



April 8<sup>th</sup>, 2019

**Magna International Inc.**  
**Symbol:** TSX:MG; NYSE: MGA  
**Annual Meeting Date:** May 9, 2019

## Shareholder proposal on Human Rights Due Diligence and Human Capital Management

In recent years, Magna International Inc. ("Magna") has expanded manufacturing and sourcing activities in countries with high human rights and human capital management risks, including China, India, Thailand and Mexico. Globally, Magna now directly employs more than 174,000 employees across 348 manufacturing sites in 28 countries.

Nearly 33 percent of Magna's global workforce is located in countries where workers have no guarantee of rights at work.<sup>1</sup> In the auto industry, poor management of workforce risks is exemplified by weak health and safety measures, excessive and sometimes illegal working hours, disproportionate reliance on temporary and migrant workers, violations of the right to freedom of association, and use of forced labour.

Effective due diligence, management and remedy of these risks can help a company optimise the wellness and productivity of their workforce while upholding fundamental principles and rights at work.

## Proxy Alert

### Recommendation: **FOR** shareholder proposal at Magna International Inc.

**Filer:** The Catherine Donnelly Foundation,  
supported by SHARE

Magna's current disclosures fail to provide adequate information to help investors ascertain the company's approach to workforce management and human rights due diligence and remedy in its global manufacturing operations and supply chain.

The Catherine Donnelly Foundation filed a proposal related to workforce management and human rights reporting at Magna. The shareholder proposal reads:

*RESOLVED that the Board of Directors expand its annual disclosure to shareholders, at reasonable cost and omitting proprietary information, to include key performance indicators (KPIs) on human capital management and human rights due diligence related to the company's global manufacturing sites and its global supply chain. The report should include:*

- 1. Within global manufacturing sites: Comprehensive workforce metrics including the number of temporary workers at Magna's manufacturing sites, health and safety KPIs, responsible labour recruitment measures*

*currently in use, and the number and types of complaints received and remedies offered under its grievance mechanism; and*

- 2. Within the global supply chain: KPIs on the number of supplier audits conducted, the most salient human rights risks identified and corrective measures implemented to avoid adverse human rights impacts.*

*In order to provide comparable and consistent information, the metrics reported should align with internationally recognised good practice for reporting such as the Global Reporting Initiative (GRI) and/or the Workforce Disclosure Initiative (WDI) along with guidance provided through industry initiatives, such as the Automotive Industry Action Group.*

### **Relevance of the issue for investors**

Research shows that strong workforce management practices are important to company performance. For instance, an analysis that reviewed 92 studies on human capital management found that the majority of studies identified a positive correlation between companies' training and human resource policies and investment outcomes.<sup>2</sup>

In addition to enhancing performance through strong workforce practices, Magna has a responsibility to carry out human rights due diligence under international standards and norms such as the UN Guiding Principles for Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

Despite its significant employment footprint, Magna fails to disclose the metrics necessary for investors to appraise the quality of its human capital management practices and human rights due diligence process. This is a concern to investors for the following reasons:

- Recent reports of the arrest of protesting Magna workers' by Chinese SWAT police in Changzhou and claims of worker detentions raise concerns around basic workplace standards such as a safe and healthful workplace and fair treatment of employees<sup>3</sup>;
- In China, where Magna has 22,325 employees, research has found that auto workers are disproportionately affected by musculoskeletal disorders and that this critical occupational health concerns is often ignored by management<sup>4</sup>;
- In India, where Magna has 3,550 employees, research has found that thousands of auto workers lose hands and fingers ever year.<sup>5</sup> In addition reliance on temporary workers and short-term subcontractors raises further safety concerns<sup>6</sup>;
- In Mexico, where Magna has 30,225 employees, working conditions in the auto parts sector have been described as "grueling and exploitative"<sup>7</sup>.

### **Vote recommendation and rationale**

This proposal follows several years of unsuccessful engagement by SHARE, on behalf of Catherine Donnelly Foundation and other Magna shareholders on the issues raised above.

Magna Management responded to the proposal in its proxy circular. Management argues that it believes Magna currently provides an appropriate level of general disclosure. However, Magna currently does not disclose information to assure investors that it effectively addresses the risks identified above.

While the company lays out its approach to elevate grievances to the board, it also stresses that it has a decentralised operating model and it has failed to demonstrate the effective circulation of human rights and human capital information

from its supply chain, individual manufacturing operations to the head office and board of directors.

On workforce indicators, the company's disclosure exhibits gaps in several key areas:

- Magna does not provide metrics on the use of temporary workers in significant countries of operations, which raises concerns about the company's oversight of the human rights risks associated with use of temporary workers. By contrast, global peers, such as Bosch, disclose metrics about temporary and contract workers.
- Magna provides no information about the company's recruitment practices for its facilities. For example, it has not been able to affirm that no fees are charged by labour brokers during the hiring process. Such fees are often associated with situations of bonded labour.
- Magna does not disclose accident rates or fatality figures despite operating in an industry rife with health and safety risks.

Linamar, a Canadian auto parts peer, and Bosch, a global peer of comparable size, both disclose more health and safety metrics.

With respect to its supply chain, Magna does not disclose supply chain audit or grievance mechanism metrics. Management argues that "the risks of disclosure exceed any potential benefit". In SHARE's view, a company that effectively manages key supply chain human rights risks would conclude otherwise. For example, Magna's largest clients disclose such information; BMW discloses the types of issues raised through its grievance mechanism and FCA discloses summary results of supplier assessments. Similarly, Bosch, discloses the number of audits completed at suppliers.

In light of the risks highlighted above, SHARE's repeated engagement efforts to seek enhanced disclosure, and the lagging quality of Magna's disclosure compared to peers, we recommend a vote in favour of this proposal.

## SHARE's Recommendation:

Vote **FOR** proposal at Magna on Human Rights Due Diligence and Human Capital Management

Link to full proposal: <https://share.ca/share-proposals/2019-magna-human-rights/>

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<sup>1</sup> Based on a country rating of 5 and above in the 2018 ITUC Global Rights Index

<sup>2</sup> Bernstein, Aaron and Larry Beferman, "The Materiality of Human Capital to Corporate Financial Performance," Pensions and Capital Stewardship Project, Labor and Worklife Program, Harvard Law School, April 2015.

<sup>3</sup> China Labour Bulletin, "Workers at an automotive parts factory in Changzhou, Jiangsu protest restructuring, arrested", October 2018. <https://maps.clb.org.hk/strikes/en#201803/201903/11005>

<sup>4</sup> Chan, Anita, et al. "Disposable Bodies and Labor Rights: Workers in China's Automotive Industry." *Journal of Labour and Society* 17.4 (2014). <https://www.safeinindia.org/>

<sup>5</sup> <https://www.reuters.com/article/us-india-autos-idUSKCN0VooOZ>

<sup>7</sup> Sada, María José. "Foot on the Gas: Behind the Mexican Auto Boom." *Harvard International Review*, vol. 37, no. 1, 2015, pp. 7–9