

POSITION PAPER ON EU CSRD AND ESRS

How to assess Talents/Associate Workers

Introduction

According to the European Sustainability Reporting Standards (ESRS), specific reporting requirements exist for an entity's "Own Workforce." Under ESRS S1 – Own Workforce (ANNEX II, Table 2), "own workforce" is defined to include:

- Employees who are in an employment relationship with the undertaking ('employees'), and
- Non-employees who are either individual contractors supplying labour to the undertaking ('self-employed people') or
- People provided by undertakings primarily engaged in 'employment activities' (NACE Code N78).

While the guidance on the Directive on corporate sustainability reporting (CSRD) specifically mandates that individuals “provided by undertakings primarily engaged in ‘employment activities’” shall be included as a non-employee in the own workforce of the entity which contracts for such temporary labour, the regulation does not specifically define the treatment for the agency which has placed the individual in a temporary engagement.

The World Employment Confederation (WEC)-Europe has therefore assessed how placed workers (referred to as “talents/associate workers”) shall be categorized for the purposes of CSRD reporting in order to enable industry alignment and comparable reporting outcomes for this topic.

This paper addresses the following topics:

1. Are talents/associate workers considered "own workforce" or do they fall within the scope of "workers in the value chain"?
2. If considered “own workforce”, shall talents/associate workers be disaggregated from corporate employees for the purposes of reporting in compliance with CSRD?

Own Workforce or Workers in the Value Chain?

Agency work is characterized by a unique triangular employment relationship, defined by EU Directive 2008/104/EC (Article 3.1b) under NACE Code N78. Although agency workers (or “associates”) mainly work at clients’ sites, under their supervision, they have an employment contract with the employment agency.

In the absence of clear guidance for the scoping of individuals placed by undertakings engaged in employment activities, WEC-Europe has considered the employment relationship between our undertakings and the respective individuals as the determining factor as to whether an individual is considered to be in the scope of ESRS S1 “Own Workforce” or ESRS S2 “Workers in the Value Chain”.

The basic criterion of employment is clearly referenced in the CSRD regulation ESRS S1 §4, which includes in Own Workforce “people who are in an employment relationship with the undertaking”. On this basis, WEC-Europe has concluded that **all individuals who are considered employees of the undertaking under local law fall within the scope of “Own Workforce” as defined by ESRS S1.**

Reporting Requirements for Talents/Associate Workers

WEC-Europe has further considered ESRS 1 Section 3.7 “Level of disaggregation”, which requires that undertakings shall disaggregate reported information “when presenting information at a higher level of aggregation would obscure material information about impacts, risks and opportunities” or “when material impacts, risks and opportunities are highly dependent on a specific location or asset”.

The scope of our undertakings’ employees who fall within ESRS S1 – Own Workforce includes both internal employees as well as talents/associate workers and other individuals for whom the undertaking is the employer of record but who are placed with and carry out their work for clients. Inherent to the business model in our industry, the respective impacts, risks and opportunities related to these different subsets of employees is materially different in nature.

Based on the specific facts and circumstances of the business model in our industry, WEC-Europe considers it **appropriate to disaggregate “Own Workforce” across corporate employees and talents/associate workers in order to provide readers of our Sustainability Statements a proper understanding of the material impacts, risks and opportunities for our industry.** If information were to be provided, whether it be in terms of impacts, risks or opportunities, for both groups combined, WEC-Europe considers that the information would no longer be meaningful, as these groups of employees differ materially.

Materiality of Individual Data Points

Each undertaking in our industry will carry out a double materiality assessment as mandated by ESRS 1. Specific to our industry, however, is the assessment of materiality at the data point level for those metrics reflected in ESRS S1-5 through S1-17 for each disaggregated set of employees. At an industry level, certain data points are not considered to be material or relevant in order to meet the objective of the related disclosure requirements (which may be assessed as material) for our talents/associate workers. Certain of these data points are discussed below:

1. **S1-6 (50b):** The total number by headcount or full-time equivalent (FTE), specifically the distinction between permanent employees, temporary employees, and non-guaranteed hours employees.
2. **S1-6 (50c):** The total number of employees who have left the undertaking during the reporting period and the rate of employee turnover in the reporting period.
3. **S1-16 (97a):** The gender pay gap, defined as the difference in average pay levels between female and male employees, expressed as a percentage of the average pay level of male employees.
4. **S1-16 (97b):** The annual total remuneration ratio of the highest-paid individual to the median annual total remuneration for all employees (excluding the highest-paid individual).

Reasons for Immateriality

Headcount of Permanent and Temporary Employees

Disclosing the headcount of employees with permanent and temporary contracts is intended to provide insights into workforce composition and employment stability. For our industry, this metric is less material due to the nature of our business. We operate primarily in staffing and recruitment, where temporary contracts and project-based assignments are core to our operations. Our workforce composition is heavily influenced by client needs, making this metric unmeaningful as an indicator of employment stability.

Employee Turnover Rate

Turnover rate is commonly used to assess workforce stability and satisfaction. However, for our business, this metric is less material. The Agency Work Directive defines Agency Work as temporary in nature. As Private Employment Agencies, we engage many temporary or project-based workers, leading to naturally high turnover. This high turnover reflects the cyclical nature of our business rather than instability. Additionally, our operations are driven by fluctuating client demand, which necessitates a dynamic and flexible workforce. Therefore, high turnover can be a response to changing client needs rather than an issue within our employment practices.

Gender Pay Gap

Disclosing information about the gender pay gap aims to ensure transparency, fairness, and equality in compensation practices. However, in the context of the staffing industry's business model and operations, such disclosure may be less material. As staffing and recruitment companies, we place talent in various roles, industries, locations, and durations according to client needs and market conditions. In each instance, staffing and recruitment companies adhere to prescriptive local regulations which stipulate payrate for associate workers while on an assignment, however it is noted that beyond such a threshold the associate pay levels are determined by clients or through collective agreements. This environment leads to significant variations in pay across regions and sectors, making a standardized disclosure of the gender pay gap less meaningful. The complexity and variability of assignments mean that gender pay gap data would not accurately capture the nuances of compensation across different roles and sectors.

Annual Total Remuneration Ratio

Our talent often has varying levels of remuneration based on specific roles, industries, and client demands. The inclusion of these diverse employment arrangements in the calculation of median pay can skew the results, making the remuneration ratio less representative of our industry's internal compensation practices. Additionally, the pay rates for talent placed are often influenced by clients' pay structures and market rates for specific roles. Disclosing a remuneration ratio that includes these externally influenced wages does not accurately reflect the undertaking's internal pay practices or management decisions. The diverse nature of the talent pool across our industry, which includes individuals from various backgrounds, skills, and employment types and durations, makes a single remuneration ratio less material. The wide variation in roles and assignments means that a single ratio would not accurately capture the nuances and complexities of compensation practices across the undertaking.

Additional data points as defined in ESRS S1-5 through S1-17 may equally be assessed as immaterial by the undertakings within WEC-Europe on the same basis as outlined above, primarily due to the outcomes being highly dependent on and in a large part determined by clients.

Conclusion

In conclusion, **while talents/associate workers are considered part of an Agency's own workforce and fall under ESRS S1 reporting requirements, WEC-Europe considers it appropriate to disaggregate "own workforce" across corporate employees and talents/associate workers, with each subset of employees to be separately reflected in the scope of ESRS S1 – Own Workforce.** This position ensures relevant and accurate disclosures, avoiding confusion and maintaining transparency.

Finally, whilst it is important to acknowledge that the reference to 'own workforce' are those in an employment relationship with the undertaking, it is also essential to emphasise that decisions about what information is required to be disclosed regarding non-employees shall not affect their status pursuant to the applicable labour law, as intended by the regulations.

About the World Employment Confederation-Europe

The World Employment Confederation-Europe serves as the voice of the HR services industry at the European level, representing both national federations and workforce solutions companies worldwide. Our diverse membership encompasses a broad spectrum of HR services, including agency work, direct recruitment, career management, Recruitment Process Outsourcing (RPO), and Managed Service Provider (MSP) solutions.

Our mission revolves around securing recognition for the pivotal role played by the HR services industry in fostering well-functioning labour markets and advocating on behalf of our members to enable appropriate regulation. By fostering an environment conducive to sustainable growth of the HR services sector, our ultimate goal is to deliver better labour market outcomes for all.

By bridging the supply and demand gaps in labour markets, creating pathways to employment, enabling agile organisations, balancing flexibility with protection and deploying digital solutions responsibly, the HR services industry plays a central role in addressing labour market challenges and delivering people-centric solutions.