



The role of benchmarking in improving business practices towards human rights in the automotive manufacturing sector

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Executive summary

The automotive manufacturing industry is particularly susceptible to human rights related issues due to vast and complex supply chains and potentially hazardous working conditions in their direct operations. Through the Corporate Human Rights Benchmark (CHRB), WBA has measured the sector in both 2020 and 2022 on the policies, processes, and practices companies have in place to systematise their human rights approach and how they respond to serious allegations. Between the two iterations, 57% of automotive companies under scope improved on their scores on core human rights indicators. This report aims to provide further depth of understanding to this progress, including examples of actual behaviour changes by companies and outlines WBA role and influence.

Benchmarking initiatives help to hold companies accountable for their responsibility to respect human rights by translating stakeholder expectations into actionable methodologies and assessing related corporate disclosures and efforts. Through its engagement with automotive manufacturing companies both during and in-between benchmark cycles, WBA is learning how the CHRB supports them with implementing more sustainable business practices. However, we want to better understand how companies respond to being benchmarked and the drivers of change. In this report we assess how WBA's CHRB has contributed to better practices and disclosure on respect for human rights in three automotive manufacturing companies. The analysis focused on companies that had improved on their score between the 2020 and the 2022 iterations of the CHRB and is based on data from the benchmark as well as conducting in-depth interviews with these companies. This resulted in three key findings:

- 1. The CHRB has contributed to improved human rights disclosures and business practices.
- 2. The benchmark has incentivised companies to embed respect for human rights into departments throughout the organisation and define internal accountabilities.
- 3. The CHRB methodology provides companies a roadmap to prepare for (upcoming) regulation.

The findings of the case studies increase our understanding of the mechanisms through which WBA's outputs, including the publication and socialisation of methodologies and results, have contributed to companies changing behaviour and improving sustainable business practices related to human rights, i.e. the outcome level of WBA's <u>Theory of Change</u>. Nonetheless, the interviews and benchmark data have also highlighted the limits of measuring the impact of changes WBA contributes to, with less evidence on how changes in behaviour have benefitted human rights stakeholder, particularly workers and communities. WBA hopes the key findings from this report can support companies, both in the



automotive manufacturing industry and elsewhere, to improve their own business practices and ensure their human rights related disclosures are aligned with international standards and guidelines.



Introduction

The CHRB has been assessing the human rights disclosures of some of the largest global companies operating in high-risk sectors since 2017. By ranking these companies on their publicly disclosed policies, processes and practices, as well as how they respond to serious allegations, the CHRB aims to create a race to the top through which companies strive to fulfil their responsibility to respect the human rights of the individuals and communities that they impact. The CHRB methodology is composed of five measurement themes, each containing a series of indicators focusing on different aspects of how a business seeks to respect human rights across its own operations and supply chain.

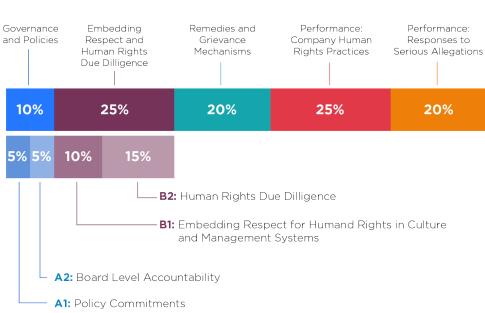
- Measurement theme A focuses on governance and policy commitments.
- **Measurement theme B** focuses on embedding respect for human rights and conducting human rights due diligence.
- Measurement theme C focuses on grievance mechanisms and access to remedy.
- **Measurement theme D** focuses on specific practices to prevent human rights impacts in each sector.
- **Measurement theme E** focuses on responses to allegations of serious negative impacts on human rights.

These indicators are grounded in the UN Guiding Principles on Business and Human Rights and other international human rights standards, with additional sector-specific requirements applied to some indicators. A detailed description of the CHRB methodology and indicators can be found on WBA's <u>website</u>.

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FIGURE 1: CHRB THEMES AND THEIR WEIGHTINGS





CHRB and the automotive manufacturing sector

The CHRB focuses on sectors considered to be high risk for negative human rights impacts. The selection of sectors is based on multi-stakeholder consultations and considers:

- The severity of the sectors' human rights impacts.
- The extent of previous work on human rights in the sectors, including through industryspecific initiatives.
- The existence of other human rights-related benchmarks covering the sectors.
- The sectors' contribution to each of the WBA's seven systems transformations.

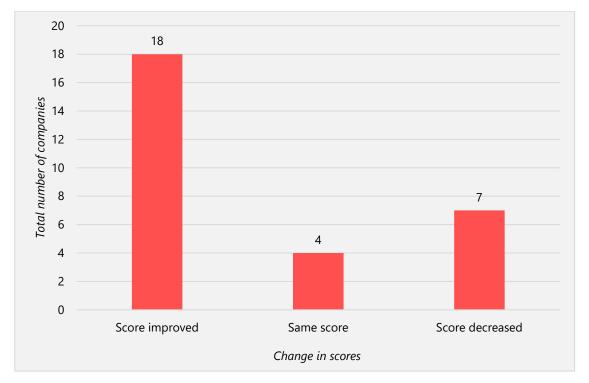
The companies assessed in the CHRB are <u>keystone companies</u> included in WBA's <u>SDG2000</u>, with consideration given to ensuring geographical and sector balance. The SDG2000 companies consist of publicly listed, privately held and state-owned enterprises and represent the companies with the greatest potential to transform systems and influence outcomes on the SDGs. They have both positive and negative impacts across seven systems that WBA measures and ranks their performance. One sector which the CHRB has identified as being uniquely exposed to potential human rights related risks is the automotive manufacturing sector.

There are significant human rights risks in the automotive industry throughout its operations and value chain. Workers in manufacturing facilities may experience occupational health and safety risks as well as restrictions in their freedom of association and collective bargaining rights. Moreover, the extraction, harvesting and processing of commodities used to manufacture vehicles such as cobalt, copper and lithium is associated with higher risks of forced labour, child labour and hazardous working conditions.ⁱ These issues are exacerbated by the fact that the supply chains are often located in countries or regions where often there is a weak implementation of regulations which protect workers. The business model of the industry includes expansive and global supply chains as companies source metals, minerals and other inputs from suppliers from all over the world in order to produce the estimated 30,000 parts that make up an average vehicle.ⁱⁱ These supply chains are extensive, with the average automotive company having around 250 Tier 1 suppliers alone.^{III} Across the entire value chain, it is estimated that automotive companies can have anywhere between 12,000 to 18,000 global suppliers.^{iv} This makes it more challenging to effectively identify and address human rights risks. Furthermore, as the industry shifts towards producing more electric vehicles, human rights issues are likely to persist, if not become more prominent for automotive companies, as they increasingly source minerals from conflict-affected and high-risk areas to meet this growing demand.^v Therefore, companies must uphold and implement policies and practices which align with global and international sustainability standards if the sector is to transition to more sustainable business models. To ensure companies are held accountable and their business practices align with the SDGs, benchmarking initiatives have a role to play in monitoring companies' progress.

WBA has measured the automotive industry across two iterations of the CHRB, first in <u>2020</u> and again in <u>2022</u>. Benchmark results over this period demonstrate that companies are actively improving their practices and reporting disclosure on human rights related topics. Since the first iteration, 57% (18 companies) of automotive companies have improved on their scores on core human rights indicators, despite changes to the methodology which raised the bar on what was considered sufficient and the reason 24% (7 companies) score decreased (Figure 2). A full analysis of the automotive industry's performance in the latest iteration of the CHRB can be found <u>here</u>.



FIGURE 2: BREAKDOWN OF SCORE CHANGES AMONG AUTOMOTIVE MANUFACTURING COMPANIES ON CORE HUMAN RIGHTS INDICATORS IN CHRB, 2020-2022



Between these iterations, more automotive manufacturing companies have engaged with WBA on the topic of human rights through the CHRB. In 2020, 8 of the 30 companies (27%) engaged with CHRB during the benchmarking cycle. In 2022, this had increased to 12 companies out of 29 (41%). There is a clear correlation between companies that chose not to engage in the benchmarking process and those that scored low overall, more specifically on Human Rights Due Diligence (HRDD) processes (measurement theme B2). Only one of the 16 companies that scored zero on HRDD engaged with the CHRB, while nine of the top ten companies engaged during the benchmarking cycle. These results highlight the importance of automotive manufacturing companies engaging with relevant stakeholders to ensure its business practices are aligned with the relevant guidelines on human rights. Moreover, increasingly in our engagement with companies and other stakeholders, we learn how the CHRB contributes to stronger human rights policies and practices in companies. For example, General Motors doubled its score in the 2022 CHRB. Following the implementation of several recommendations provided in the 2020 benchmark and their scorecard, the companies' rank changed from 8th to 2nd among automotive companies. During an interview, representatives from General Motors elaborated on how its assessment in the CHRB, particularly the scorecard which provided actionable steps for the company to take, helped the company to improve its human rights processes and practices. Some changes made by the company included strengthening its ethical sourcing programme, grievance and monitoring processes, and its supplier code of conduct.

While WBA has measured an improvement across some companies, particularly their work with suppliers, grievance mechanisms, due diligence systems and internal responsibility for human rights, the overall performance of the sector remains concerning. The average overall score of companies was 10.7/100 and there were 16 indicators in which over 90% of automotive companies scored zero in the 2022 iteration. In contrast, in the same iteration of the CHRB, the average score of Food and



Agriculture companies was 20/100 and the average score of ICT companies was 18.3/100. The results show the automotive manufacturing sector has a long way to go if it is to meet the expectations of the United Nations Guiding Principles (UNGP).^{vi}

Scope of the case study

This report aims to provide more insight into how the CHRB enables and influences a company to respond and actively address human rights related topics. Moreover, how changes in company behaviour impact the lives of stakeholders and what is the CHRB's added value for automotive manufacturing companies in improving their sustainable business practices. This will support companies with understanding how they can use WBA's results and insights to implement more sustainable business practices regarding human rights. The case studies also offer an opportunity to understand in greater depth how WBA can support companies with their sustainability journeys and where WBA can improve. WBA reached out to a group of automotive companies that demonstrated an improvement in their business practices, as measured both through the companies' benchmarking performance and from evidence shared by the companies when they engaged with WBA during the benchmarking cycle. This is despite the fact that the CHRB methodology underwent a review in 2021 resulting in stricter requirements for companies. This makes the resulting score change of the selected companies, <u>Nissan, Renault</u> and <u>Mahindra & Mahindra</u> even more impressive. The full ranking for the 2022 CHRB can be found <u>here</u>.

Companies	CHRB ranking, 2020 (/30)	CHRB total score, 2020 (/100)	CHRB ranking, 2022 ^{vii} (/29)	CHRB total score, 2022 (/100)	Score change since 2020
Renault	8 th	18.1	6 th	18.8	+0.7
Mahindra & Mahindra	19 th	6.7	10 th	12.6	+5.9
Nissan	18 th	8.3	12 th	10.5	+2.2

TABLE 1: CHANGE IN TOTAL SCORE AMONG SELECTED AUTOMOTIVE CASE STUDIES, 2020 - 2022

Beyond analysing the company's performance in the benchmark across different indicators, we conducted interviews with these three companies in July and August 2023. During the interviews companies provided context to the increases in scores and we zoomed in on the exact changes they implemented as a result of the benchmark and the rationale for these changes. The following section highlights how the companies have used the CHRB to improve practices and disclosure related to respect for human rights.



Key findings

This research is centred around the following research question: How has the CHRB contributed to the implementation of better practices and disclosure on respect for human rights by automotive manufacturing companies? Following our interviews with automotive manufacturing companies, we have identified three ways in which the benchmark has supported, contributed and incentivised companies.

Prompting companies to improve disclosures and practices

The CHRB has incentivised companies to improve their reporting disclosure on human rights related topics as well as to expand existing or initiate new activities related to human rights. Companies emphasised the granularity of the benchmark as being particularly helpful. The fact that the CHRB breaks down performance by indicator, explains why an indicator was not met and provides details on what and how the company can improve supports companies with actionable insights on how they can improve disclosure on human rights related issues. In addition, companies consider it an added value that WBA provides the opportunity to engage with companies both during and after the benchmarking process to discuss their scores in more detail and answer questions from companies. This feedback loop helps companies to understand where they can improve and supports them with implementing actionable initiatives on human rights topics. For example, Mahindra & Mahindra outlined how the exclusive focus of the CHRB on human rights has helped the company with integrating the "S" into their ESG reporting strategy. Moreover, Renault explained how despite the fatality rate being zero, the CHRB prompted them to disclose this data as they realised this was a key issue to communicate to their stakeholders.

"We have begun to publish on topics we did not publish before as a result of seeing our performance in the CHRB. For example, we now report on the fatality rate and while we have published for a few years already, we now publish more details about our whistle blowing and grievance mechanism systems."

– Renault

Beyond improving reporting disclosures, the benchmark has also prompted companies to improve relevant business practices. Both Nissan and Renault have implemented e-learning courses to train employees on human rights as a result of their assessment in the CHRB, which is a crucial step towards embedding human rights within a company. According to the company's 2022 sustainability report, Nissan's course has been completed by approximately 16,400 employees cumulatively.^{viii} While companies explained it remains too early to measure the outcomes of these initiatives, it demonstrates the potential longer-term effects of changes implemented following priorities highlighted in the CHRB methodology. Indeed, according to the Office of the United Nations High Commissioner for Human Rights (OHCHR), human rights training within companies is crucial to the realisation of human rights because it empowers rights holders and reinforces the capacity of duty



bearers for greater human rights protection, ensuring professionals can carry out their responsibilities in accordance with human rights standards.^{ix}

"I think the CHRB is a comprehensive rating focusing on human rights. No other rating agency or benchmarking initiative provides this kind of detail or comparability for companies."

– Nissan

In addition, Nissan responded that it has aligned its Global Mineral Policy with the <u>OECD Due</u> <u>Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk</u> <u>Areas</u> by referencing to the CHRB Methodology as one of criteria when creating the policy. Nissan also encourages its suppliers to implement the same principles in their own supply chains. This has the potential to impact the lives and conditions of workers in regions where human rights related issues are less enforced. As evidenced by this case, benchmarking initiatives can highlight key gaps in corporate policies to companies and offer actionable paths for improvement.

"We have reformulated our Global Mineral Policy so that it mirrors the OECD Due Diligence Guidance by referencing the CHRB methodology."

– Nissan

Companies also expressed that the comparability to other companies in the industry is an added value of the CHRB. In contrast to other environmental, social and governance assessments, like those done by ESG rating agencies, the CHRB transparently publishes the performance of all companies under scope which allows automotive companies to understand how they can improve using examples from industry peers. In particular, companies highlight that the level of detail in companies' scorecards allows them to understand both where they can improve but also what their peers are doing on the same topic. This shows what 'good' looks like and promotes learning among peer companies.

"We want to be able to compare ourselves against companies in the sector and the CHRB is a useful tool for doing this. We can understand how we compare to our peers but also how we can improve based on best practices of others."

- Mahindra & Mahindra

Aligning teams and internal accountabilities

Through interviews with automotive companies, we found that the CHRB has incentivised them to improve internal accountability and management structures related to human rights. While human



rights related matters were traditionally viewed as the responsibility of sustainability or corporate social responsibility (CSR) departments, companies shared that the CHRB has prompted them to assign internal accountabilities across different teams within the company to better integrate human rights management and disclosure throughout the company. This has contributed to increasing understanding of human rights across the organisation and how it may intersect with other issues such as including procurement, education and awareness among colleagues and communications.

"The benchmark has helped us to mobilise different teams across the organisation to integrate human rights into their work. For example, investors relations, human resources, the health and safety department and communications teams. The fact that it is treated as an external KPI is even better so teams have something to measure ourselves against."

– Renault

Nissan outlined how the CHRB has contributed to improved internal collaboration and accountability on human rights. Following its CHRB assessment, the company has established project teams and working groups on human rights and communication between different teams and senior management on human rights related issues has increased, including with teams who were previously not involved in these discussions. In addition, performance in the CHRB has now been integrated into the company's long-term incentive plan to ensure senior management compensation is aligned the company's CHRB performance. Moreover, Renault explained how following increasing questions from investors regarding social issues, collaboration between the investor relations department and ESG team has increased and that the CHRB provides a useful external verification of how the company is improving on different topics. This has also supported their work when communicating with NGOs on human rights related issues. These examples correspond with insights from earlier conversations with General Motors, who explained that the CHRB had helped them to coordinate their legal, human resources, supply chains and labour relations teams to build the business case for greater transparency on human rights related issues.^x

"We have integrated our performance in the benchmark into our long term incentive plan for top management. 5% of top management's bonus is based on our performance in the CHRB. Also, we have established a human rights working group which reports directly to senior management. The group exchanges opinions on human rights with external experts and confirms social trends and suggest the directions of the organisation with regard to our human rights related impacts."

– Nissan

Roadmap for regulation and compliance

A strength of the CHRB for automotive companies is that it supports them with aligning their business activities and sustainability disclosures with compliance and regulatory frameworks. Disclosure on human rights related processes and impacts are increasingly transitioning from voluntary to mandatory in national and international regulatory frameworks. For example, the European Union's Corporate Sustainability Reporting Directive (CSRD) includes mandatory reporting requirements on



human rights due diligence.^{xi} National governments are adopting similar legislation for companies operating within their jurisdiction, particularly to foster sustainable and responsible corporate behaviour throughout their global supply chains. In 2023, the German government's Supply Chain Due Diligence Act (LkSG) came into force and the Japanese government has recently published Guidelines on Respecting Human Rights in Responsible Supply Chains as part of its wider National Action Plan on Business and Human Rights (NAP) along with a commitment to develop legislation on HRDD.^{xii} Regulation is crucial to create a level playing field and mandate effective corporate respect for human rights to ensure that it is not a nice-to-have, but a must have for all companies.

"We can see an increasing move from non-binding frameworks towards compulsory disclosures, national laws and very soon European laws on human rights related disclosures. When you read the OECD guidelines for multinationals and the criteria for the CHRB, we note that the benchmark has been influenced by existing laws and guidelines and this helps us to understand what issues we should be communicating to stakeholders."

– Renault

As the CHRB is based on normative international standards such as the UNGPs and the OECD guidelines for MNEs, as well as on widely accepted reporting frameworks such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), its methodology and results provide companies with a roadmap to prepare for legislation. For example, Mahindra & Mahindra explained how the CHRB had supported them with preparing for the Indian Business Responsibility and Sustainability Report (BRSR) framework which came into effect in 2023, that is based on some of these frameworks. Through the alignment of its methodology with these frameworks, the CHRB helps ensuring companies' performance align with what increasing regulation demands of companies in different jurisdictions, and even helps them to stay ahead of the curve by going beyond what may be required at the regulatory level at the moment, but might be on the horizon.

"Increasingly there are regulations which exclusively focus on human rights...it's now becoming the must thing to do and it is slowly getting regularised and the compliance is definitely coming to India and benchmarking and ESG ratings are valuable to help us prepare."

- Mahindra & Mahindra

Across the interviews, it was clear that WBA's added value for automotive companies is to collate the multitude of reporting frameworks and guidelines into one place in a transparent and accessible format. This allows automotive companies to understand where their current disclosures and practices align with existing reporting frameworks but also what is missing. This provides actionable insights into where companies can improve and comply with the increasingly changing landscape regarding mandatory human rights related disclosures.



"Human rights due diligence and corporate accountability is required more strongly across different jurisdictions, and we are becoming more accustomed to disclosing more specifically and more openly on human rights related topics. The CHRB provides a framework for us to ensure that we are meeting these increasing requirements and beyond."

– Nissan



Conclusion

The case studies have highlighted the relevance of benchmarking initiatives in supporting automotive manufacturing with implementing more sustainable business models regarding human rights. In particular, the transparent comparability between companies and granularity as to why a score on an indicator is 'met' or 'not met' is a significant value for companies to align their reporting disclosure and business practices with international guidelines and regulations. In comparison to other organisations in the sustainability ecosystem, WBA's transparency of its processes, methodologies and assessments and the comparable performance between companies is a significant added value. Nonetheless, this research has also highlighted some limitations of benchmarking initiatives. There remains a gap between assessing companies' policies and practices and assessing the impacts of these improving policies and practices on workers, communities and the environment. Across the interviews, it became clear that the implementation of a policy and disclosure of human rights' related processes based on the guidance provided by benchmarking initiatives is the first step for companies. The next step is to develop monitoring mechanisms which keep track of changes on-the-ground performance, as noted by one company below.

"We are still calculating the impact of these policies and processes. In the coming years we will be able to communicate about the impact of their implementation."

– Mahindra & Mahindra

This corresponds with conversations WBA has with companies across the SDG2000 whereby it often takes multiple iterations of the benchmark to measure change on people, workers and communities. Indeed, the automotive manufacturing industry has only been assessed twice in the CHRB. During the interviews, all companies explained that they are still implementing changes based on CHRB's first iteration and that it takes time to get internal buy-in from different teams to better integrate sustainability into their practices and to ensure policies are implemented properly, particularly from senior management. Moreover, in the wider context, WBA as an organisation has only existed for five years and is still establishing itself to influence companies and their stakeholders to use WBA's data and methodologies in their work.

Despite this limitation, the results from the interviews are overall encouraging. The companies selected all highlighted that the CHRB contributed to improved business practices. The fact that human rights issues are increasingly becoming important for different departments within the companies is a key outcome. Whether this is considering human rights related performance of suppliers through the procurement team, implementing e-learning courses on human rights across the organisation or increased reporting on key topics and processes, these cases provide evidence of how benchmarking initiatives can influence companies to improve their performance on such issues. As further iterations of the CHRB are implemented, we are confident there will be more examples of



automotive manufacturing companies improving their business practices towards human rights based on the guidance provided by the benchmark and companies learning from one another.

Towards further company change

While the cases presented highlight improving corporate practices, the sector as a whole can improve significantly regarding its human rights related disclosure and business practices needed to achieve the SDGs. Moreover, it is in the interest of keystone companies to proactively protect human rights and be transparent about this due to external pressures, both from upcoming regulation and from their stakeholders who are increasingly challenging companies on human rights issues. Therefore, we hope the publication of this report can act as a guidance to support both automotive manufacturing companies and other sectors under scope in the CHRB with tangible examples of how they can use the CHRB to improve their business practices towards human rights. Furthermore, we encourage companies to follow the guidance set out in the CHRB methodology and engage with WBA, both during and after the benchmarking cycle. Through this engagement, companies can ensure that relevant information is reflected in their assessment and have the opportunity to better understand areas for improvement through peer learning events. By doing so, companies will be well positioned to meet the increasing demands of external stakeholders and implement improved business practices that raise the standards of human rights in their operations and their supply chain.

Lessons learned and next steps for WBA

The interviews with companies have also provided lessons for WBA on where we can improve to better support companies with improved business practices on human rights. Companies provided feedback that WBA should consider more positive messaging in the scorecards in order to get greater internal buy-in from senior management. While companies accepted the scores and appreciate the transparency of scoring rationales, they feel the current structure of WBA's scorecards does not highlight the positive changes made by companies, however minor, sufficiently. This makes it harder for company representatives to get internal buy-in from different teams to use WBA as an external verification tool. There is scope for WBA to highlight the process of change and the efforts and resources being invested into responding to the benchmark's request. While some of the processes may not result in a positive score immediately, its recognition is crucial to motivate the teams working on the responses. Therefore, the CHRB could consider scorecards which place more emphasis on areas where companies have showed improvements, or new initiatives, since the last iteration despite the overall score not changing significantly.

Companies also felt that there was an opportunity to provide more examples of leading practices from industry peers. While an <u>insights report</u> follows the benchmark which provides key findings on the sector as a whole, companies felt there was an opportunity for the CHRB to publish more materials which highlight specific best practices on different indicators. As an independent and neutral organisation, companies feel that WBA is well positioned to bring together companies to discuss challenges and share examples with one another of how they approach different topics. WBA already



has experience of this through its Communities of Practices (CoPs) but there is an opportunity to explore other platforms which could support companies to learn from the benchmark findings and from each other.



Acknowledgements

The World Benchmarking Alliance (WBA) is a non-profit organisation that develops free and publicly available benchmarks to hold 2,000 of the world's most influential companies accountable for their part in achieving the Sustainable Development Goals (SDGs). Our benchmarks are grounded in the seven transformations needed to put our society, planet and economy on a more sustainable and resilient path. At WBA, we are building a movement to measure and incentivise business impact towards a sustainable future that works for everyone. On that journey, we are learning and developing, to ensure we improve our work and our impact. At every step, we are proud to collaborate with Allies and strategic partners who continue to support and shape our work. This project is a great example of such collaboration, enabling us to learn more about the sustainability practices of automotive companies regarding human rights as well as the sector's many challenges. We will take these learnings with us in our work across the seven transformations and benchmarks. WBA would like to thank the automotive companies who participated in this project and provided the time for an interview to share their reflections. WBA would also like to thank our funders (see final section) who push us to raise our ambitions and dig deeper regarding our impact and influence.

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