



## CASE STUDY: How Do Canadian Retail Companies Measure Up?

### Valuing Decent Work

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# Introduction

The business case for adopting policies and practices that provide fair wages, promote workforce stability and value workers input and contributions is gaining traction among investors and business leaders. Good workplace practices can help companies attract stronger candidates and retain key employees leading to lower turnover and retraining costs. Robust training programs and workforce management practices can also improve employee productivity, operational efficiency, brand value and sales.

Additionally, growing evidence shows a positive correlation between workforce management practices and firm-level performance. One research report, conducted by the IRRC Institute and Harvard University, assessed 92 studies on human capital<sup>1</sup> management as it relates to corporate performance and found that the majority of these studies identified a positive correlation between companies' training and human resource policies and investment outcomes.<sup>1</sup> Another study, by Alex Edmans of the Wharton School of Business, found that companies listed in the '100 Best Companies to Work For in America' generated between 2.3% and 3.8% higher stock returns per year than comparable companies from 1984 to 2011.<sup>2</sup>

Employees play a particularly important role in the retail sector because they are customer facing and have a direct impact on customer satisfaction, operational performance and sales.<sup>3</sup> However, despite the contribution that employees make to retail performance, reporting from retail companies on their approach to labour practices and workforce management is weak and underdeveloped. Part of the reason for this is the belief that workers are a cost *to the business* as opposed to an investment *in the business*. Rather than being viewed as an asset to cultivate, workers are too often viewed as a cost to be minimized leading to resistance from management and some shareholders to invest in better quality work.<sup>4</sup>

All investors have an important role in changing this narrative by seeking better information from companies on their approach to workplace practices and management.

“Companies listed in the '100 Best Companies to Work For in America' generated between 2.3% and 3.8% higher stock returns per year than comparable companies from 1984 to 2011.”

## Valuing decent work in Canada's retail sector

### CANADIAN RETAIL SECTOR FACTS<sup>5</sup>

- 1.9 million people work in the retail sector in Canada
- 17.4% of retail employees are paid a minimum wage
- The average hourly wage for grocery store employees is \$14

<sup>1</sup> The OECD defines human capital as the knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being.

This report examines what Canadian retail companies publicly disclose about their workplace policies and practices.

SHARE reviewed relevant disclosures from five Canadian and seven global retail companies<sup>ii</sup> on ten dimensions of decent work. We selected the retail sector because it has more employees than any other industrial sector in Canada, approximately two million people.<sup>6</sup> At the same time, the retail sector often employs young, entry-level and part-time workers who may be at risk of having their rights violated and subjected to precarious employment practices.

For example, employment standards inspections conducted by the Ontario provincial government in 2013 in the retail sector<sup>7</sup> found that approximately 80% of the employers inspected had violations of the Employment Standards Act.<sup>8</sup> The most common violations found were related to unpaid holiday pay, excess work hours and irregularities in vacation pay. Although these are still common, some global retail companies are starting to take significantly different approaches to workforce management and are implementing decent work strategies, which provide a positive example for Canadian companies to emulate (See Box 1).

“ Employment standards inspections...found that approximately 80% of the retail sector employers inspected in Ontario had violations.”

The seven global retail sector companies were selected based on their size (among the top five largest retailers in their respective markets by sales) and their similarity in terms of products and business models to the Canadian companies that we analyzed.

Our review of the public disclosures of twelve retail companies looked at ten key metric categories (see Appendix 1 for the specific indicators within each category and scoring methodology). These categories were identified based on the International Labour Organization's (ILO) definition of decent work and our review of efforts by other investors,<sup>9</sup> reporting standards initiatives<sup>10</sup> and other stakeholders,<sup>11</sup> particularly the efforts of the Committee on Workers Capital's Taskforce on Sustainability Ratings, which seeks to improve the level and quality of disclosures related to social indicators that are factored into investment decision-making.<sup>12</sup> Based on these sources, we identified the following ten key categories of metrics:

1. **Remuneration:** Does the company disclose information about its approach to remuneration, vertical pay metrics and or data on its wage structure such as the percentage of employees earning a minimum wage?
2. **Benefits and Shared Success:** Does the company disclose information on its benefits to different employment categories, retirement savings contributions and share ownership schemes, profit sharing plans or other bonus systems?
3. **Labour Relations and Workers Rights:** Does the company provide information about labour relations, its acknowledgement of the right to freedom of association as well as its approach to addressing grievances?
4. **Occupational Health and Safety (OHS):** Does the company provide information on its approach to OHS including meaningful OHS metrics and details of its OHS management system?

<sup>ii</sup> Canadian companies included: Alimentation Couche-Tard Inc., Canadian Tire Corporation, Empire Company Limited, Loblaw Companies and Metro Inc. Global retail companies included: Carrefour, Costco, Home Depot, Marks & Spencer, Tesco, Mercadona and Walmart.

5. **Worker Participation:** Does the company make public how it encourages worker participation in the company's processes and decision-making structures and how the company seeks feedback from employees?
6. **Human Capital Key Performance Indicators:** Does the company provide information on how it measures workers' contributions to the company's success, levels of worker engagement as well as information on whether Named Executive Officers (NEO) compensation includes workforce related criteria?
7. **Training and Development:** Does the company provide details on its approach to training and development including skills training and lifelong learning including specific metrics for all employee categories?
8. **Workforce Stability:** Does the company provide information regarding workforce stability, such as metrics related to turnover, promotions made internally as well as information on the company's approach to scheduling?
9. **Workforce Composition:** Does the company disclose data on the number of part time, full-time, casual and seasonal workers and the extent to which the company uses temporary agencies, franchisees and independent contractors?
10. **Diversity and Equality:** Does the company provide information on a workplace diversity policy along with metrics related to participation of women, visible minorities, Aboriginal peoples and people with disabilities among its workforce?

Together, these categories serve as a useful starting point for investors wanting to understand a company's approach to its workforce. These categories also reflect the five key dimensions of a corporate decent work strategy identified by SHARE: 1) Fair Income; 2) Workers Rights; 3) Workers' Contribution; 4) Workers' Growth and Development; and 5) Inclusive and Stable Work Environments (See Appendix 2 for more information on these 5 Dimensions of a Corporate Decent Work Strategy). The report identifies whether each company discloses information on each topic, but does not assess the quality of each company's approach in terms of decent work outcomes or benefits to workers.

### Box 1: Valuing Workers' Input and Contributions in the Retail Sector

In her book, *The Good Jobs Strategy*, Zeynep Ton shares her experience observing a group of highly successful retail companies including the Spanish food retail chain Mercadona. In the face of growing competition from large international retailers in the 1990s, Mercadona's CEO set out to "not only generate profits but also take care of customers and employees and demonstrate that if you give opportunities and training to people, you get real leaders."

A key aspect of the company's new strategy was to invest in its employees. The company started paying higher salaries than its competitors, provided more stable work schedules, more training, more benefits and more opportunities for advancement. The company also gave its employees the resources they needed to be able to do their jobs well, empowered them to make decisions and expected them to identify opportunities to improve processes and customer service. In her analysis, Ton finds that Mercadona's strategy has generated excellent financial results, including higher sales per square foot and better labour productivity than its competitors.

Mercadona was the only company we analyzed that provided disclosure in all ten metric areas, including information on its approach to remuneration. Additionally, Mercadona was the only company to report human capital key performance indicators (KPIs), which measure the contribution that employees are making to corporate performance. On its website, the company provides information on the change in productivity year over year as measured by monthly sales per employee.

For more detail on Mercadona's model see Zeynep Ton, *The Good Jobs Strategy: How the Smartest Companies Invest in Employees to Lower Costs and Boost Profits*, Lake Union Publishing, Seattle, 2014.

## Highlights of findings

COMPANIES		CATEGORY
GLOBAL	CANADIAN	
14%	0%	<b>REMUNERATION</b> Only one company out of the twelve analyzed provided information about its approach to remuneration. In its Annual Report, Mercadona provides information on the starting salary that its workers receive per month, the basis of wage rate increases, the value of profit sharing among its employees and the percentage of employees that benefit from performance bonuses.
100%	80%	<b>WORKFORCE COMPOSITION</b> 100% of global retail companies and 80% of Canadian retail companies provided disclosure about their workforce composition. 57% of the global companies and 20% of Canadian companies provided moderate disclosure. <sup>iii</sup> However, companies need to go beyond providing total employment numbers in order to provide investors and other stakeholders with a clear picture of the structure of their workforce.
57%	20%	<b>WORKER PARTICIPATION</b> Only one Canadian company of five provided information about its efforts to encourage worker participation in the company's processes and decision-making structures. All of the European retail companies provided information in this area and 50% provided either extensive or moderate disclosure on their efforts to achieve greater worker participation in company decision-making.
71%	0%	<b>WORKFORCE STABILITY</b> No Canadian company provided data on workforce stability such as turnover rates, approaches to scheduling and internal promotions. Five of the seven global companies provided either basic or moderate disclosure in this area.
14%	0%	<b>HUMAN CAPITAL KEY PERFORMANCE INDICATORS</b> No Canadian companies disclosed data on the contribution of their workers to business performance or the costs associated with turnover and absenteeism. In fact, only one company, Mercadona, provided data on sales per employee.

<sup>iii</sup> The Scoring Methodology is explained in Appendix 1. Each metric category has 3 indicators. Companies that reported on all 3 were scored as having "EXTENSIVE" disclosure. Companies that reported on 2 out of 3 indicators were scored as having "MODERATE" disclosure. Companies that reported on 1 out of 3 indicators had "BASIC" disclosure.



## Complete findings

	TESCO (UK)	MARKS & SPENCER (UK)	MERCADONA (SP)	CARREFOUR (FR)	COSTCO (US)	WALMART (US)	HOME DEPOT (US)	LOBLAW (CAN)	METRO (CAN)	EMPIRE (CAN)	ALIMENTATION COUCHE-TARD (CAN)	CANADIAN TIRE (CAN)
Remuneration	No Disclosure	No Disclosure	Basic Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure
Benefits & Shared Success	Moderate Disclosure	No Disclosure	Basic Disclosure	Basic Disclosure	Moderate Disclosure	No Disclosure	Basic Disclosure	Basic Disclosure	Basic Disclosure	Basic Disclosure	No Disclosure	Basic Disclosure
Workforce Composition	Basic Disclosure	Basic Disclosure	Moderate Disclosure	Moderate Disclosure	Moderate Disclosure	Basic Disclosure	Moderate Disclosure	No Disclosure	Basic Disclosure	Basic Disclosure	Basic Disclosure	Moderate Disclosure
Worker Participation	Basic Disclosure	Extensive Disclosure	Basic Disclosure	Moderate Disclosure	No Disclosure	No Disclosure	No Disclosure	Basic Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure
Workforce Stability	Basic Disclosure	Basic Disclosure	Moderate Disclosure	Moderate Disclosure	No Disclosure	Basic Disclosure	Basic Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure
Diversity & Equality	Moderate Disclosure	Extensive Disclosure	Moderate Disclosure	Moderate Disclosure	Basic Disclosure	Moderate Disclosure	Basic Disclosure	No Disclosure	Basic Disclosure	Basic Disclosure	No Disclosure	No Disclosure
Training & Development	Basic Disclosure	Basic Disclosure	Basic Disclosure	Moderate Disclosure	No Disclosure	Moderate Disclosure	Basic Disclosure	No Disclosure	Basic Disclosure	No Disclosure	Basic Disclosure	No Disclosure
Occupational Health & Safety	Moderate Disclosure	Basic Disclosure	Basic Disclosure	Moderate Disclosure	No Disclosure	No Disclosure	Basic Disclosure	Basic Disclosure	Basic Disclosure	No Disclosure	No Disclosure	No Disclosure
Labour Relations & Workers Rights	No Disclosure	Moderate Disclosure	Basic Disclosure	Basic Disclosure	Basic Disclosure	No Disclosure	No Disclosure	Basic Disclosure	Basic Disclosure	Basic Disclosure	No Disclosure	Basic Disclosure
Human Capital KPIs	No Disclosure	No Disclosure	Basic Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure	No Disclosure

### KEY



No Disclosure



Basic Disclosure



Moderate Disclosure



Extensive Disclosure

## Conclusion and recommendations

“Canadian companies lag their global peers in the disclosure of key workforce metrics.”

The business case for fair wages, protecting workers' rights, workforce stability, training and development, and worker engagement is sufficiently compelling to warrant investor requests for better reporting in these areas.

However, Canadian retail companies lag their global peers in the disclosure of key workforce metrics such as their approaches to remuneration and wages, their strategies for achieving workforce stability and their efforts in measuring and understanding how their workers are impacting business performance and contributing value. Canadian retail companies need to provide investors with better quality information on how they are managing and protecting this fundamental asset – their workers.

Based on these findings, institutional investors have a significant opportunity to enhance their ability to integrate ESG factors into the selection and stewardship of investee companies by seeking greatly enhanced reporting by Canadian retail companies on labour practices and workforce management.



As a first step, SHARE is seeking feedback from key stakeholders on the ten workforce-related performance metrics used in this analysis. SHARE is also exploring opportunities for investor collaboration in Canada and internationally to secure better workforce reporting from companies.



## APPENDIX 1:

# Metric categories and scoring method

### Scoring methodology:

-  Extensive: Company reported on 3 out of 3 indicators in category
-  Moderate: Company reported on 2 out of 3 indicators in category
-  Basic: Company reported on 1 out of 3 indicators in category
-  No Disclosure: Company did not provide any disclosure in category

#### Category 1: REMUNERATION

Does the company disclose any vertical pay metrics comparing executive pay with the pay of average workers?

Does the company disclose information about its approach to remuneration for all of its employees such as whether it has a living wage policy?

Does the company disclose information on its wage structure such as the percentage of employees earning a minimum wage, the percentage earning \$15 per hour or less and/or the median compensation level?

#### Category 2: BENEFITS AND OPPORTUNITIES FOR SHARED SUCCESS

Does the company disclose information on the differences in benefits provided to full-time employees that are not provided to part-time, franchise, temporary, or independent contract workers?

Does the company provide details of its retirement savings contributions to, for example, a company or industry pension fund for its employees including whether the contribution levels are the same for all employees and whether it is a defined benefit or defined contribution plan?

Does the company disclose information about employee shareownership schemes, profit sharing plans and/or other bonus systems?

#### Category 3: WORKFORCE COMPOSITION

Does the company disclose the number of employees that it employs directly?

Does the company provide information on its workforce including how many of its employees are full-time, part-time, casual, or seasonal?

Does the company provide data on the number of workers employed through temporary agencies, franchisees and/or independent contractors?

#### Category 4: WORKER PARTICIPATION

Does the company promote or encourage worker participation through worker representation on the board, committees or through other mechanisms?

Does the company provide information on how it seeks input on a regular basis from its workers on company initiatives, through for example employee satisfaction or engagement surveys?

Does the company report on changes made to policies or practices as a result of worker input/employee engagement?

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#### Category 5: STABILITY OF WORKFORCE

Does the company provide data on the rate of workforce turnover (voluntary and involuntary) by type of employment (full-time, part-time and contract employees) in relation to the industry average?

Does the company disclose the percentage of promotions that were made internally?

Does the company provide information on its approach to scheduling such as a policy related to providing its employees with sufficient notice of shifts, consistency of shifts and time off between shifts?

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#### Category 6: DIVERSITY & EQUALITY

Does the company have a policy on workplace diversity?

Does the company provide information on what percent of the overall workforce and/or senior management are women? Visible minorities? Aboriginal? People with disabilities?

Does the company report on what percent of promotions were given to women, Aboriginal, visible minorities and people with disabilities?

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#### Category 7: TRAINING & DEVELOPMENT

Does the company provide details on its approach to training and development including the type and scope of programs offered by the company for skills training and lifelong learning?

Does the company disclose metrics on the number of employees that participated in lifelong learning programs?

Does the company disclose metrics on its investment in training and development such as the number of training hours company provided by employment group (i.e. management versus general employees)?

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#### Category 8: OCCUPATIONAL HEALTH & SAFETY

Does the company provide information on its approach to occupational health and safety including an overview of its policy or management system?

Does the company disclose meaningful OHS metrics such as the types of injuries, occupational diseases, lost days, near misses, total number of work-related fatalities, accident severity rate and the overall injury and illness rate?

Does the company report on important aspects of its OHS management system such as the average number of hours of OHS training per employee, whether workers are elected to join management-worker health and safety committees, as well as the rates of injury and illness for temporary and contract workers?

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#### Category 9: LABOUR RELATIONS AND WORKERS' RIGHTS

Does the company provide meaningful information about labour relations including the percentage of the workforce covered by collective bargaining agreements, whether there have been any strikes in the company's operations, active lockouts or pending litigation brought forward by employees and how these have been resolved?

Does the company formally recognize the right to freedom of association and collective bargaining?

Does the company provide a confidential and secure means of raising grievances, complaints or workplace issues with the employer?

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#### Category 10: HUMAN CAPITAL KPIs

Does the company disclose information on its absenteeism and turnover rates and the costs associated with turnover and absenteeism?

Does the company provide information on how it is measuring productivity and/or the contribution of workers with metrics such as the investment ratio for employees, sales revenue per employee, profit per employee or value added per employee?

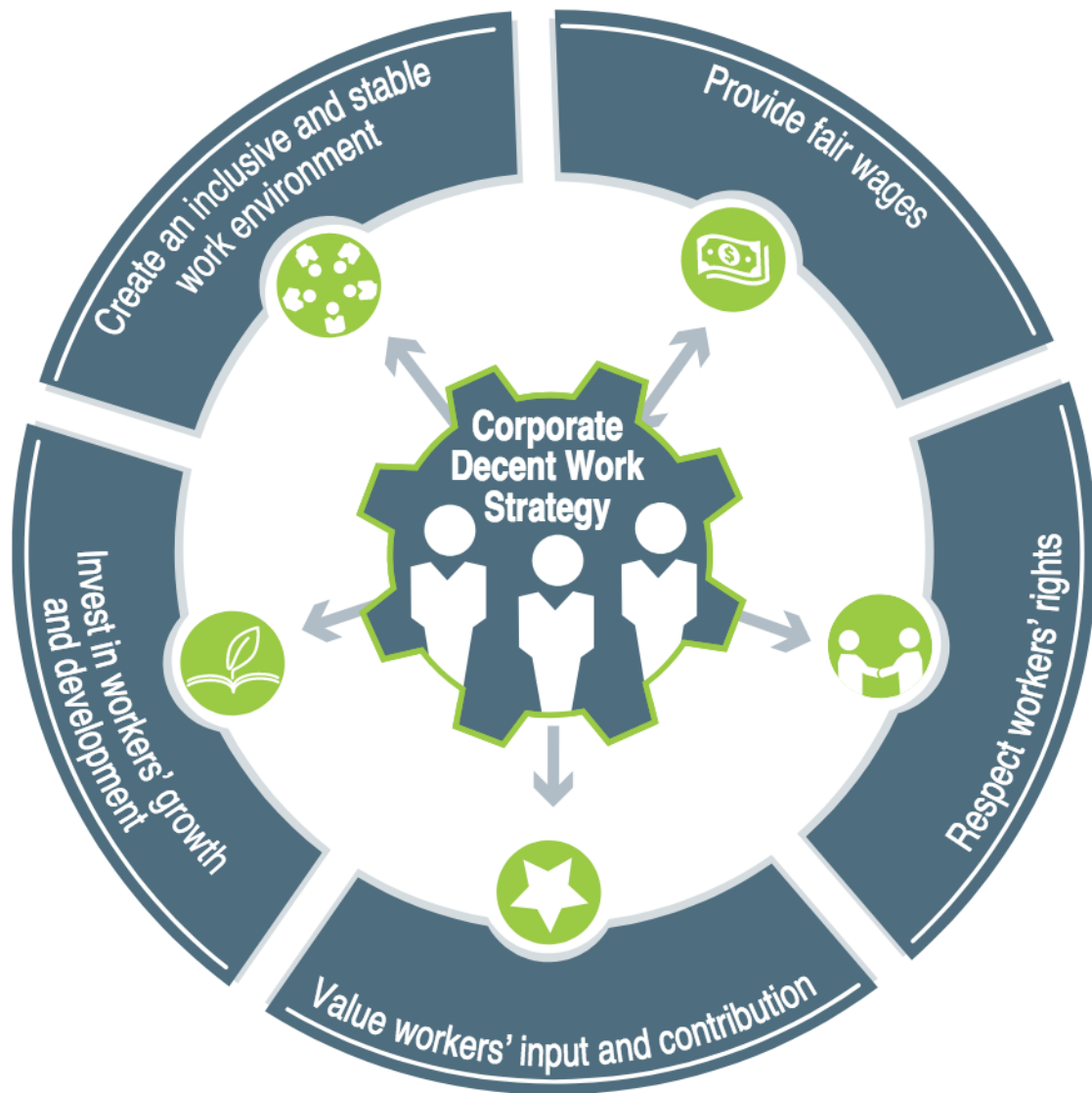
Does the company provide information on whether any Named Executive Officers' (NEOs) compensation is based on criteria related to workforce engagement, stability, development or safety?

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## APPENDIX 2:

# Five dimensions of a corporate decent work strategy



## Provide fair wages

Companies that pursue a decent work strategy seek to compensate workers in a way that will encourage retention, workforce stability and employee satisfaction. They are also testing ways to ensure that all workers can share in the company's success, including through employee stock ownership plans (ESOPs) and other profit sharing programs.

## Respect workers' rights

Respecting workers' rights, including the freedom to associate and bargain collectively are an important part of a company's decent work strategy and for ensuring effective communication and trust between workers and management. Companies that respect workers' rights benefit from healthy employer-worker relations, better worker retention, safer workplaces, fewer work stoppages and strikes and more effective resolution of grievances.

## Value workers' input and contribution

Decent work is not only about fair wages and benefits but also about workers being given opportunities to contribute their ideas, take pride in their work, understand their role in the company's overall success and be recognized for their contributions. Companies pursuing a decent work strategy seek to incorporate worker voices on an on-going basis in business decisions and are also taking steps to measure the contribution that workers are making to company performance.

## Invest in worker's growth and development

Investing in workers' growth and development starts with providing employee training to ensure workers are well equipped and able to increase their contribution to the company. Leading companies are going further and looking at ways to support their workers in broader educational endeavours including accessing university degrees. These efforts can help position companies as employers of choice, decrease turnover, and ultimately improve productivity and financial performance.

## Create a positive, inclusive and stable work environment

Companies pursuing a decent work strategy seek to create positive, inclusive and stable workplaces for all of their employees. These companies recognize that stability helps to reduce stress in the workplace and among workers, creating an environment where people can focus on and make real contributions to their jobs.

## Endnotes

- <sup>1</sup> A. Bernstein and L. Beeferman, The Materiality of human capital to corporate financial performance, (2015) IRR Institute and the Harvard Labor and Worklife Program, accessed at: <http://irrinstitute.org/wp-content/uploads/2015/09/FINAL-Human-Capital-Materiality-April-23-20151.pdf>.
- <sup>2</sup> A. Edmans, Does the stock market fully value intangibles? Employee satisfaction and equity prices, (2011) Journal of Financial Economics, accessed at: <http://faculty.london.edu/aedmans/Rowe.pdf>.
- <sup>3</sup> For example, Union Investment Management increases its market estimates of sales growth by 100 basis points per year for companies that perform well in terms of employee satisfaction. See PRI, A Practical Guide to ESG Integration for Equity Investing, available at: <https://www.unpri.org/news/pri-launches-esg-integration-guide-for-equity-investors>.
- <sup>4</sup> Valuing Your Talent, Managing the Value of your Talent, (2014) available at: <http://www.cipd.co.uk/binaries/6636%20VyT%20Exec%20summ%20WEB.pdf>.
- <sup>5</sup> Statistics Canada, The Ups and Downs of Minimum Wage, (July 2014) available from: <http://www.statcan.gc.ca/pub/75-006-x/2014001/article/14035-eng.pdf> and Industry Canada Data, available from: <https://www.ic.gc.ca/app/scr/sbms/sbb/cis/salaries.html?code=4451&lang=eng>.
- <sup>6</sup> Stats Canada, CANSIM, Table 281-0024, Employment, Payroll Employment, by Industry (Retail trade), available from: <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/lab71g-eng.htm>.
- <sup>7</sup> Inspections were conducted in retail services business such as gas stations, convenience stores, grocery stores, outlet stores and stores located in shopping and strip malls. The results of the inspections provided on the Ontario Provincial Government website do not indicate which companies had violations.
- <sup>8</sup> [https://www.labour.gov.on.ca/english/es/inspections/blitzresults\\_rs.php](https://www.labour.gov.on.ca/english/es/inspections/blitzresults_rs.php).
- <sup>9</sup> For example, Pensions and Lifetime Savings Association, Understanding the Worth of the Workforce: A Stewardship Toolkit for Pension Funds; Principles for Responsible Investment, An Investor Guide to Engaging Retailers on Employee Relations; SASB, Food Retailers and Distributors Research Brief.
- <sup>10</sup> Global Reporting Initiative, G4 Sustainability Reporting Guidelines; Sustainability Accounting Standards Board, Food Retailers & Distributors Sustainability Accounting Standard.
- <sup>11</sup> Mowat NFP, Change Work: Valuing Decent Work in the Not-For-Profit Sector, (2015) available at: [http://theonnc.ca/wp-content/uploads/2015/11/Report\\_Changework\\_ONN-Mowat-TNC\\_Atkinson\\_2015-11-25.pdf](http://theonnc.ca/wp-content/uploads/2015/11/Report_Changework_ONN-Mowat-TNC_Atkinson_2015-11-25.pdf).
- <sup>12</sup> For more information, see <http://workerscapital.org/taskforce-on-sustainability-ratings>.





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