

## NSF 391.1 Economic Task Group Table of Contents

### Notes from the Chair:

As we develop both the content area categories (i.e. community investments) and the specific KPIs, the group should consider our rationale for including these elements in a standard used to evaluate a professional services' vendor. Is it our task to INFLUENCE conduct (which would be the case, for example, if we recommend guidelines with respect to CEO:employee compensation ratios which arguably have little to do with impacting the quality of the service) or to ESTABLISH A COMMON SET OF GATEKEEPING METRICS by which a procurement officer can make a buying decision? Representatives from the sector assert that the standard should be directly tied to disclosures and transparency around the economic factors tied to ESG.

### Economic Categories

The economic dimension of sustainability reporting concerns the organization's impacts on the economic conditions of its stakeholders and on economic systems at local, national and global levels. GRS's Economic indicators illustrate:

- Flow of capital among different stakeholders; and
- Main economic impacts of the organization throughout society

### GRI names three categories:

1. Economic
2. Market
3. Indirect

### PSSR members suggest NSF follows industry practice and uses the ESG nomenclature

### Comment Indicator

LH1 – Comments from Harry Lewis

Z9 – Comments by Zachary Lerner

A2- Comments by Aleen Bayard

SS4 and KF5 - Comments by Sam Shiroff

**Comment [LH1]:** This definition suggests (rightly) that this 'economic' category of sustainability relates to conditions pertaining to the organization's stakeholders, rather than the financial or "profitability" condition of the organization itself. In a broader sense, this aspect of the standard, as with the other aspects, is outward facing, pertaining to stakeholders – not inward toward itself. This is consistent with purchasers being the intended audience – reflecting a greater concern they have for the impact of service organizations on 'consequential', or involuntary, stakeholders and natural systems. This contrasts with other sustainability standards focused on informing the investor class, where financial performance (profitability) of an organization is very much an issue of principle concern. This latter standard category is well populated by standards such as the DJSI, and a range of others within that space.

The following taxonomy comes from GRI, SPLC & GSA audit of all major standards' organizations.

Grouping	Indicators	Prerequisite or points earned	Captured on the NSF 391.1 Criteria Hotspots Crosswalk
Philanthropy	Dollars invested by the company (actual or % basis)		No
Community Investment	Invest 1% of more of net income Or, X% of billable hours		Yes. Row 142. Economic/Community Financial Investment
Community Investment List categories of investment: -education -food and nutrition -housing -access to justice	Quantify impacts from Community Investment		Yes. Row 142 Economic/Community Financial Investment
Documented Compensation Assessment every 3 years			Yes. Row 147 Economic/Wage Assessment
Profitability	Do we want to include profitability as a metric?		Yes. Row 143 Economic/Profitability
R&D/Innovation investment	\$ or % or growth in investments leading to sustainability innovation		Yes. Row 145. Economic/R&D
Equitable compensation,	What KPIs do we think		Yes. Management Row

**Comment [A2]:** NOTE FROM ZACH LERNER: It's worth reviewing the entries into Management (16) and Economic (9) sections of the Criteria Hotspot Crosswalk. Most of what's above is covered by Economic section and includes some guidance for scoring. Perhaps it would be a good exercise to prioritize the listed measures to get a sense of what should be a pre-requisite and what should be scored. Comments by Aleen B and Zach.

**Comment [Z3]:** Dollars invested by who (which stakeholder group) and in what? Should the philanthropy be related somehow to the work being done? Can carbon offsets for travel be considered philanthropy?

**Comment [LH4]:** What is the sustainability ethic here? Are we trying to determine some adequate wage scale being applied, or executive compensation ratio? If so, I would identify these objectives clearly with recognized benchmarks from which an organization might be measured and rated. "Compensation Assessment" alone seems ambiguous.

**Comment [Z5]:** Only so far as profitability is tied to net income investment (listed above)

**Comment [KF6]:** No. Sustainability metrics should be outward-facing. Comments by Sam S.

**Comment [LH7]:** R&D or "innovation" is good, provided it is oriented toward outward-facing sustainability goals. Example: developing/implementing operational strategies for reducing energy needs (and consequent GHG emissions). This should not be measured in \$ invested, however, as merely throwing money at a problem does not necessarily correlate with the measure of an adequate solution. Innovation should be measured by how well it works.

employee stock options, employee ownership, etc.	will fly? Top Bottom Compensation or Limit on Bonus or ratio compensation ratio CEO to others?		148. Economic /Equitable Compensation.
Management Incentives	% of bonus eligibility for sustainable results		Yes. Row 5 Management/Governance
Reporting & Transparency	Verified/audited reports IR		No
Sustainability Investment Strategy	Divestiture policies & sustainable investment track record	Pre-req	Yes. Row 149 Economic/Sustainable Investments
Governance	Supplier Codes of Conduct Debt bonded		
Governance	Business Codes of Conduct & Ethics		Yes. Row 86 Social/Ethics and Integrity
Governance	Ethics training \$ invested or \$ invested per person		Yes. Row 85 Social Ethics and Integrity

**Comment [LH8]:** Related to “compensation assessment” above, this is a subject where we are trying to determine the fairness of the compensation ratios, and the degree of company ownership/determination employees enjoy. Suggest breaking this down into these additional things, and determine minimal acceptable measures for fairness.

**Comment [Z9]:** Ratio between CEO and median employee compensation is my vote, however, this should avoid just comparing base salaries, instead comparing total compensation. This would avoid a mass of compensation being held in stock options

**Comment [LH10]:** Unclear. Does this refer to providing bonus incentives to employees to innovate toward improved sustainability performance? If so, please make clear. Also, would it be possible to tie this to some minimal performance measures of improvement in specific sustainability categories? Where is the empirical connection between providing an incentive benefit to employees and a demonstrable outcome? Incentives alone, without demonstrable proof of actual improvement in some intended category, lacks meaning.

**Comment [LH11]:** Not sure how this is intended to work.

**Comment [LH12]:** Suggest this be a pre-requisite. Also, recommend identifying what, specifically, would be reported. If the intention is to specify reporting under certain provisions of, e.g., the GRI, then I would suggest cherry-picking which specific provisions of the GRI, and referencing them here.

**Comment [SS13]:** Do we need to be more specific about what type of reports?

**Comment [KF14]:** Clearly only if applicable. Comments by Sam S.

**Comment [LH15]:** Determine some metric for this, and use in the point section.

**Comment [LH16]:** This is an important thing, if meaningfully drafted and made part of the supplier contract. There are great examples of Codes of Conduct which we misg...

**Comment [SS17]:** Does this also include % of employees trained? I think it should

**Comment [LH18]:** Money invested is a poor metric, often with no empiric relation to demonstrable outcome.

Supply chain	% of purchases from MBE,WBE or green suppliers		Yes. Row 36 Environment/Supply Chain
Business continuity	From protecting the customer to protecting the employees		
Data privacy			
EWaste policies	R2, EStewards - certified		
Carbon pricing			

**Comment [LH19]:** Referral to Integration Committee.

**Comment [SS20]:** Should we include some measure of audits conducted in Tier 1 suppliers?

**Comment [SS21]:** Not sure what this means. We will need to be more explicit.

**Comment [SS22]:** This is important and should be here, but we will need to determine exactly what is expected here. Is it merely having a policy? Is it a lack of breaches? Some research on best practice is needed.

**Comment [SS23]:** I like this, but can we make it flexible enough to also include a commitment to renewable energy? Some companies might offset or even have PPAs, but not actually set an internal carbon price.

**Comment [LH24]:** Clients are not 'Consequential' stakeholders, since they have chosen to engage the services of the organization, and have their own well-defined set of requirements and measures for acceptable performance. To a large extent, this standard is directed to clients (aka "purchasers") as the audience taking the information derived through the standard and making informed purchasing decisions based on sustainability principles. To that extent, they are stakeholders, but not the kind I think is envisioned here. Clients are outside the picture looking in – not a part of the picture.

**Comment [LH25]:** Business partners, like clients/purchasers, are not consequential stakeholders since they have chosen to engage in business with the service provider organization. The role supply chain partners play is one in which their activities/operations are added in and therefore magnify the sustainability impact of the service provider organization. The duty they owe the service provider is to minimize the organization's risk/sustainability footprint. The dynamic does not go the other way around such that the service provider organization would have a sustainability duty to the supplier/business partner for purposes of this standard.

**Comment [LH26]:** Investors have an interest in the performance of the service provider organization, but not from the perspective of whether or not to purchase from them. Investors are interested primarily in the financial performance of the organization, and whether there might be any sustainability aspects which might present a ...

## Stakeholders

Stakeholder Group	Definitely include	Need to Discuss	Definitely do not include
Internal employees	Yes – H.L.		
Clients			No -H.L.
Supply chain partners			No -H.L.
Investors			No -H.L.
Communities within the locale where the firm does business	Yes – H.L.		
Communities where the firm makes an impact	Yes – H.L.		

<b>Sustainability Governance Organizations</b>			
<b>Regulatory Agencies</b>			
<b>Other – please fill in</b>			

**If you can suggest individuals or organizations (particularly from labor, NGO or communities) that we can approach for comment, please share contact information here:**

