector assessment does not include Renewable Energy as a standalone sector. The companies which were subsequently assessed cut across several of the WBA sector categories.

The Renewables sector was selected for the following reasons:

- High risk profile according to the human rights risk and impact assessment
- Rapid growth of the sector amidst global transition to clean energy with potential increased human rights risks if left unaddressed
- Close links to the Metals and Mining sector via material value chains which means that

the sector is key to also address human rights risks in the Metals and Mining sector

- The sector has traditionally received relatively limited scrutiny on social issues and human rights
- Relatively limited issues around ownership structures
- Collaborative investor action on renewable energy supply chains is limited to thematic or region- focused initiatives and there is potential for this initiative to complement these efforts where objectives are aligned

V. FINAL COMPANY SELECTION

The initiative's signatory advisory committee and technical advisory group were consulted on the proposed list of companies before the final selection.

Metals and Mining Sector

- 25 companies were selected; 22 of which extract transition commodities (minerals or metals)
- Some companies of systemic importance were included as due to their size and standing, it is more likely that they would be able to drive change within the broader sector
- Some companies were included due to their very low score on existing human rights benchmarks or on the basis of existing controversies
- Some companies were included despite their level of government ownership to ensure greater regional diversity

Renewables Sector

- 15 companies selected
- Selected companies are operators, developers, and/or owners of wind and/or solar energy projects
- Manufacturers were not included in the list as there are existing investor efforts around human rights issues in this segment of the value chain. This initiative will seek to support and complement these efforts where objectives are aligned
- Some companies were included despite their government ownership to ensure the

inclusion of key countries and regions for the sector

VI. RESPONDING TO CONTROVERSIES

Where a human rights controversy has occurred related to a company outside of the engagement focus list, the PRI (with input from the technical advisory group and advisory committee) may consider responding by assessing the severity of the controversy.

If decided that the controversy should be responded to, a new company engagement group may be formed. The engagement in this case may focus on mitigation of issues; reassurance that company has a remediation plan in place which includes consultation with all affected stakeholders; and reassurance that the company integrates learnings and reviews established procedures to prevent the reoccurrence of the controversy.

VII. APPENDIX: INDICATORS USED FOR SECTOR-LEVEL HUMAN RIGHTS RISK AND IMPACT ASSESSMENT

COMMUNITIES

- [Business & Human Rights Resource Centre Lawsuit database](#)
- [Business & Human Rights Resource Centre Allegations database](#)
- [Business & Human Rights Resource Centre Human Rights Defenders database](#)
- RepRisk ESG data science and quantitative solutions, www.reprisk.com
- [Organisation for Economic Co-operation and Development Watch National Contact Points database](#)

WORKERS

Scale: Size of workforce

- [IndustriALL Global Union's sector-specific reports on the electronics industry](#)
- [International Labour Organisation' COVID-19 and the world of work report](#)
- [International Renewable Energy Agency's Renewable Energy and Jobs Annual Review](#)
- [Organisation Internationale des Constructeurs d'Automobiles' statistics on automotive industry](#)

Scope: Forced and child labour

- [International Labour Organisation's Child Labour in Mining and Global Supply Chains report](#)
- [International Labour Organisation's Child Labour report](#)
- [International Labour Organisation's Global Estimates of Modern Slavery report](#)
- [United Nations Children's Fund's apparel and footwear industry analysis](#)

Health and safety at work

- [International Labour Organisation's statistics on safety and health at work](#)

Wage levels

- [Act on Living Wages' Purchasing Practices Surveys by Brands and Suppliers General Report 2021](#)
- [International Labour Organisation's garment and footwear sector research note](#)
- [International Labour Organisation's Global Wage Report](#)

Freedom of association and collective bargaining

- [International Trade Union Confederation's Global Rights Index](#)

END-USERS AND CONSUMERS

- [Access to Medicine Foundation's statistics on access to medicine](#)
- [Amnesty International's "A Double Dose of Inequality" report](#)
- [Global System for Mobile Communications' "The State of Mobile Internet Connectivity 2021" report](#)
- [Insurance Information Institute's facts and statistics on identity theft and cybercrime](#)
- [International Monetary Fund: results of the annual "Financial Access Survey"](#)
- [International Telecommunication Union's ICT database](#)
- [Oxfam's "A Dose of Reality" report](#)
- [United Nations Educational, Scientific and Cultural Organisation: statistics on digital divides and distance learning](#)
- [World Bank's "Global Findex" database](#)
- [World Health Organisation's Universal Health Coverage data platform](#)

CONTACT

Those interested in understanding more about the Initiative should contact advance@unpri.org.