GLOBAL FORUM ON RESPONSIBLE BUSINESS CONDUCT

SESSION NOTE

Mainstreaming responsible business conduct in companies

30 June 2017 - 09:30-11:00
Room CC10 - OECD Conference Centre

In order for responsible business conduct (RBC) to be meaningful and impactful, it should be a core aspect of business operations. This session will discuss how businesses are mainstreaming RBC within their companies, for example, by reflecting RBC objectives in incentive structures, recruitment criteria, business models, and corporate governance structures. In addition to discussing various approaches for mainstreaming this session will also discuss the effectiveness as well as possible limitations of these different approaches.

A recent study by the Boston Consulting Group (see useful resources below) points to board oversight as a top driver of a company's attention to sustainability. Setting a tone from the top is crucial to making RBC a part of corporate culture. Beyond developing policy with board level buy-in, structuring boards to include oversight for RBC objectives and activities also helps ensure that RBC issues are taken into account with respect to corporate decision making at the highest levels. Recognition of the importance of integrating responsibility for RBC at the board level is increasingly being reflected in corporate governance policy. For example, the Indian Companies Act makes it mandatory to have a board member that is responsible for RBC. The Dutch Corporate governance code also integrates RBC in the tasks of the Supervisory Board and the Executive Board.

Incentives linked to RBC performance are also useful to driving meaningful action. The nature of incentives can vary and can be linked to renumeration, or promotion and recruitment criteria amongst others. The practice of linking RBC criteria to renumeraton seems to be relatively recent but increasingly common. A report by Ceres found that while in 2012, only 15% of the companies evaluated linked executive compensation to some sustainability metrics, 24% of the 146 companies surveyed in 2014 did so (see useful resources below). In order to be most impactful RBC-based incentives should go beyond executive compensation and apply to all actors which have the capacity to impact sustainability performance such as sourcing directors, designers, environmental and social managers and so on.

In addition into integrating RBC in incentive schemes and corporate governance it is important to establish alignment across teams and business units by including all relevant departments in decision making about actions that may increase the risk of harm in the company's operations, supply chain or other business relationships. For example thinking through the environmental and social risks of a product at the design stage and taking these considerations into account can help avoid the use of high-risk components or materials, or identify more sustainable processes for production. Involving sourcing departments in thinking through supply chain risks can lead to more responsible sourcing strategies and development of strong governance processes to promote RBC down the supply chain.

Resources

- David Kiron, Nina Kruschwitz, Knut Haanaes, Martin Reeves, Sonja-Katrin Fuisz-Kehrbach, Georg Kell, (2015) Joining Forces: Collaboration and Leadership For Sustainability, MIT Sloan Management Review, The Boston Consulting Group and the UN Global Compact.
- Ceres, (2014) Gaining Ground: Corporate progress on the Ceres roadmap for sustainability, Ceres and Sustainalytics.
- Jeroen Veldman, Filip Gregor and Paige Morrow, (2016) Purpose of the Corporation Project. Corporate Governance for a Changing World: Final Report of a Global Roundtable Series. Brussels and London: Frank Bold and Cass Business School.
- Formentini, M., & Taticchi, P. (2016). Corporate Sustainability Approaches and Governance Mechanisms in Sustainable Supply Chain Management. *Journal of Cleaner Production,* 112(3), pp.1920-1933.
- Formentini, M., Sodhi, M. S., & Tang, C. S. (2016). The Evolution of Barilla's Durum Wheat Supply Chain Contracts for Triple Bottom Line Benefits. In R. Cagliano , F. F. A. Caniato , C. G. Worley (Eds.), Organizing Supply Chain Processes for Sustainable Innovation in the Agri-Food Industry (Organizing for Sustainable Effectiveness, Volume 5): 109–126. Emerald Group Publishing Limited.
- Brown, J. & Nuttal, R. (2013). Beyond corporate social responsibility: Integrated external engagement.