Measuring the Social Performance of Firms through the Lens of the OECD Well-being Framework

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The worldwide adoption of the Sustainable Development Goals (SDGs) crystallised the end of an economic model solely focused on growth. Governments and a large number of economic actors and organisations are working to embrace broader, multi-dimensional objectives that integrate the well-being of people and planet in measurement and decision-making frameworks. In recent years, various initiatives have emerged to improve the measurement and reporting of the non-financial performance of firms. Standard-setters, investors, businesses themselves and regulators have proposed frameworks and indicators to monitor business performance in the environmental and social areas. Such approaches differ in scope and intent. Some focus on risks and opportunities that affect enterprise value. Others also consider factors that have an impact on society, regardless of whether they are financially material to the firm.

Monitoring business performance in the social area can be informative for those who are interested in understanding business impacts on society, as well as for those who are interested in maximising long term enterprise value. Healthy and happy workers can be more productive and have been found to boost long term stock market performance (DeNeve, Krekel and Ward, 2019[1]). Adequately measuring well-being in the workforce is useful to allocate resources effectively and ensure that (human) assets are used to their potential. In addition, just as climate change is a risk faced by all companies, inequalities could likewise materialise as a cost for all companies. The detrimental effects of inequalities on a wide range of social outcomes, such as human capital, trust, safety and stability (Wilkinson and Pickett, 2009[2]) may pose long term risks for enterprise value.

There is a widespread need for greater conceptual clarity around the social performance of firms and for more robust metrics. To respond to these needs, the OECD WISE Centre has developed new work on Measuring the non-financial performance of firms through the lens of the OECD Well-being Framework (Siegerink, Shinwell and Žarnic, 2022[1]). Building on the OECD Well-being Framework, the paper develops an approach that can be used by businesses and policymakers alike to measure outcomes of individual firms or sectors of the economy that pertain to the well-being of business stakeholders. The framework and indicator set build on lessons from the “Beyond GDP” movement, which has inspired progress monitoring practices of countries. This policy brief presents the main features of this framework and outlines some of the best practices of measuring stakeholder well-being.
A CONCEPTUAL FRAMEWORK FOR MEASURING THE SOCIAL PERFORMANCE OF FIRMS

People are central to the social performance of firms, and so the first step in understanding the components of the social dimension is identifying the stakeholders whose well-being firms affect and depend on. The OECD’s framework on measuring the non-financial performance of firms identifies four broad categories of stakeholders whose well-being are relevant from the perspective of measuring performance in the social area: employees, consumers, local communities, and society as a whole. Firms affect the current well-being of employees and communities, either directly as a result of their own operations or indirectly in the supply chain.\(^1\) The measurement of the non-financial performance of firms can be grouped into three scopes (Figure 1):

- **“Scope 1”** refers to (1) the well-being outcomes of stakeholders that operate within the organisational boundaries of the firm, namely employees and (2) the resources for future well-being that are created or depleted directly by the firm itself and that are relevant to society as a whole. These components are applicable to almost all firms in the economy and can be measured within the confines of the firm itself, which allows for harmonised data collection.

- **“Scope 2”** refers to the impacts of product and services on the well-being of consumers. These impacts occur outside the operational boundaries of the firm and vary depending on product or service the firm provides.

- **“Scope 3”** refers to the well-being of employees in the supply chain and communities. These can be measured within the organisational boundaries of other firms or among other external stakeholders of the firm.

Figure 1. The four components of the social performance of firms


\(^1\) Other business stakeholders, such as shareholders and investors, suppliers and vendors as business entities, or business-to-business customers are also business stakeholders, but these relationships are underpinned by financial transactions and traditional financial reporting, hence they are not covered in this framework.
A MEASUREMENT FRAMEWORK FOR “SCOPE 1” SOCIAL PERFORMANCE

This policy brief presents an illustration of the set of indicators that are proposed as part of the OECD’s “Scope 1” social performance measurement framework. The measures proposed are multi-dimensional and aspirational, sometimes lying outside the scope of traditional business measurement or reporting. But they are within the scope of what businesses and NSOs can feasibly measure. The OECD framework for measuring the non-financial performance of firms aims to identify measures of stakeholder well-being outcomes that can be commonly used by businesses as well as by national statistical offices and policymakers.2

As presented above, “Scope 1” social performance is composed of the well-being of employees and inequalities therein, as well as the resources for future well-being that firms contribute to and deplete and that are relevant to society as a whole (Figure 2). Because the defining characteristic of these two components of “Scope 1” Social performance is that they are internal to the firm, the collection of data that underpins the measurement of “Scope 1” Social performance can be performed wholly inside the firm. Because of the nature of “Scope 1” social issues, this measurement framework includes indicators of stakeholder well-being outcomes that are applicable to most firms in the economy, which is an important premise for alignment with official statistics. The “Scope 1” measurement framework includes indicators of employee well-being and indicators of contributions that firms make to economic, social and human capital relevant to society as a whole.

Figure 2. The components of “Scope 1” Social performance

2 This policy brief cannot do justice to the origins and motivations for the selection of these measures and for a full description of this measurement framework and the indicators, readers should refer to the working paper (Siegerink, Shinwell and Žarnic, 2022[2]).

Employee well-being is a fundamental driver of societal well-being, both because having a job is important for a person’s well-being, and because the time spent at work, the social interactions people have at work, the skills that employees use and gain, and the sense of purpose and identity they may derive from their job have a large influence on people’s lives. In addition, inequalities in the workforce, in representation, earnings, career advancement and working conditions are a key vector of societal inequalities. Figure 3 provides an illustration of the employee well-being indicators included in the “Scope 1” social performance measurement framework. They cover most dimensions of well-being, are largely outcome indicators, and feature both objective and self-reported indicators. Each of these indicators are based on existing measurement standards on well-being and the quality of the working environment. Further details on these indicators and the motivation for their inclusion is provided in (Siegerink, Shinwell and Žarnic, 2022[2]).
Figure 3. Indicators of employee well-being

- Employment
  - Employment
  - Temporary contracts
  - Hiring and turnover
  - Career advancement

- Learning and skills
  - Perceived learning
  - Training perceptions
  - Self-realisation

- Work-life balance
  - Working hours
  - Long working hours
  - Parental leave
  - Annual leave

- Voice
  - Workplace voice
  - Trust in management
  - Collective bargaining

- Health
  - Self-reported health
  - Mental health
  - Absenteeism

- Safety
  - Workplace incidents
  - Discrimination reports
  - Perceived discrimination

- Social Support
  - Social support
  - Managerial practices
  - Trust between workers

- Subjective well-being
  - Exposure to noise
  - Exposure to pollution
  - Intrinsic rewards
  - Eudaimonia
  - Job satisfaction
  - Life satisfaction

Note: Where possible, indicators should allow for disaggregation by entity, facility, location and activity. In addition, indicators on employee well-being indicators should be expressed, where possible and relevant, by gender, age groups, contract type and staff category groups, as well as by race, ethnicity and/or migration status (See Table 1).


Beyond their impact on society through the current well-being experiences of employees, consumers and communities, businesses also create and use up the resources that society uses to sustain well-being over time, thereby affecting society as a whole. Existing non-financial reporting frameworks have already identified a number of key indicators related to firms’ creation and depletion of economic, social and human capital, and the indicators proposed are rooted in such existing frameworks.³ Within the logic of aligning the OECD Well-being Framework with business’ social performance, the indicators that form part of this component of “Scope 1” only concern the direct contributions that businesses make to, and detract from, the stocks and flows (and risk and resilience factors) of capital resources that are relevant for society as a whole. Firms may also contribute to human and social capital by achieving good stakeholder well-being outcomes, and these should be measured as such.

An illustration of the indicators of contributions to resources for future well-being relevant to society as a whole is presented in Figure 5.⁴ It should be noted that a number of the indicators that measure business contributions (or depletion of) social capital can be considered to be part of the “Governance” dimension when using an ESG lens. However, these indicators are also relevant from the perspective of society as a whole, and may also be considered in evaluating a firm’s social performance.

³ Importantly, the UNCTAD core indicators for entity reporting on contribution towards implementation of the Sustainable Development Goals are a set of indicators, identified by UNCTAD at the request of the Inter-Agency and Expert Group on Sustainable Development Goal Indicators, of business contributions to the SDGs, that can be commonly measured by business entities and national statistical offices alike (UNCTAD, 2019[11]).

⁴ Again, further detail is provided in (Siegerink, Shinwell and Žarnic, 2022[c]).
The OECD framework on measuring the non-financial performance is rooted in best practices in measuring well-being, which have emerged as part of the “Beyond GDP” movement pioneered by OECD governments and national statistical offices.

- **Multi-dimensional scope**: Social performance measures should consider the multi-dimensional range of factors that are relevant for the well-being of stakeholders and that affect their access to opportunities;
- **Outcome measures**: Measuring outcomes, rather than only inputs or outputs, is necessary to understand performance and a prerequisite to measuring impact;
- **Inequalities**: Inequalities between groups, such as men and women, or employees with different contract status, should be considered in each dimension of well-being;
- **Subjective elements of stakeholders’ well-being**: Self-reported measures can usefully complement objective measures and shed light on overlooked aspects of well-being.

These best practices are presented in the remainder of this brief. The “Scope 1” measurement framework was designed in line with these best practices. The measurement of the “Scope 2” and “Scope 3” social performance of firms, namely consumer well-being and the well-being of stakeholders in the supply chain, should rely on the same principles. Given the diverse nature of product impacts and the difficulty of collecting data on well-being outcomes in the supply chain, harmonised measured in these areas remain part of the statistical agenda ahead.

**SOCIAL PERFORMANCE MEASURES SHOULD CAPTURE THE MULTI-DIMENSIONAL ASPECTS OF WELL-BEING THAT ARE IMPORTANT FOR PEOPLE**

A comprehensive approach to assessing the social performance of businesses requires monitoring the **multi-dimensional factors** that are important for people’s lives. Existing business non-financial performance frameworks tend to be biased towards measures based on data that already exist within companies. While this is understandable, this approach may overlook or neglect important stakeholder outcomes. In this sense, businesses can learn from governments and national statistical offices (NSOs), which have made great progress in advancing measures of social progress as part of the “Beyond GDP” agenda (Stiglitz, Fitoussi and Durand, 2018[3]). In the past decade, countries across the world have developed well-being frameworks in order to monitor social outcomes and use this information to inform public policies (Exton and Shinwell, 2018[4]). Many of these frameworks have similar features and share a
The OECD Well-being Framework, which was inspired by the “Beyond GDP” agenda, features 11 dimensions of current well-being, which consider the well-being of people here and now; and four dimensions of resources for future well-being, thereby considering sustainability as an integral component of well-being. These well-being dimensions can be measured and should be considered when assessing social performance, whether it is from an impact materiality or from a financial materiality perspective. In particular, the dimensions of current well-being are relevant to measure the well-being outcomes of discrete business stakeholder groups: employees, consumers and communities (as suggested in Figure 1). Businesses also contribute directly (or deplete) resources for future well-being that are relevant to society as a whole.

THE MEASUREMENT OF SOCIAL PERFORMANCE SHOULD INCLUDE OUTCOME INDICATORS

Most existing business sustainability frameworks feature a mix of input indicators (which measure resources spent), output indicators (which measure activities executed or quantities produced aimed to achieve a given objective) and outcome indicators (which measure the aspect of well-being relevant to people). Each of these are useful in tracking progress. However, in order to understand the effect of business practices and policies in the social sphere, companies need to convincingly integrate outcome measures in their social performance frameworks. Measuring only inputs, business activities or outputs risks not capturing progress towards the objectives that really matter to stakeholders. Measuring outcomes is also a necessary step to understanding impacts and to better informing how aspects of a company’s social performance can affect enterprise value.

For example, in the area of employee mental health, inputs (in the form of money spent on employee well-being programmes or activities organise) and outputs (in the form of employee participation in such programmes) may provide information on business contributions to the mental health of employees, and, indirectly, of people in society (Figure 5). However, organisations should form an understanding of how such activities contribute to stakeholder well-being outcomes, as various factors may interfere with this causal chain. Survey measures such as the WHO-5 Well-being Index can be usefully employed to measure the mental health outcomes of employees. A wide variety of survey tools have been developed to capture more specific disorders such as anxiety or depression (e.g. PHQ, GAD), general mental distress (e.g. MHI, GHQ, SRQ, SF-12) as well as positive mental health (e.g. WHO-5 Well-being Index, Warwick-Edinburgh Mental Well-being Scale, MHC-SF). The WHO-5 Well-being Index is a workplace friendly tool that frames questions in an accessible and non-confrontational manner.

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5 See also: (Schumann, 2016(13)) for an overview of the nature of these different types of metrics.

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MEASURING INCLUSION REQUIRES GOING BEYOND DIVERSITY STATISTICS

Understanding inequalities and barriers to opportunities requires going beyond averages and monitor differences between groups in each dimension of well-being. The OECD Well-being Framework measures inequalities in a transversal manner, as recommended by the High Level Expert Group on the Measurement of Economic Performance and Social Progress (Stiglitz, Sen and Fitoussi, 2009). Existing measurement frameworks tend to focus on diversity and inclusion as an isolated issue. Inequalities between men and women, racial and ethnic groups, or low-skilled and high-skilled workers need to be considered throughout a measurement framework in order to adequately assess a business’ contribution to inequalities in society and identify financially material risks and opportunities in the social area.

For example, average measures of inputs and activities related to skills and learning (e.g. training hours) or their outcomes (e.g. assessed skills or perceived learning outcomes) are of limited use since it may conceal large differences between staff categories or between men and women, meaning that potentially only a sub-set of employees are really benefitting from human capital investments. If training primarily benefits more educated employees, then the firm’s actions may actually contribute to exacerbate, rather than reduce inequalities in society. This would also imply a missed opportunity for broadening the firm’s human capital pool and preparing the firm for just green and digital transitions.

Types of horizontal inequalities that are relevant to consider include: age, gender identity, race or ethnicity, staff category, contract type, spatial inequalities, and vertical inequalities (see Table 1). Some of these may be more relevant in certain areas than others.

Table 1. Dimensions of inequalities between stakeholders that are relevant to measure

<table>
<thead>
<tr>
<th>Disaggregation</th>
<th>By age group</th>
<th>By gender</th>
<th>By race or ethnicity</th>
<th>By staff category</th>
<th>By contract type</th>
<th>Spatial</th>
<th>By decile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measurement</td>
<td>Age</td>
<td>Male; Female; Other</td>
<td>There is currently no international standard to measuring race and ethnicity.</td>
<td>ISCO-08 categories</td>
<td>Full-time (Permanent); Part-time (Permanent); Temporary</td>
<td>Country, region, and further spatial disaggregation if interest</td>
<td>Compute average for each decile</td>
</tr>
</tbody>
</table>

Note: Based on the OECD How’s Life approach and other international standards.

Race and ethnicity are important vectors of inequalities, and discrimination and systemic barriers present obstacles for certain groups to gain complete and equal participation in society and the economy (OECD, 2020). The national context matters for how terms such as “race”, “ethnicity”, “migrant status” or “indigenous identity” (the latter two are more relevant concepts in some countries) are understood and can be measured. Norms and appropriate terminology are evolving rapidly even in countries that are more advanced in collecting data on diversity. In addition, some countries pose legal constraints on the collection of data on ethnicity or race. In jurisdictions where there is a common standard, companies should align their practices with national ones. In others, companies may use proxy measures to capture differences between groups, in order to do justice to inequalities between groups and avoid blind spots. Further methodological guidance on this issue may need to be developed.

TO UNDERSTAND HOW PEOPLE ARE FARING, IT IS WORTH ASKING THEM

In its landmark report in 2009, the Commission on the Measurement of Economic Performance and Social Progress, noted that well-being should be measured using both objective and self-reported indicators (Stiglitz, Fitoussi and Durand, 2018). Some areas of well-being are inherently subjective, and can only

7 For an overview of practices in OECD countries, see Balestra and Fleisher (2018).
measured by asking people about their experiences (e.g. job satisfaction). In other cases, concepts could be measured in other ways, but asking people about their experience is more cost-effective (e.g. asking people about perceived learning vs. conducting a skills assessment). In either case, self-reported measures provide an important complement to objective ones, and businesses should consider using employee surveys as an important source of information about their non-financial performance. This report by Sen, Stiglitz and Fitoussi sparked a movement among NSOs in OECD countries to invest in and harmonise the collection of data on people’s self-reported life experiences.

In support of this international effort, the OECD has produced a number of guidelines on measuring self-reported aspects of well-being, including on subjective well-being, trust and the quality of the working environment (OECD, 2013[6]; OECD, 2017[7]). These guidelines include a thorough review of evidence on the validity of self-reported measures, i.e. whether these measures capture what they claim to measure. In the case of subjective well-being, there is a wealth of evidence to support the idea that such measures correlate well with other proxy measures of the same concepts and have the expected relationship with individual, social and economic determinants. To a large degree, subjective well-being measures capture the information that we think they capture. This is not to say that there are no limitations to using subjective well-being and other self-reported measures, but it is by now widely acknowledged that they can act as a useful complement to objective data sources.

Many OECD countries now use large-scale household surveys to collect data on self-reported aspects of people’s life. When these surveys are harmonised across OECD countries, the results can be compared, allowing OECD countries to benchmark their progress against each other. The OECD Guidelines on Measuring the Quality of the Working Environment compile best practices and suggest survey questions that can be used to assess various components of employee well-being (OECD, 2017[8]). Some of such measures are used by NSOs and other government bodies to shed light on working conditions in OECD countries. This includes the European Working Conditions Survey, a multi-national survey implemented in European countries by Eurofound, an agency of the European Union. This survey has been replicated, with minor differences in the United States and Korea.9

As an example, Figure 6 illustrates an indicator of perceived opportunities for career advancement, for different groups of French employees. While career advancement can be measured objectively, by considering the number of staff promotions that occurred over a given time span, harmonising such measures across companies is challenging, as this would require setting weights for the “magnitude” of the promotion, either in monetary terms or in terms of responsibility or technical requirements. A self-reported measure is a useful proxy measure of career advancement opportunities. The figure shows considerable differences in perceived opportunities of career advancement across groups. These opportunities can be influenced by a number of business practices, including HR policies, training, social support and discrimination, as well as by factors that are outside the influence of businesses. By measuring such outcomes, and by benchmarking against peers, firms can better understand their performance, improve their impact, and optimise use of their human resources.

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8 Subjective well-being measures refer to a specific category of self-reported measures that evaluate Good mental states, including all of the various evaluations, positive and negative, that people make of their lives and the affective reactions of people to their experiences. It refers to concepts that by definition cannot be measured objectively but are fully experienced, and cannot be observed by a third party. (Other self-reported measures, such as self-reported health, can also be measured in an objective manner).

9 Respectively the American Working Conditions Survey, implemented by the RAND Corporation and the Korean Working Conditions Survey by the Korea Occupational Safety and Health Agency.
Figure 6. Perceived opportunities for career advancement

Share of employees who believe their job offers good opportunities for career advancement, by gender, job type and industry, in France, 2015

Source: Author’s calculations based on European Working Conditions Survey (EWCS), 2015.

Collecting such data from employees, especially if done in a harmonised manner, may necessitate a resource investment by businesses. In the digital age, however, employing large-scale surveys can be done in a **cost-effective manner**. In fact many large companies already conduct staff surveys on various aspects of the working environment, often collecting data on what is known as “employee engagement”. The lack of comparability between these surveys is a significant missed opportunity for companies, investors and other stakeholders. Without harmonisation of such instruments, it is not possible to compare companies’ performance and benchmark to peers.
ALIGNING BUSINESS SOCIAL PERFORMANCE MEASURES AND OFFICIAL STATISTICS

This brief has presented the OECD’s framework on measuring the non-financial performance of firms and has highlighted some of the main lessons from the “Beyond GDP” measurement agenda that can be usefully applied to better understand the non-financial performance of firms. An important element of the OECD’s framework is the objective of better aligning business measures with indicators that are being used by national statistical offices to measure well-being at societal level.

The potential opportunities of interoperability of data on firms’ social and environmental performance are large and may serve multiple purposes at the same time. Greater alignment between measurement at the firm-level and at the macro-level can help shed more light on the contributions of firms and sectors to well-being and sustainability, identify opportunities and trade-offs, and allow for evidence-based policy decisions in line with shared goals.

Businesses and investors can also benefit from aligning official statistics on well-being and sustainability with business social and environmental performance metrics. The official statistics community has significantly advanced on developing conceptual frameworks and measurement standards relevant for the social dimension, as describes in this brief. Businesses can learn from these tools and avoid reinventing the wheel.

Moreover, the harmonisation of micro and macro data would provide performance benchmarks to place performance of individual firms in context and that are necessary to assess impacts. Benchmarks can facilitate understanding of whether a company’s actions are responsible for the changes in outcomes recorded at the company level, through comparisons with peers or local or national averages. Benchmarks can also help inform setting thresholds where no obvious threshold exists. Benchmarking requires having comparable data, and underlines the importance of harmonising non-financial data across organisations and countries.

See (Siegerink, Shinwell and Žarnic, 2022) for further discussion on alignment of business non-financial performance statistics and the related statistical agenda for firms and NSOs.

References and further reading


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