

ROBECO

Social Traffic Light

Methodology document

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The Social Traffic Light is a comprehensive framework designed to assess companies' social performance using a structured, data-driven approach. Its development addresses the absence of a universally recognised reporting framework for social and equality issues. This summary details the conceptual underpinnings, methodological structure, and practical application of the Social Traffic Light.

1.1. Background and rationale

Globally, there is a notable lack of consensus on how to report and evaluate social topics within corporate environments. The recent establishment of the Taskforce on Inequality and Social-related Financial Disclosure (TISFD) marks a significant stride toward developing such a global disclosure framework. Nevertheless, the EU's social taxonomy remains on pause, leaving practitioners to rely on alternative frameworks. After an extensive review of available methodologies, the World Benchmarking Alliance's (WBA) social scoring approach was selected as the primary inspiration for the Social Traffic Light.

1.2. Framework structure: pillars and KPIs

The Social Traffic Light framework is built upon a universal set of 32 Key Performance Indicators (KPIs), applicable across all

industries and grouped into three main pillars:

- 1. Respecting Human Rights: This pillar encompasses human rights policies, due diligence, remediation activities, monitoring policy implementation, and providing grievance mechanisms for stakeholders.
- 2. Providing and Promoting Decent Work: Focused on internal workforce matters, this includes employee engagement, combating discrimination, and ensuring health and safety standards for employees.
- 3. Acting Ethically: This pillar covers social supply chain management, product safety, community relations, and data privacy practices.

To select the KPIs for each pillar, data was sourced from several providers. The selection criteria for these KPIs included: fundamental appropriateness of the indicator, preference for raw data, sufficient coverage across a broad investment universe, and positive correlation with the WBA framework. This careful selection ensures that the chosen KPIs are both relevant and robust indicators of a company's social management performance.

Figure 1 – Social Traffic Light overview

| | Social KPIs | | | | |
|-----------|--|--|--|--|--|
| | Respect human rights | Provide & promote decent work | Acting ethically | Minimum standards | Social Traffic Light |
| Company 1 | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> |
| Company 2 | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> |
| Company 3 | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> |
| Company 4 | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div><div></div><div></div></div> |

Source: Robeco

1.3. Weighting and materiality

A distinctive feature of the Social Traffic Light is its approach to weighting. The framework assigns equal weight (33%) to each of the three pillars, acknowledging a lack of evidence favouring the relative importance of any single pillar. Within each pillar, however, a materiality matrix is applied to determine the weight of individual topics by industry. This process evaluates the likelihood and impact of social issues on society (and possibly on business) across industries (following GICS2). Issues deemed highly material to a particular sector are weighted more

heavily, ensuring the framework reflects the varying significance of social topics across industries.

1.4. Scoring methodology: dealing with data gaps and company size

Given the realities of data collection, it is common for certain KPIs to be missing values, often due to limited disclosure. Larger companies, presumed to have greater resources and reporting capacity, are penalised for missing data. They receive zero score on the missing data points. Smaller companies, in

contrast, are assigned the median value for missing KPIs, with the aim of reducing biases that might favour large companies due to their typically superior disclosure.

1.5. Incorporating green flags

To incentivise leadership in social practices, the framework incorporates green flags – positive recognition for companies adopting innovative or rarely implemented actions, such as publicly reporting a modern slavery statement. Green flags thus serve to reward best practice and encourage wider adoption of

advanced social management practices. Companies receive extra points for having such practices in place.

1.6. Defining the traffic light and setting minimum standards

A company's performance on the KPIs, weighted according to this scheme, is aggregated into a single numerical score. This score is then translated into the Social Traffic Light, providing a clear assessment of the company's social management.

Figure 2 – Definition of the Social Traffic Light

| Social Traffic light | Definitions |
|----------------------|--|
| Aligned | The company is aligned with global standards on human rights, social issues for stakeholders and working conditions. Robust implementation and monitoring of policies including thorough due diligence on human rights materially lowers risk exposure to significant social controversies. |
| Aligning | The company is mostly aligned with global standards on human rights and working conditions, supported by average monitoring. The social management is adequate and includes elements of human rights due diligence. The company has been involved in moderate social controversies or has settled major controversies. |
| Partially aligning | Although the policies are satisfactory, there are weaknesses in overall social management that could lead to involvement in major controversies. |
| Misaligned | The company does not align with global standards on human rights and working conditions due to lack of policies and/or is involved in severe social controversies. |

While strong performance across the framework is expected to safeguard against undesirable corporate behaviours, it does not guarantee immunity from controversies. To address this, the methodology incorporates a screening for Minimum Social Standards. Failure to comply with basic global requirements—such as the UN Global Compact (principles 1 to 6), the UN Guiding Principles for Business and Human Rights, or receiving high-level controversy flags from data providers—results in an automatic “red” traffic light (misaligned). Breaches of minimum social standards or inclusion on a watchlist lead to an “orange” traffic light (partially aligning), regardless of scores on the three pillars. This mechanism ensures that fundamental lapses are not masked by otherwise good performance.

1.7. Illustrative example: metals & mining industry

The metals and mining industry is a sector with high Social Materiality and also the highest proportion of firms with Minimum Social Standards overrides. In the table below the framework is illustrated by three examples within this industry.

| Company | Human Rights | Decent Work | Acting Ethically | Initial Traffic Light | Overrides | Final Traffic Light | Rationale |
|---------|--------------|-------------|------------------|-----------------------|---|---------------------|--|
| A | 0.48 | 0.47 | 0.52 | Aligning | None | Aligning | Strong human rights issues management, adequate human capital development, good assessment of firm's impact on customers, community, supply chain. |
| B | 0.51 | 0.46 | 0.41 | Aligning | UNGC Watchlist | Partially Aligned | Presence of human rights policies collective agreement, formal engagement channels. However, poor assessment of community relations and on watchlist of UNGC. |
| C | 0.78 | 0.57 | 0.56 | Aligned | Community Relations Flag & UNGC Watchlist | Misaligned | Monitor effectiveness of human rights policies, gender-diverse executive board. However, flagged for negative community events despite formal engagement channels. |

1.8. Scope and limitations

The Social Traffic Light framework currently covers roughly 9,500 companies. It offers a retrospective assessment, reflecting present-day practices and disclosures. While effective social management is expected to minimise future controversies, the framework aspires to incorporate forward-looking data in subsequent iterations. Enhancements may include integrating real-time data from NGO activities, media reports, and advanced AI data scraping methods, which would capture commitments such as living wage policies and more outcome-based metrics not readily available in standard company reporting. Furthermore, the framework is based on global standards. Further enhancements may also include integrating local data and frameworks.

1.9. Conclusion and forward-looking enhancements

The Social Traffic Light offers an innovative and comprehensive approach to evaluating corporate social performance. By combining universal KPIs, sector-specific materiality, rigorous data treatment, and minimum standards enforcement, the framework provides a fair and comparable assessment of companies' social management across industries and regions.

Acknowledging the evolving nature of corporate social responsibility, the framework is designed for continuous improvement. Future enhancements aim to introduce forward-looking metrics, leverage emerging data sources, and refine regional adjustments to ensure even greater relevance. For now, the Social Traffic Light stands as a transparent, evidence-based tool for investment teams and clients seeking to understand and compare the social performance of companies worldwide.

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