

MANAGING THE “S” IN ESG: HOW ASSET MANAGERS DISCLOSE AND CONSIDER HUMAN RIGHTS

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ABSTRACT

Objective: The purpose of the research was to evaluate the commitment and due diligence measures directed at human rights in a sample of the largest international and European asset management companies, under OECD guidelines.

Theoretical Framework: According to the OECD, companies can impact most internationally recognised human rights. However, there is a lack of studies that directly assess the human rights due diligence in investment companies.

Method: A documentary and qualitative analysis of 45 investment companies was applied. Five key performance indicators were created to measure human rights commitment and due diligence practices such as disclosure of human rights policies, cascading of compliance/obligations to investees, due diligence before and during the investment and collaboration with industry and non-industry initiatives. All companies were classified and rated according to these criteria.

Results and Discussion: This research reveals that there is a dichotomy between recommendations of human rights integration in investment and actual commitment and compliance, indicating that only a minority of companies were compliant and committed to considering human rights in their investment.

Research Implications: The results provide an initial benchmark of the state of the commitment towards human rights in the investment sector, allowing for further investigations to be conducted to assess the development of this dimension of ESG and CSR, particularly in this sector

Originality/Value: The analysis consisted of accessing and evaluating the public information of the larger investment firms from an individual investor perspective, which provides an innovative view of human rights awareness and compliance in the investment sector.

Keywords: ESG, CSR, human rights, investment, due diligence, compliance.

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GERIR O “S” DE ESG: COMO OS GESTORES DE ACTIVOS DIVULGAM E CONSIDERAM OS DIREITOS HUMANOS

RESUMO

Objetivo: O objetivo da investigação foi avaliar o compromisso e as medidas de due diligence dirigidas aos direitos humanos numa amostra das maiores empresas internacionais e europeias de gestão de activos, segundo as diretrizes da OCDE.

Referencial Teórico: De acordo com a OCDE, as empresas podem ter impacto na maioria dos direitos humanos reconhecidos internacionalmente. No entanto, há falta de estudos que avaliem diretamente a diligência devida em matéria de direitos humanos nas empresas de investimento.

Método: Foi efectuada uma análise documental e qualitativa de 45 empresas de investimento. Foram criados cinco indicadores-chave de desempenho para medir o empenhamento em matéria de direitos humanos e as práticas de diligência devida, tais como a divulgação de políticas de direitos humanos, a transmissão em cascata da conformidade/obrigações às empresas participadas, a diligência devida antes e durante o investimento e a colaboração com iniciativas sectoriais e não sectoriais. Todas as empresas foram classificadas e avaliadas de acordo com estes critérios.

Resultados e Discussão: Esta investigação revela que existe uma dicotomia entre as recomendações de integração dos direitos humanos no investimento e o empenhamento e cumprimento efectivos, indicando que apenas uma minoria de empresas estava em conformidade e empenhada em considerar os direitos humanos no seu investimento.

Implicações da Pesquisa: Os resultados fornecem uma referência inicial do estado do compromisso em relação aos direitos humanos no sector do investimento, permitindo a realização de mais investigações para avaliar o desenvolvimento desta dimensão de ESG e CSR, particularmente neste sector.

Originalidade/Valor: análise consistiu em aceder e avaliar a informação pública das maiores empresas de investimento na perspetiva do investidor individual, o que proporciona uma visão inovadora da sensibilização e cumprimento dos direitos humanos no sector do investimento.

Palavras-chave: ESG, CSR, direitos humanos, investimento, diligência devida, compliance.

GESTIÓN DE ASG "S": CÓMO LOS GESTORES DE ACTIVOS REVELAN Y CONSIDERAN LOS DERECHOS HUMANOS

RESUMEN

Objetivo: El objetivo de la investigación era evaluar el compromiso en materia de derechos humanos y las medidas de diligencia debida en una muestra de las mayores empresas internacionales y europeas de gestión de activos, de conformidad con las directrices de la OCDE.

Criterio teórico: según la OCDE, las empresas pueden afectar a la mayoría de los derechos humanos reconocidos internacionalmente. Sin embargo, faltan estudios que evalúen directamente la debida diligencia en materia de derechos humanos en las empresas de inversión.

Método: Se realizó un análisis documental y cualitativo de 45 empresas de inversión. Se han elaborado cinco indicadores clave del desempeño para medir la participación en la esfera de los derechos humanos y las prácticas de diligencia debida, como la divulgación de las políticas de derechos humanos, el cumplimiento en cascada de las obligaciones de las empresas participantes, la diligencia debida antes y durante la inversión, y la colaboración con iniciativas sectoriales y no sectoriales. Todas las empresas se clasificaron y evaluaron según estos criterios.



Resultados y Discusión: Esta investigación revela que existe una dicotomía entre las recomendaciones para integrar los derechos humanos en la inversión y el compromiso y cumplimiento efectivos, indicando que solo una minoría de empresas cumplieron y se comprometieron a considerar los derechos humanos en su inversión.

Implicaciones de la investigación: Los resultados proporcionan un punto de referencia inicial del estado de compromiso con los derechos humanos en el sector de la inversión, lo que permite realizar más investigaciones para evaluar el desarrollo de esta dimensión de ASG y RSE, especialmente en este sector.

Originalidad/Valor: El análisis consistió en acceder y evaluar la información pública de las empresas de inversión más grandes desde la perspectiva del inversor individual, lo que ofrece una visión innovadora de la sensibilización y la aplicación de los derechos humanos en el sector de la inversión.

Palabras clave: ASG, RSE, derechos humanos, inversión, due diligence, cumplimiento.

1 INTRODUCTION

Over the last two decades, there has been a growing emergence and adoption of an Environmental, Social and Governance approach to investments in the investment sector. According to Bloomberg Intelligence (2021), ESG-focused portfolios managed close to US\$40 trillion in 2021. These are expected to achieve US\$53 trillion by 2025, composing a third of the total assets under management globally. This growing incorporation in the last decades, also associated with the emergence of corporate sustainability and the increasing relevance of corporate social responsibility (CSR), resulted in companies being expected, or even required, to adopt and express their commitments towards the bettering of society, alongside mandatory regulations and stakeholders' expectations. One of the largest commitments has been associated with environmental and social issues and has since become a fundamental criterion to illustrate corporate social responsibility on the part of the companies (Baid and Jayaraman, 2022).

However, the implementation of ESG and CSR in investment practices has not been linear, with one of its dimensions, the “Social”, being mostly ignored. This is due to the difficulties associated with quantifying companies' performance in this aspect, particularly when compared to the other dimensions, as well as the “box-ticking” culture of compliance and due diligence associated with social impact assessment (McCorquodale and Nolan, 2021). To transform these commitments into a value and strategy-base culture, these practices must first be viewed as compliance for companies to manage potential reputational risks and to enhance or mitigate adverse impacts in the people they encounter, whether in their operations or their value chain (McCorquodale and Nolan, 2021; Baid and Jayaraman, 2022). Companies



need to be responsible and accountable regarding human and labour rights as it is part of their fiduciary and ethical duty to prevent and address human rights risks connected with their operations and investments (Ruggie et al., 2021). However, this responsibility seems to be lacking - if not absent, even in larger companies in several sectors and across different regions (Corporate Human Rights Benchmark (CHRB) and World Benchmarking Alliance (WBA), 2020; European Commission, 2020).

Currently, there is a gap in the literature as pertains to investment companies and their commitment, awareness, and compliance toward human rights, particularly in relation to the largest investment companies worldwide (Daugaard, 2020; Wettstein et al., 2019). This paper proposes to bridge this gap and highlight the dichotomy between society's expectations and corporate commitments by qualitatively and quantitatively illustrating how the largest European and international investment firms commit to, report, integrate and engage in human and labour rights matters. The sample includes European and internationally based investment firms, which are analysed according to several criteria designed to evaluate human and labour rights due diligence, as defined by OECD guidelines and assess the companies' commitment and compliance with human rights throughout their operations and value chains.

This is achieved by analysing the commitment, awareness and compliance of the international and European investment companies in relation to the human and labour rights due diligence processes of the companies in which they invest. This due diligence process is defined through the effective criteria used by investment companies to consider, evaluate and monitor the operational effects of a company on the human and labour rights of the people and communities it touches. Standards that define these rights are established in multiple international documents and statements, including the Universal Declaration of Human Rights (1948) and the Core Conventions of the International Labour Organization (n.d.).

Given the lack of studies that assess this theme individually and within the broader investment sector (Bartels and Schramade, 2022; Christ et al., 2019; Daugaard, 2020), the main goal of this study is to provide a comprehensive overview of how the largest European and international asset management firms commit to, report, integrate and engage in human rights, utilising the recommendations of international organizations as a baseline. This process reflects a good approach to managing human rights risks and is the foundation for companies to demonstrate effective corporate social responsibility practices towards society (CHRB and WBA, 2020). The results of this study indicate that only 36% of the present sample display an active commitment towards considering human rights within their investment decisions and



processes, highlighting the long journey that this sector still needs to undertake (Daugaard, 2020).

The subsequent section summarises the previous literature in the field of investment and human rights due diligence, which is then followed by the research methodology applied in this study, the results attained and the discussion. The limitations of the study are then outlined before recommendations for future research

2 THEORETICAL FRAMEWORK

ESG is a term commonly used by investors to assess non-financial corporate activities related to environmental, social and governance performance, while also being used to evaluate dimensions related to business ethics, corporate social responsibility and corporate governance (Kim and Li, 2021). This evaluation is defined as “ESG integration” and consists of “the explicit and systematic inclusion of ESG issues in investment analysis and investment decisions” (United Nations Principles for Responsible Investment [UN PRI], 2018).

According to Boffo and Patalano (2020), ESG investing is an opportunity for investors and financial intermediaries to better risk management and improve portfolio returns, by considering long-term ESG factors such as controversies and downside risks that can decrease equity value and increase credit risk in the long run. At the same time, this also allows investors to reflect their beneficiary values in their investment strategy. Additionally, this investment approach allows for the alignment of investment portfolios with societal values, such as mitigating climate change, encouraging high standards of corporate governance and favouring social and just labour-adequate practices. These investment practices are translated into different approaches, such as negative and positive screening for the inclusion and exclusion of investees according to the criteria selected, tilting portfolios aligned with ESG scores and the consideration of ESG impact and integration practices (Boffo and Patalano, 2020).

When considering ESG and socially responsible investment, there are two main approaches which consider the institutional and retail investors as the main actors. The first one relates to exclusionary practices, which can translate into investor boycotts, divestment, or portfolio underweighting of non-sustainable companies in terms of ESG. In this approach, the companies which do not integrate societal concerns in their strategy and business have more difficulties in accessing capital from socially responsible investors, which can be achieved through risk sharing that consequently raises the company's cost of capital (Heinkel et al., 2001; Hart and Zingales, 2017). The second approach refers to a proactive engagement, in which



investors play a pivotal role, acting as financiers for the adoption of CSR practices and through engagement itself with the companies in which they invest, promoting these practices on a corporate and business strategy basis (Hart and Zingales, 2017).

Regardless of both investment approaches and the growing concern and integration of societal themes in ESG investing, there is a dimension which has been widely forgotten: the “Social” dimension. This encompasses human and labour rights, among other social themes. Despite concerning global social contexts, such as the Russia-Ukraine war, the Covid-19 Pandemic and the increasing pressure for investors to consider the social aspect of ESG in their investments, the integration of this aspect has been inadequate, slow and disregarded in investment and asset management (Baid and Jayaraman, 2022; Daugaard, 2020; Wettstein et al., 2019). Beyond the lack of attention it has received within the ESG momentum, this is also a blind spot in companies' CSR strategy, particularly regarding human rights (Wettstein, 2009). Considering that CSR encompasses legal, ethical and discretionary expectations that society has of organisations (Carrol, 2016), there seems to be a mismatch between where companies consider and integrate human rights with those being viewed merely as legal obligations (Wettstein, 2009).

However, according to the OECD (2018), companies can have an impact on most, if not all, internationally recognised human rights and as such, there is a need to incentivise them to meet their responsibilities. This dimension is critical when considering the increasing financialisation of the economy. Given the growing complexity of financing schemes and “investment webs”, different actors (e.g. companies directly involved in the operations and financiers such as shareholders, banks, investment funds and pension funds) become involved in the investment process. It is therefore important to employ measures that not only regulate corporate actors and stakeholders but also those that encourage companies to conduct due diligence by monitoring their subsidies, as well as addressing involved actors (e.g. investee companies) throughout investment webs and value chains (Daugaard, 2020; Herre and Backes, 2022; Wettstein et al., 2019).

Given the complexity of investment operations, there are several ways in which companies can perpetrate human rights violations: from within their own business to their business relationships throughout the supply chain (Walk Free, WikiRate and Business & Human Rights Resource Centre, 2021; Bartels and Schramade, 2022; Christ et al., 2019). When it comes to investment companies, risk materialises through the financial supply chains by trading in financial goods, services and investment decisions. Financial institutions can then be complicit in value chains that rely on human rights violations (United Nations et al., 2019;



Bartels and Schramade, 2022). There can also be an inherent risk associated with their direct business, in which their employees can be subjected to modern slavery conditions, or even in the establishment of ancillary supply chains (Walk Free, WikiRate and Business & Human Rights Resource Centre, 2021).

Overlooking these risks perpetuates a culture of impunity for human rights violations, which can result in financial or reputational damages if left unaddressed (Walk Free, WikiRate and Business & Human Rights Resource Centre, 2021). Moreover, according to the United Nations Guiding Principles (2021), the financial and investment sector has the corporate responsibility and fiduciary duty to prevent and address human rights issues interlinked with their operations, investments and services (Ruggie et al., 2021; Wettstein et al., 2019). Furthermore, investment firms also risk legal liability under an increasing number of regulatory frameworks that require businesses to prevent human rights violations, as well as reputational and financial damage, through the reporting of non-financial information (Walk Free, WikiRate and Business & Human Rights Resource Centre, 2021).

Given their influence over global business, addressing human rights violations across global supply and value chains is only possible through the active commitment to, and engagement of, businesses and investors (Wettstein et al., 2019). Aware of this need, the OCDE has published the “OECD Due Diligence Guidance For Responsible Business Conduct” (2018), which establishes a set of recommendations to multinational enterprises on how to prevent and address impacts relating to several CSR themes, with emphasis on human and labour rights. In this document, the organisation highlights three key aspects for addressing impacts on human rights, namely: establishing, implementing and disseminating policies that translate the commitment towards human rights protection; identifying and assessing potential adverse impacts on human rights; and incorporating expectations and policies regarding human rights due diligence into the engagement with suppliers and other business relationships of companies. Beyond this, the United Nations Guiding Principles on Business and Human Rights (UNGPs) reinforced the need to address and advocate for human rights defence by putting forward the “Protect, Respect and Remedy: A Framework for Business and Human Rights”. The framework represents a soft law initiative that highlights the responsibility of companies to respect human rights regardless of where companies conduct their operations. Since its publication, many companies have demonstrated a greater commitment to ESG activities to be recognised as socially responsible (Ruggie et al., 2021; Wettstein et al., 2019).

Considering the previous efforts to bring human rights due diligence into light, a lack of understanding of human rights issues and modern slavery risks is no longer an excuse for



failing to conduct due diligence processes. This is particularly true given the growing momentum within the sector, as shown by specific guidelines and initiatives such as the Finance Against Slavery and Trafficking (FAST) initiative, the UN PRI, SASB, CCLA’s “Find It, Fix It, Prevent It” initiative, and KnowTheChain (Walk Free, WikiRate and Business & Human Rights Resource Centre, 2021). Therefore, financial institutions must use their leverage to promote sustainable business practices that contribute to tackling and remediating human rights violations in their investments. To do this, effective non-financial reporting is necessary to facilitate greater corporate transparency and accountability, starting with the public disclosure of commitments and due diligence practices (Bartels and Schramade, 2022).

According to the Corporate Human Rights Benchmark (CHRB) and World Benchmarking Alliance (WBA) assessment in 2020, almost half (46.2%) of the 230 larger companies globally failed to demonstrate their commitment to human rights due diligence processes (CHRB and WBA, 2020). Similarly, a study conducted by the European Commission (2020) revealed that only one-third of companies reported having due diligence processes that considered and integrated human rights impacts, with most of them being directed at first-tier suppliers.

Given the failure to meet expectations regarding human and labour rights by the companies, several laws, regulations and initiatives emerged that aimed to turn expectations of respect and defence of human rights into legal and mandatory responsibilities (NOVA Centre for Business, Human Rights and Environment [BHRE], 2021). Europe has demonstrated a more thorough approach than other nations and supranational organizations to the legislation and implementation of human rights due diligence (Van Ho, 2022). This has translated into the introduction of initial laws to encourage human rights due diligence (e.g., UK Modern Slavery Act, 2015; EU Non-financial Reporting Directive of 2014) as well as regulations in specific jurisdictions that go beyond encouraging the reporting of information, making it a requirement on the part of the companies (e.g. French Duty of Vigilance Law, 2017; Dutch Child Labour Due Diligence Act, 2019; Portuguese Decree-Law No. 89/2017). Moreover, the increasing number of initiatives and campaigns that advocate for the implementation of legislation on mandatory human rights and environmental due diligence, with the draft of legislative proposals in several countries such as Switzerland and The Netherlands, suggests a growing momentum in Europe as compared to other regions of the world (NOVA BHRE, 2021).

Nevertheless, most studies show that reporting on social responsibility and human rights issues remains a blind spot (Bartels and Schramade, 2022; Daugaard, 2020; Preuss and Brown, 2012). Additionally, there is a greater focus on the commitment to the defence of



human rights than on effective due diligence and the application of impactful practices worldwide (Bartels and Schramade, 2022; Christ et al., 2019; Daugaard, 2020). These challenges in integrating and reporting a company’s commitment towards human rights are addressed in studies such as Preuss and Brown (2012), who examined 100 Financial Times Stock Exchange (FTSE) constituent firms in terms of their adoption of human rights policies and their quality. They found that almost 43% of companies in their sample did not have an accessible human rights policy, and those that did focused only on a narrow range of human rights aspects. More recently, Christ et al. (2018) analysed Modern Slavery Act statements amongst other official documents of 100 Australian firms, concluding that 63% of the sample did not disclose their modern slavery statement, reflecting the importance of transforming voluntary disclosure into mandatory requirements.

3 METHODOLOGY

A mixed methods methodology, which consists in using both a quantitative and qualitative approach was used to analyse the awareness, commitment and compliance with human rights due diligence, based on the following criteria:

3.1 ASSESSMENT CRITERIA FRAMEWORK

Several Key Performance Indicators [KPIs] were formulated to measure how investment companies incorporate human rights into their corporate culture and strategy. These criteria were formulated based on the OECD Due Diligence Guidance for Responsible Business Conduct (2018), which is an official, central document that guide enterprises’ integration of human rights into their business practices. OECD (2018) offers a set of due diligence process guidelines for enterprises to follow to guarantee the best practices regarding responsible business conduct. Amongst these guidelines are some of the essential principles used to formulate the KPIs used in this research.

The first KPI was formulated based on the principle 1.1., which states that companies should elaborate, adopt and disseminate a combination of policies on responsible business conduct (RBC) issues (e.g. labour and human rights) that articulate the enterprise’s commitments to the principles and standards contained in the OECD Guidelines. This principle also provides several practical actions for companies to implement, such as reviewing and updating policies to align with these principles and to adjust these as business relations and



supply chains evolve, as well as making their policies publicly available, such as through the companies’ websites.

The second KPI was established based on the principle 1.2., which relates to embedding the companies’ policies on RBC issues into the company’s oversight bodies, and principle 1.3., which recommends that companies integrate RBC expectations and policies into engagement with suppliers and other business relationships. The practical actions recommended in these principles are especially relevant since they relate to having an oversight body responsible for implementing the policies across different business units. They also stipulate that conditions and expectations on RBC issues should be present in supplier or business relationship contracts or other forms of written agreements, such as expectations about transparency, monitoring and reporting by the business relationships and about whether or how the businesses are expected to cascade requirements to their business relationships through the supply or value chain.

The third and fourth KPIs were also formulated based on principle 1.3. However, these KPIs focus on specific practical actions recommended, such as developing and implementing pre-qualification or evaluation processes on due diligence for suppliers and other business relationships and adapting such processes to the risks and contexts to focus on RBC issues that have been identified as relevant for the business relationships and their activities or area(s) of operation. Additionally, it is also recommended to engage and communicate with relevant suppliers and business relationships regarding RBC issues and provide adequate resources and/or training through engagement for them to understand and apply the relevant RBC policies and implement due diligence.

The fifth and last KPI was also designed in accordance with principle 1.3., which provides a practical example of how to build the RBC expectations into business relations, referring to the alignment with international and industry-wide standards concerning supply chain due diligence expectations and collaboration with other industry actors on common expectations of business relationships, drawing upon common RBC policies and initiatives and relevant reporting frameworks, such as UN Global Compact or PRI, for this business area.

3.2 SAMPLE AND DATA

This research employed a non-probability sampling method suitable for an exploratory survey with a qualitative element and simple research design as recommended by Kumar (2018) and Joye *et al.* (2016). A non-probabilistic approach was chosen to analyse the data from an individual investor’s perspective, given that the goal was to assess which companies



had accessible and public information and the quality of the formal documents that contained that information. This is considered a relevant approach since it offers transparency towards the commitments and practices of investment companies.

For this study, only Asset Management Companies [AMC] were selected. Asset management companies are commonly referred to as investment companies. For the purpose of this research, the investment companies/asset management companies are referred to as “investment companies” throughout the paper, while the companies in which they invest are referred to as “investee companies”, for further clarification and differentiation. These companies were selected due to the lack of studies conducted regarding the social responsibility and integration of human and labour rights in the investment sector.

Quantitative information was gathered, from financial reports, for 45 of the largest international and European asset managers by Assets Under Management (AUM) reporting under corporate accountability legislation. This allows for an understanding of how the largest investors with reporting obligations respond to disclosures associated with investment policies, portfolio screening, investee engagement and industry collaboration. A quota sampling technique was used to achieve a spread across the target population of the world's largest asset managers, under a quota of 40 companies internationally, for reasons of feasibility, which was determined by assembling a list of the top 100 asset managers by AUM and selecting the first 40. The decision to integrate the first 40 companies stemmed from the objective of analysing the larger companies, which are considered to lead the investment market.

Since one of the aims was to assess the previous criteria at the international and European levels and to compare companies by their base area and region of operations, it was necessary to guarantee that both international and European contexts would be proportionally represented. As such, 5 of the largest European investment/asset management companies were also selected to guarantee representativity of the European context. These were selected given that previous research identified them as representatives of the European legislative, investment, and financial context associated with ESG (Cruz, 2021). Additionally, the selection of the companies from Europe integrates both European Union (EU) member states and broader European countries outside of the EU, such as Switzerland and the United Kingdom, since the regulatory and legislative approach implemented by these countries is similar to the one applied by the members of EU (Van Ho, 2022). As such, investment companies from these regions are called “European” companies, throughout the paper for further clarification.

For the final sample, 45 companies were analysed from several countries, namely the United States (N=23), United Kingdom (N=4), France (N=5), Canada (N=3), Spain (N=3),



Germany (N=2), Switzerland (N=2), Netherlands (N=1), Japan (N=1) and lastly, Portugal (N=1). The value of the AUM ranged from US\$7 billion to US\$9.4 trillion in assets (Mean = US\$1.8 trillion; Standard Deviation = US\$ 1.7 trillion), according to the financial reports of each of these companies, released up to the first trimester of 2023.

3.3 RESEARCH PROCEDURE

To understand the commitment, awareness and compliance with human rights due diligence by international and European investment companies, this research employed a documentary survey, a method that relies on the use of online, physical, visual or written documents as source materials (Scott, 2006). Qualitative data was obtained through the analysis of policies, statements and financial and sustainability reports. In total, 195 documents were analysed, with a mean of 4 documents per company, produced between 2022 and 2023. However, it should be noted that some of these documents, particularly policy documents and declarations, do not contain a year of publication. Nevertheless, all the documents analysed were accessed between 2022 and 2023 via the investment companies' official websites and are therefore considered to be the most up-to-date version of the respective policies and statements. These documents were analysed to inform on each one of the previous KPIs for every company contained in the sample, being compiled into an Excel database. An individual Excel database was created for each one of the companies assessed and later compiled into a single database which informed the companies' classifications.

Subsequently, the data was extracted, analysed and systematised using IBM SPSS Statistics 26 software to allow for a descriptive approach to the results.

3.3.1 KPI attribution and classification

Drawing upon previous investigations (e.g. Cormier and Gordon, 2001; Christ *et al.*, 2019; Preuss and Brown, 2012) a two-point scale was formulated to evaluate each company on the integration, consideration, awareness and compliance with human/labour rights in its investment process. Each KPI was evaluated, attributed and coded as zero or one, respectively, regarding its absence or presence, according to the documents and resources available on each company's website. As an example, regarding the 'Human/Labour Rights Policy Published and Accessible' KPI, a classification of "1" would refer to policies, reports or statements that address human rights in investment specifically, while a classification of "0" would reflect the



overall absence of a policy or simply a general statement regarding human rights. Further information about the criteria for each KPI classification is provided in Table 1.

Table 1

KPI Criteria for decision making in regard to companies' classification.

KPI	Criteria for “1” Classification	Criteria for “0” Classification
1. Published, accessible and clear Human Rights Policy or Statement which specifically mentions human/labour rights in the context of investment.	Policies, reports or statements that mention human rights in investment specifically or a dedicated statement to address human rights in investment practices.	Absence of a policy or a general statement regarding human rights.
2. Requirement of investee companies to meet their reporting obligations under mandatory human rights due diligence legislation or transparency legislation.	Requirements for disclosure of information regarding human or labour rights are clearly defined in the company's policies or statements.	Absence of these requirements or does not include human rights specifically but relates to other types of information disclosure.
3. Assessment of investee companies before investment to identify potential human/labour rights risk areas.	Assessment of investee companies is clearly defined and mentioned, referring to criteria related to labour or human rights.	Absence of specific mention of the investee evaluation in terms of human rights risk, or vague statements regarding sustainability evaluations that do not refer to human rights.
4. Implementation of active engagement with investee companies on their (investee companies') human rights issues and risks in value chains and business relationships.	Definition of engagement with investee companies relating to human rights issues, with a description of processes and/or focus on relevant themes for human rights risk and due diligence.	Absence of an engagement policy and or strategy or disclosure of engagement with investees relating to different themes.
5. Collaboration with industry and non-industry stakeholders or engagement in initiatives aimed at human/labour rights.	Clear indication of collaboration or of being a signatory of at least one of these initiatives.	Absence of relevant collaborations associated with the AUM and/or investment business.

To further demonstrate the classification attributed, relevant citations from the analysed documents were collected for each document of every company and integrated into the Excel database, to illustrate the companies' expressed commitments and practices. Two coders accessed and reviewed the documents and selected the relevant citations to validate the classification provided for each KPI, adding it to a table formulated for each one of the KPI's.

After the revision, another database was created by adding the value for each KPI for each company, allowing for a rating of the companies ranging from 5 points, which refers to the companies that had all the assessed KPI's verified and 0 points, which referred to companies which did not display any of the KPI's analysed in this study.

Lastly, the rating of the companies was transformed into five levels of awareness of and compliance with human rights. This allowed for a classification ranging from “Unaware/Non-



Compliant towards human/labour rights”, referring to a rating of 0 to “Fully aware/compliant towards human/labour rights”, referring to a rating of 5.

4 RESULTS AND DISCUSSIONS

4.1 HUMAN/LABOUR RIGHTS POLICY PUBLISHED AND ACCESSIBLE

In the sample, only 16 AUM companies (36%) had a human/labour rights policy that was published and accessible. 29 (64%) companies did not have a policy either published, available or directed at investment. However, when conducting the analysis, another category of companies emerged, with 22 of the 29 companies (76%) having a human/labour rights policy or Modern Slavery Act statement concerning their employees and/or suppliers, but not their investments.

In this sample, it was found that it was more common for investors to either not have human rights policies or for those to be directed at suppliers, rather than directed at their investment, which is, in part, consistent with findings from previous studies (Preuss and Brown, 2012; Christ *et al.*, 2018). In fact, one of the companies in the sample illustrated this finding by stating that it:

“Has in place a Supplier Code of Conduct & Ethics ..., which details our expectations of our suppliers about human rights, inclusion & diversity, environmental sustainability and ethics. Suppliers are required to confirm they abide by our Supplier Code of Conduct & Ethics prior to working with In addition, ... contract templates require suppliers to comply with all applicable laws and regulations in the conduct of their business, including modern slavery”.

Nevertheless, most of the sample does not provide a clear indication or declaration of its commitment towards human rights in investment. This is a relevant finding that reflects the flaws of this business area. The failure to publicly disclose the commitment towards human rights perpetuates the belief that the finance and investment sectors are not concerned with extreme forms of exploitation, due to the false perception that its low materiality and regulation are not conducive to, or complicit with, more severe consequences for investors (Preuss and Brown, 2012; Christ *et al.*, 2018).



4.2 REPORTING OBLIGATIONS UNDER MANDATORY HUMAN RIGHTS DUE DILIGENCE LEGISLATION OR TRANSPARENCY LEGISLATION

Only 2 companies (4%) effectively disclosed that they requested their investees to report their obligations under mandatory human rights due diligence or transparency legislation. One of these companies clearly states:

“We expect all investee companies to regularly identify whether there are risks related to human rights in their operations and manage any risks that emerge, providing relevant disclosures to investors and other stakeholders in alignment with international standards such as the UN Guiding Principles on Business and Human Rights.”

They also mention their expectation of alignment with relevant international guidelines. However, the other 43 companies (96%) either did not mention any information regarding this KPI or mentioned appreciating the disclosure of this type of information from their investee companies, rather than requiring it.

According to these results, in this compliance-heavy driven sector, most asset managers are not setting clear expectations for investees on human rights risk assessment, which indicates a failure to fulfil their fiduciary duty in ensuring compliance with relevant legislation and regulations. This is a key role of the investment companies, given that compliance with the reporting of non-financial information, particularly on human and labour rights, can only be achieved if measures are established to regulate beyond corporate actors and stakeholders, engaging and encouraging subsidiaries and portfolio companies, throughout the value chain of a business. The UN PRI (2020) also reinforces its importance for companies to understand and account for their exposure to indirect human rights risks, by requesting information throughout the value chain, from their investees, investment managers and other service providers (Van Ho, 2022). This is a key finding of this study, shedding light on the expectations of parent companies towards subsidiaries regarding human rights commitments and due diligence, particularly in the investment sector which has been largely under-studied (Daugaard, 2020; Cruz, 2021; Wettstein *et al.*, 2019).



4.3 ASSESSMENT OF INVESTEE COMPANIES, PRIOR TO INVESTMENT, AND ACTIVE ENGAGEMENT WITH INVESTEE COMPANIES ON THEIR HUMAN/LABOUR RIGHTS

23 companies (51%) mentioned assessing potential investee companies to identify human/labour rights risk areas before making an investment decision. For example, one of the companies reported on its evaluation and monitoring process of ESG-related factors and specifically indicated the consideration of human rights and modern slavery in its investment decisions, amongst a list of other themes, declaring that: “As applicable and material to any given investment, the ESG factors that may be incorporated into our investment evaluation and monitoring processes include, but are not limited to, the following: ... Social Considerations - Human rights and modern slavery”.

Conversely, 22 companies (49%) did not state in their policies or reports that they conducted such assessments.

16 companies (36%) disclosed their active relationship and engagement with investee companies, regarding their (the investee’s) human/labour rights issues, with some companies assuming stewardship and engagement programs directed at this subject. For instance, one of the companies from the sample stated:

“We will engage companies on this topic, prioritising companies with the highest risk of human rights violations ... In 2021, we initiated a targeted engagement campaign on modern slavery, and in 2022, we will undertake another series of proactive engagements on human rights, targeting companies that are noncompliant with the UN Global Compact.”

Contrarily, 29 companies (64%) did not disclose if an active engagement was conducted in the investment process.

It is worth mentioning that in this sample, only 10 companies of 45 (22%), disclosed their actions to assess the investee companies before making an investment decision, as well as their efforts to engage with them on human rights issues and concerns.

Very few companies in the sample disclosed their due diligence when it came to the assessment of companies (before investing) or active engagement with the companies under their portfolio. There is an overall expectation that human rights due diligence should be conducted during the pre-investment phase as well as during the period of life of the investments, to account for and prevent investment activities from being associated with human and labour rights risks and to take steps to address them. However, this seems to be lacking still, since most of the companies in this sample either do not achieve or only grasp the



minimum standards for human rights due diligence according to reference frameworks and guidelines (UN PRI, 2020; OCDE, 2018). There is an expectation for multi-national enterprises, such as the ones in this sample, to be accountable for their direct and indirect operations and to minimise and positively contribute to human rights risk mitigations since there is a consensus that their economic and political power can rival with that of governments (Wettstein *et al.*, 2019). This is why such companies should also hold themselves to the same standards, for instance by fully integrating OECD guidelines into their business strategy and operations, which was found not to be the case among those companies in this study (OECD, 2018; Wettstein *et al.*, 2019).

4.4 COLLABORATION WITH INDUSTRY AND NON-INDUSTRY STAKEHOLDERS/INITIATIVES AIMED AT HUMAN/LABOUR RIGHTS

42 companies (93%) confirmed their collaboration with industry and non-industry stakeholders and initiatives relating to human and labour rights, which seems to point to positive progress for the investment sector. Only 3 companies (7%) did not disclose if they were involved in any initiatives. Table 2 summarises the distribution of the signatory companies.

Table 2

Companies' distribution by initiatives.

Initiatives	Number of companies	Percentage
UN Principles for Responsible Investment.	23	51%
UN Global Compact.	8	18%
Collaborate in both previous initiatives in addition to others.	11	24%

As an example of a company that clearly states its commitment towards initiatives that promote the defence and protection of human rights, one company declared that it: “was among the 43 companies that first signed the UN Global Compact in 2000 and is also a member of the UN Global Compact Network Switzerland, meaning we are committed to its principles on human rights, labour standards.”

In contrast with the other results obtained in this study, more and more asset managers are involved in responsible investment industry collaboration and initiatives linked to human rights due diligence. This is a key indicator, given the importance of shared learning and incentives for mobilising companies to make commitments and the allocation of resources



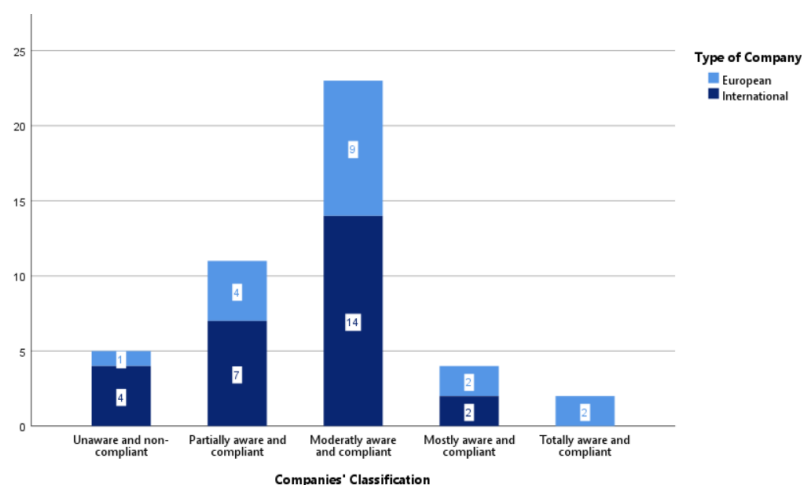
towards human rights actions, such as policies and programs. Besides, these collaborations and initiatives promote accountability among its signatories, as well as support them in their implementation of the right actions that promote, defend and advocate for human and labour rights (UNPRI, 2020).

4.5 EUROPEAN AND INTERNATIONAL COMPANIES' CLASSIFICATIONS AND VALUE OF ASSETS UNDER MANAGEMENT

When assessing the classification of the companies, there was a clear distinction between the European (N=18) and international (N=27) awareness and compliance with the human and labour rights of companies. In this sample, European companies (N = 18) seem to be the ones with higher classifications, referring to either “Mostly” or “Totally” aware and compliant with human/labour rights, as displayed in Figure 1.

Figure 1

Distribution of European and International Companies, by classification.



This finding indicates that when compared to international investors in terms of human rights criteria in investment decisions, European asset managers are on the right track. This is consistent with the belief that Europe seems to have a more gradual and steadier approach to human rights impact assessments when compared to other regions (Van Ho, 2022). Moreover, many companies in the sample are US-based and are not subject to the scope of European regulation and reporting requirements. The European Union has established several initiatives that impose due diligence related to obligations towards human rights impacts, with their implementation beginning in 2021. There are also several pending proposals and campaigns



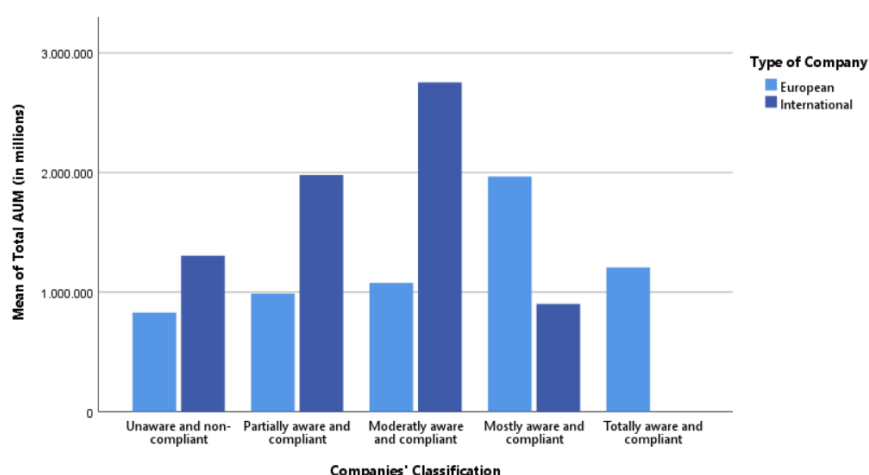
for mandatory human rights due diligence laws in 13 European countries, including 11 European Union member-states, such as the proposal for a directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937, which applies also to non-EU companies (European Commission, 2022). Beyond this, due diligence requirements and criteria are also integrated into the revised draft of the UN Business Human Rights Treaty (European Commission, 2020).

Given that a high number of the international portion of the sample (N=23) is composed of US-based companies, it is worth highlighting that there are also mandatory human rights due diligence measures being implemented in the US that require disclosure of efforts to combat modern slavery (e.g. The California Transparency in Supply Chains Act of 2010). However, there are still concerns associated with their effectiveness and transparency, while most of these initiatives appear to be directed at suppliers rather than the value chain (European Commission, 2020).

Differences were also found between European and international companies when considering their classification and their AUM mean. In the sample, international investment companies classified as “moderately” aware and compliant are the ones with the highest AUM mean (M= US\$2.75 trillion; DP= US\$703.73 billion) while European companies classified as “Mostly” aware and compliant present the highest AUM mean (M= US\$1.97 trillion; DP= US\$136.5 billion).

Figure 2

Mean of Total AUM, by type and company classification.



According to this sample, when it comes to human rights awareness and compliance, the size of assets does not seem to matter. It is commonly believed that the more assets a



company has under management, the greater the human rights due diligence they conduct, given the resources needed to do so. This includes, for example, having a dedicated team, implementing additional internal mechanisms and taking more time to engage with external partners. These results present a different picture however, since the companies that were classified as moderately and mostly aware and compliant are the ones that present the highest AUM mean. This might indicate that although the companies with higher AUM might have more resources to conduct these assessments and the correspondent due diligence, they are still failing to do so in an effective way (Investor Alliance for Human Rights, 2020).

Regardless of the significant contribution of this research, some limitations were identified. The first limitation is associated with the sample size, since only the largest companies were chosen and the number of international companies is higher than the ones from a European setting, not allowing for a generalization the results. However, the results are meaningful considering that these companies are viewed as trendsetters and are in place to set the standard for other companies in the same sector, making this sample relevant for the purpose of the study and as an initial benchmark. For future studies, it is suggested that a larger sample be used, including more diverse regions and countries, to obtain a more comprehensive overview of the investment practices regarding human rights. Beyond this, only documents were used as a way of assessing the company’s human and labour rights due diligence, which might only provide limited information. Another limitation is associated with measuring “efforts”, rather than “effects”, since companies can disclose having a human rights policy and conduct due diligence, but there is still the risk that this fails to translate into company operations. This is also a limitation of the present study, and it is associated with the difficulty in measuring, effectively, the “S” in ESG, since companies might disclose only what they want to disclose, leading to a transparency limitation that has yet to be addressed, particularly in this business sector (McCorquodale and Nolan, 2021).

5 CONCLUSION

Overall, this research shows that only a minority of companies, approximately 36% of the sample, demonstrate awareness and commitment to fundamentally consider human rights within their investment decisions and processes while following international recommendations for human rights due diligence. This finding is consistent throughout multiple company sectors and it reflects the long journey that the overall businesses need to



make for human rights to become central in their operations (CHRB and WBA, 2020; Christ *et al.*, 2018; Preuss and Brown, 2012).

These findings indicate that despite human rights due diligence having the potential to increase corporate risk management reliability, promote overall economic growth and attract investment opportunities for companies, most companies still view it as an obligation-to-process, failing to display their commitment and conduct effective due diligence (Investor Alliance for Human Rights, 2020; McCorquodale and Nolan, 2021). Without voluntary and mandatory obligations, guidance, proactive practice, implementation and advocacy on behalf of investment firms, advancing human and labour rights defence in investment decisions and processes will be virtually impossible. Although having a policy/statement or conducting a pre-investment assessment are good indicators of a company's commitment to human rights defence, this commitment needs to shift from an obligation to report perspective, in which only the basic information is provided, to a value and potentials perspective, in which the clear commitment, awareness and compliance of the company is evidenced and clearly defined (Christ *et al.*, 2018).

This study aimed at establishing an initial benchmark of the state of the commitment towards human rights in the investment sector, allowing for further investigations to be conducted to assess the development of this dimension of ESG and CSR, particularly in this sector, in which it is lacking (Daugaard, 2020; Wettstein *et al.*, 2019). Although the results indicate that more investment companies are invested in making human rights a priority in their operations, it also highlights the long journey that this sector still needs to undertake to become aware and compliant with human rights due diligence. By highlighting this gap in the investment firms' human rights due diligence, these results significantly contribute to informing companies, policymakers and society about the failure to comply with regulations and international standards, as well as adding a documentary analysis perspective to the present literature about the practices of companies regarding human rights integration in their operations.

Additionally, the present research highlights the potential role of institutional investors in advancing human rights due diligence in their investments. As mentioned above, the approach taken by investors concerning the companies in which they invest can assume different facets, such as exclusion or engagement (Heinkel *et al.*, 2001; Broccardo *et al.*, 2020). According to the results, only 22% of the investment companies assess (before the decision to invest) and engage with their investees about the (investees') human rights due diligence, which displays a significant gap and loss of potential to advance the companies in which they



invest. If institutional investors, such as the AUM companies considered in this study, would use one of these approaches, it would allow for a more rigorous and thorough assessment and consideration of human rights in the investment sector. As for investors themselves, the process of assessment with exclusionary criteria or an engagement approach could also act as a reassurance and risk management strategy since there is a growing need to be aware of the risks they can expect from their investees, stemming from the requirements of implemented legislation such as Regulation (EU) 2019/88 (Sustainable Finance Disclosure Regulation) and Regulation 2020/852 (Taxonomy Regulation) (Primec and Belak, 2022).

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