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School of International and Public Affairs

Quantifying the Costs, Benefits and Risks of Due Diligence for Responsible Business Conduct

Framework and Assessment Tool for Companies

June 2016

In 2015-16, the OECD Secretariat partnered with the University of Columbia's School of International Public Affairs (SIPA) to lead a research project on the development of a framework and assessment tool to measure the costs and benefits of due diligence for businesses using the OECD's due diligence framework as a basis. The research team composed of graduate students was led by Adjunct Associate Professor Eva Weissman. The OECD Secretariat provided guidance and feedback to the students over the course of the project.

The final report submitted to the OECD in June 2016 includes: a literature review of studies measuring the costs and impacts of responsible business conduct, a framework methodology capturing costs and benefits related to due diligence, and an assessment tool for companies (survey).

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Introduction

Driven by declining costs of communication and transportation, the world today is connected through a global network of trade, communication, immigration and transportation. This wave of globalization has meant that economies, markets, cultures and policy-making across the world have become increasingly integrated. Moreover, globalization has evolved from a phenomenon of global economic integration (which primarily meant increased volumes of international trade, foreign direct investments and international capital flows) to include the effects of technological, socio-cultural, political and environmental integration.

This persistent 'megatrend' of globalization and transnational conduct of business has led to an unprecedented flow of capital and technology from developed economies to developing economies along with a transfer of manpower in the reverse direction. Total world migrant population has crossed 235 million as foreign direct investment (FDI) inflows into emerging economies have increased nearly seven-fold from US$100 billion to US$681 billion[1] between 1994 and 2014.

As the world has become interconnected, large business corporations have emerged – referred to as multinational enterprises (MNEs)–selling, sourcing and producing across various regions of the globe. Operating across a multitude of countries, MNEs often face complex legal, cultural, political and regulatory environments and institutional frameworks. In many cases, the countries they are operating in have weak legal systems and fragile or nonexistent civil societies. Since MNEs operate in an intensely competitive international environment with continuous pressure of prioritizing shareholder returns, MNE can be inclined to act in ways that can lead to the exploitation of unprotected and unrepresented sections of the society.

The OECD Guidelines

Recognizing this gap in regulatory oversight, the OECD in 1976 adopted the Declaration on International Investment and Multinational Enterprises, a policy commitment binding for adhering governments, promoting "an open and transparent environment for international investment" and encouraging the "positive contribution of MNEs to economic and social progress." Five amendments have been made to the Declaration since 1976. Participation by MNEs is voluntary and not enforceable. The latest version, titled the *OECD Guidelines for Multinational Enterprises*, was released in 2011 and has been adopted by 44 countries globally.

OECD defines **Responsible Business Conduct** (RBC) as a broad philosophy of carrying out all aspects of business not only in compliance with applicable laws and internationally recognized standards, but also contributing positively to economic, environmental and social progress by minimizing adverse impact (and remediating it as and when it happens) on all stakeholders including environment, employees, community, customers, and shareholders. The term RBC is often used interchangeably with the terms ESG (Environmental Social & Governance) compliance, sustainability, CSR (corporate social responsibility), socially responsible activities, but RBC as envisaged strives to encompass virtues of all of them and more. Please refer to Annex A for generally accepted definitions of these terms.

The Guidelines cover nine areas of Responsible Business Conduct (RBC) including information disclosure, human rights, employment, labor, environment, anti-corruption measures, consumer interest, science and technology, competition and taxation. Unique to the Guidelines are implementation mechanisms that more actively promote its use. Mechanisms include a grievance system adhering countries are required to set up and the use of a proactive agenda that calls for a risk-based due diligence process developed using a multi-stakeholder approach.

[1] World Bank

From an MNE’s perspective, adherence to the Guidelines requires the development of an internal system that will regularly conduct and improve the risk-based due diligence process and manage identified risks. Due diligence, as defined by the 2011 OECD Guidelines for Multinational Enterprises, is the “process through which enterprises can identify, prevent, mitigate, and account for how they address their actual and potential adverse impacts as an integral part of business decision-making and risk management systems[2].”

Due diligence is envisaged to be an “on-going proactive and reactive process whereby enterprises take reasonable steps and make good faith efforts to identify and respond to risks of adverse impacts in accordance with this Guidance”. Due diligence should be carried out throughout the entire life-cycle of a project or relationship. Due diligence should be conducted, for example, in connection with the contracting of a new supplier or business relationship as well as for ongoing activities. Furthermore, it should be dynamic, meaning that it can be tailored according to context or circumstances and should be applied with flexibility. The Guidelines recommend carrying out risk-based due diligence, in accordance with a five-step framework developed by the OECD.

Five-step Framework for Risk-based Due Diligence

Steps	Functions
Establish strong management systems for due diligence	• Adopt a responsible business conduct policy • Build internal capacity & functional alignment • Engage suppliers and business partners (outreach, incorporating into contracts) • Set up internal controls, supply chain data collection • Establish grievance mechanism
Identify and assess risks of adverse impacts in the supply chain	• Map operations, business partners & supply chains • Prioritize further assessment based on severity (sector, counterparty, and site for high-risk issues) • Identify risks of circumstances inconsistent with standards in the Guidelines
Manage risks in the supply chain	• Inform senior management • Fix internal systems • Build leverage individually or collaboratively • Use existing networks to manage risk (e.g. industry, workers reps, non-traditional partnerships) • Build internal and business partner capacity • Provide remedies when “caused” or “contributed”

[2] OECD Guidelines for Multinational Enterprises: Responsible Business Conduct Matters (2011)

I. Objective of the Study

The primary objective of this Capstone project carried out by the School of International and Public Affairs at Columbia University was to examine the actual costs incurred and commercial benefits accrued by companies that undertake risk-based due diligence for responsible business conduct. The client, Organisation for Economic Cooperation and Development (OECD), has made significant progress in the process of defining guidelines for responsible business conduct in various sectors and plans to use the outcome of the project in its ongoing efforts to refine its RBC guidelines and policies.

In the first phase, the team was tasked to carry out a literature review on the cost and benefits of applying RBC and RBC due diligence in particular. Based on the result of the literature review, the team then attempted to develop a taxonomy and methodology to help assess the costs and benefits of applying due diligence in alignment with the 5-step framework proposed by the OECD Guidelines. In a final step, the team utilized that framework to develop a survey that could be used by OECD to collect more information on the costs and benefits from companies following OECD's diligence practices guidelines.

Going forward, OECD will initially seek feedback from a small group of companies on the survey and test the effectiveness of the proposed methodology. The idea is to ensure that the methodology is robust, and the survey can be utilized to collect data that can be analyzed in a meaningful manner. After that, it is expected that the methodology will be used to build an empirical basis to inform policy decisions and the development of due diligence standards with the goal of minimizing unnecessary costs of due diligence and maximizing business benefits. The cost and benefit findings are also envisioned to be used for outreach and engagement with industry and new markets.

Over the course of the research on literature review, the project team found a vast amount of research, both theoretical and empirical in nature, on the benefits of RBC and related concepts in general. No data was found on the benefits specific to due diligence for RBC. On the cost side, the team focused on finding cost estimates related to carrying out due diligence for RBC. Only one study, published in May 2016, addressed the cost of due diligence based on OECD guidelines, but several studies were found that addressed similar due diligence efforts (such as in the context of the passing of the US Dodd Frank, Section 1502 Conflict Mineral Act and EU regulations on Non-financial Disclosure). The findings of the literature review are covered in Section III.

While trying to establish linkages between RBC due-diligence/RBC activities and the costs incurred and benefits achieved, it was observed that even though costs can be fairly accurately apportioned to various RBC due-diligence and RBC activities in general, it is difficult to assign specific benefits to these activities. This is mainly due to the fact that it is essentially impossible to establish one-to-one links between a specific RBC activity and a specific benefit or outcome. RBC activities tend to create multiple intermediate benefits, which are influenced or reinforced by other RBC measures. Isolating the effect of one activity from the other or the whole is extremely difficult. All this is exacerbated by the extremely heterogeneous nature of companies in terms of markets, organizational structure, and business models.

For example, a firm which has manufacturing systems which are environmentally conscious as compared to peers may see improved financial performance. But the same company might also have best practices in how it treats its workforce. Empirical evidence exists that both of these factors help improve a company's reputation, creating higher brand loyalty, leading to higher customer sales etc., but it may be extremely difficult to quantify the impact each individual action has on the final sales. The framework and methodology for the analyzing the cost, benefits and associated risks are covered in Section V.

The Survey and the Survey assessment tool are covered in detail in Section V and Section VI respectively.
The project team has also developed an overarching framework that attempts to determine the benefits of undertaking RBC activities in general. The framework proposes that ultimate benefits of RBC activities targeted at internal and external stakeholders accrue to the residual stakeholder - the shareholders of the firm in form of increased shareholder value. For details, please refer to Annexes G-L.

II. Literature Review

The literature review initially cast a wider net, looking not just at RBC as defined by OECD but also at related concepts such as corporate social responsibility (CSR) and sustainability efforts, also often referred to as ESG (environmental, social and governance), and how these efforts affect companies' operations and financial performance or bottom line. There is a long history of studies on the topic, starting in the early 70s. Over the last 40-50 years, literally thousands of studies have been trying to establish a positive connection between corporate social performance (CSP) and corporate financial performance (CFP).

The studies fell into several categories – there were theoretical studies as well empirical studies which analyzed vast number of data points, also interviews with managers and CEOs about perceived benefits. In addition, a large number of meta-analyses studies exist which try to consolidate the findings of individual studies over a longer time period. On top of that there are several *enhanced* meta-analysis studies combining the results from the different meta-analyses.

One key, often-quoted study - Margolis, Elfenbein and Walsh 2007 – Does it Pay to be Good?, looked at 192 effects in 167 studies. Only 2% of studies reported a significant negative effect on shareholder value. The overall effect found was positive, but small (mean r = .13). A much larger study done more recently (Friede 2015), combined the findings of more than 200 individual empirical studies and several review studies through Dec 2014. 90% of studies found a non-negative ESG-CFP relationship with a similar central average correlation of around 0.15.

A brief summary of some of the key findings on the benefits of RBC and the costs of RBC due-diligence is provided in the table below. For detailed results see Annex B and Annex C

Summary of Benefits of RBC in General			
Category	**Benefits**	**Key Findings**	**Sources**
Stock Price	• Outperformance in stock price • Increased shareholder returns • Reduced volatility • Improved investor satisfaction	Companies with strong sustainability dramatically outperformed low sustainability companies in terms of both stock market and accounting measures. For listed companies, outperformance was estimated at 4.8% annually from 1993 to 2010.	Eccles, Ioannou and Serafeim (2011) and Serafeim (2014)
		Publicly traded U.S. companies, after adopting shareholder-sponsored ESG proposals, experienced a 1.77% boost in systemic-risk adjusted returns between 1997-2012,	Clark, Feiner and Viehs (March 2015)
		Stock prices of companies with a reputation for social responsibility did not decline significantly during recessionary period while they declined 2.4% for companies without strong CSR	Koehler and Hespenhende (2013)
		Companies that consistently manage and measure their responsible business activities outperformed their FTSE 350 peers on total shareholder return (TSR) in seven out of ten years and by between 3.3% and 7.7% per year. The TSR of these companies also recovered	Business in the Community (2011)

Summary of Benefits of RBC in General			
Category	**Benefits**	**Key Findings**	**Sources**
		more quickly in 2009 compared with that of their FTSE350 and FTSE All-Share peers, with an average 10 percentage points higher shareholder return.	
Cost of Capital	• Better access to financing • Lower cost of equity	Results suggest that superior CSR performance leads to lower capital constraints/better access to financing.	Cheng, Beiting, Ioannis Ioannou, and George Serafeim (2011)
		90% of studies on the cost of capital showed that sound sustainability standards lower companies' cost of capital.	Clark, Feiner (2015)
		Companies with better CSR scores exhibit cheaper equity financing, mainly due to increased transparency and reduced risk.	Ghoul, Guedhami, Kwok, & Mishra (2010)
Reputation & brand image	• Improved reputation among all stakeholders • Increased brand value, enhanced company image • Increased revenues through access to markets, increase in sales volume and price premium	Good reputation with respect to corporate working environments can translate into superior financial performance and help gain a competitive advantage	Costs and Benefits of Corporate Social Responsibility (CSR), GIZ report
		55% of customers will pay extra for products and services from companies committed to positive social and environmental impact 52% of customers made at least one purchase in the past six months from one or more socially responsible companies, 52% check product packaging to ensure sustainable impact	Godfrey, P. C., Merrill, C. B. and Hansen, J. M. (2009), the relationship between corporate social responsibility and shareholder value: an empirical test of the risk management hypothesis
Operations	• Operational Efficiency • Contracting benefits • Reduction in ongoing check-up costs	Energy efficiency (clean energy and alternative energy sources) can lead not only to long-term sustainability, but also to short-term cost reductions. Implementation of energy efficient solutions can reduce operational costs.	From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance
		Companies can better attract employees if they engage in CSR activities. Cost of employee turnover is significant for many companies, especially in certain industries.	The Business Case for Sustainability, IFC
		Efficient due diligence procedures decrease cost of regular diligence.	The Benefits and Costs of Corporate Social Responsibility, Geoffrey B. Sprinkle, Lauren A. Maines
Human Resources	• Improved reputation leads to increased ability to attract and retain talent	Companies perceived to have a strong CSR commitment often have an increased ability to attract and retain employees, leading to reduced turnover, recruitment, and training	Greening and Turban (2000)

Summary of Benefits of RBC in General			
Category	**Benefits**	**Key Findings**	**Sources**
	• Reduced turnover, recruitment and training costs • Improved reputation • Improved recruitment due to diversity and inclusion efforts, employee health, safety and wellbeing promotion	costs. Prospective job applicants are more likely to pursue jobs from socially responsible companies than from companies with poor social performance reputations	
		Employees are attracted to and stay with their companies because of learning and development opportunities, company image and culture, and the workplace itself.	Mani, Thorpe and Zollinger (2002)
		The best employers showed growth in return on capital employed despite most sectors recording negative returns in the period.	Howson, P. (2003)
Environment	• Reduced waste, pollution, and energy leading to cost savings in the form of lower expenditures for raw material, and averted compliance, disposal and liability costs • Process and product innovation • Better operational performance	Proper corporate environmental policies result in better operational performance. In particular, higher corporate environmental ratings, the reduction of pollution levels, and the implementation of waste prevention measures, all have a positive effect on corporate performance. More eco-efficient firms have significantly better operational performance as measured by return on assets (ROA). With regard to poor environmental policies, both the release of toxic chemicals and the number of environmental lawsuits have been found to have a significant and negative correlation to performance. Carbon emissions have been found to affect firm value in a significant and negative manner. Hence, evidence related to the 'E' dimension shows that a more environmentally friendly corporate policy translates into better operational performance.	Clark (2015)
Risk Management	• Lower litigation costs • Lower cost of lost reputation following adverse events • Reduced disaster costs • Early detection of risks in supply chain and value chain • Mitigation strategy development • Cost reduction in long-term risk assessments	• Legal costs can range from 3% to 10% of businesses annual revenues • Most of the lawsuits against companies are related to employment practice liability with 75% of the cases being employment disputes • The average cost of an out-of-court settlement for employment related cases is $40,000. • 6 out of 10 employers have faced an employee lawsuit within the last 5 years. • The average defense cost for an employment related lawsuit (through trial) is $45,000.	Statistics cited by CNA Insurance Sweeney, P. 2001 Payroll and outsourcing company XCELHR

Summary of Benefits of RBC in General			
Category	**Benefits**	**Key Findings**	**Sources**
		• The median compensatory award for employment practices liability insurance cases is $218,000. • In terms of legal risks, results significantly indicate that following the imposition of the sanction and legal penalties, investors expect the company's profitability to be reduced.	
Governance/ Management	• Creates a vision-driven and purposeful organizations • Helps improve company's image	Strong and positive relation between firm-level corporate governance and firm valuation and between a company's social behavior and firm value	Ammann, M., Oesch, D., & Schmid, M. M. (2011)
		Risk-adjusted annual abnormal return (alpha) of 8.5% for a portfolio of well-governed versus poorly-governed companies	Gompers, Paul A. and Ishii, Joy L. and Metrick, Andrew (2003)
		Negative ESG events lead to 0.65% to 0.76% drop in stock prices on the date of event occurrence	KPMG: Results were analyzed based on data from 3,400 companies worldwide (2015)

Summary of RBC Due diligence Cost Estimates (for similar regulation – US Dodd Frank 1502 – Conflict Mineral Reporting)			
Category	**Costs**	**Key Findings**	**Sources**
Changes to corporate compliance policies and supply chain operating procedures	Staff Time Consultant Fees Training	• All costs estimates pre-implementation of law • Widely varying approaches and cost estimates • Estimated time requirements for this activity: 40-100 hours to 2,280 hours • Estimated cost: $3,500 to $228,000	• SEC, 2011 • NAM, 2011 • Tulane, 2014 • Claigan 2011 • IPC
Instituting the necessary IT systems	Procurement, installation and support of IT systems	• All costs estimates pre-implementation of law • Widely varying approaches and cost estimates • Estimates for required IT modifications ranging from $12,500 (IPC) to $25 million (NAM). The latter estimates were not confirmed by later company surveys that found actual IT expenditures in the $40,000 - $100,000 range)	• SEC, 2011 • NAM, 2011 • Tulane, 2014 • Claigan 2011 • IPC
Data collection and verification	Staff Time Consultant Fees	• Estimates ranging from $14,000 to $80,000 per company Assumption of half an hour to an hour per supplier in a company's supply chain	• SEC, 2011 • NAM, 2011 • Tulane, 2014 • Claigan 2011 • IPC
Audits	Fees paid to 3rd parties	• $15,000 to $25,000 for small companies $100,000 for larger companies Estimates consistent across reports	• SEC, 2011 • NAM, 2011 • Tulane, 2014 • Claigan 2011 • IPC

First-year costs	Setting up necessary structures (personnel, IT systems) Meetings and trainings of staff	• $14,000 (SEC) to over $25 million (NAM), the latter high total mainly due to overestimated IT investment costs	• SEC, 2011 • NAM, 2011 • Tulane, 2014 • Claigan 2011 • IPC
Annual cost	Carrying out due diligence and reporting	• $14,000 (SEC) to $406,000 (Claigan)	• SEC, 2011 • NAM, 2011 • Tulane, 2014 • Claigan 2011 • IPC

III. Framework for measuring the costs, benefits and risks of RBC due diligence

The OECD Guidelines call for a pan-organizational commitment by MNEs for Responsible Business Conduct to take all necessary steps to avoid potentially adverse impacts. However, due to the lack of adequate data and research on the cost, benefits and risks attached to due diligence for RBC, there is little consensus among industry and stakeholders on appropriate due diligence practices and the optimal level of due diligence. We have developed a methodology to understand these issues and encapsulate them into framework, independent of the industry and geography, as illustrated in the following page. The proposed methodology builds on the due diligence guidelines formulated by OECD and defines the costs and benefits attached to the three components of OECD MNE Guidelines – Identify, Prevent & Mitigate, and Account.

The 3 components are also an integral part of the 5-step framework. They should not be seen as just separate steps as OECD emphasizes the need for a continuous process of Identification, Prevention & Mitigation and Accounting rather than a sequential process. The *Identification* component involves developing a deep understanding of the risks faced by the company along with the likelihood and severity of the potential impacts of these risks. The *Prevention & Mitigation* component calls for having a strategy and the systems to act once risks are identified. The *Account* component lays down the process for institutionalizing the RBC due-diligence policy and procedures and monitoring its effectiveness by recording and communicating its findings and appropriate actions taken by the Company to all stakeholders.

The OECD due-diligence guidelines also prescribe the application of cross cutting element relevant across the three components - strong management systems, meaningful stakeholder engagement and support for remediation. These principles not only provide the necessary tools & enabling environment but also the legitimacy by demonstrating firm’s commitment to implement these practices.

Implementing this framework, in view of the costs and risks associated with it, is contingent on a company’s ability to create strong identification systems that entail a detailed understanding of the operations of the firm and its business partners across geography. The analysis process should enable the company to make informed decisions on effort levels to be deployed for each component of the due-diligence process as the firm’s understanding of the potential costs and the likelihood of the adverse impact becomes more evolved. This is in line with the key take-away from OECD’s due diligence guidelines which lays emphasis on employing a risk-based approach to decision-making.

	Effective Management Systems	Enhanced Stakeholder Engagement	DUE DILIGENCE			Established Grievance Mechanism
			IDENTIFY	PREVENT & MITIGATE	ACCOUNT	
COST	Cost of developing and implementing policy throughout company and supply chain, additional staff, staff and consultant time devoted to DD, IT system setup and maintenance	Cost of engagement with supplier and business partners (meetings, consultations)	Costs of acquiring knowledge of operations and supply chain	Costs of developing capacity of suppliers, mitigation measures	Costs of monitoring, reporting and communicating on DD findings and measures taken	Set up cost of mechanism, actions taken
BENEFITS	Improved governance	Improved stockholder relationships	Improved knowledge of company and supply chain	Reduced risk: Averted remediation costs and protection from long-term damages	Improved transparency and reputation	Improved stockholder relationships
RISKS			Discovery of adverse impacts that require costly remediation	Misdiagnosis of risk leading to diversion of resources and staff time	Decreased competitiveness due to increased transparency	

Costs: Costs related to each component include one-time and recurring costs. One-time costs include the costs of developing and instituting a RBC due diligence policy, procuring and installing necessary IT systems, informing and training staff and supply chain partners. Recurring costs include the costs of employees dedicated for the task, maintenance of systems, costs related to aggregation and analysis of the data. Recurring costs for the *Account* step also include additional costs of reporting and communicating the findings and lessons learned. Activities undertaken with regards to each component drive the costs. An indicative flowchart is provided in Annex D which shows the typical costs incurred by a company trying to establish a RBC due-diligence mechanism.

Benefits: The primary benefits of the identification process are the company's improved knowledge of its operations and supply chain as well as its ability to detect problems and risks early. The second step, prevention or/and mitigation of these risks reduces a company's exposure to potentially large remediation costs it might incur if the risk were not addressed and protects the company from long-term damage. The accounting component of the due diligence leads to long-term benefits as the company internalizes and institutionalizes the outcome findings of the due diligence process. Benefits of this can manifest in an improved perception of the firm internally as well as externally which in turn can lead to a host of benefits such as improved analyst recommendations and decreased cost of capital (mainly due to reduced risk and increased transparency), internally in increased ability to retain and attract talent, increased productivity, etc. The team has developed several versions for representations of the framework to understand benefits arising out of due diligence for responsible business conduct which are all reproduced in Annexes G through K.

Risks: Typical risks associated with each step are due to misdiagnosis or over/under-estimation of risks as most companies lack historic data to benchmark the initial outcomes. Also, excessive thrust on RBC due-diligence might create the perception that the firm is diverting from core competencies which might lead to increased turnover among employees and negative stock performance. Improper identification, mitigation or prevention strategies can lead to diverted decision-making, miscommunication of goals and misdirected investments in strategies which causing resource crunch and redundant systems. In the long run, the accounting component can lead to an excessive build-up of bureaucratic process and procedures within the firm making the firm lose core competitiveness and agility.

IV. Survey Overview

Survey Objectives and Process

To complement the findings of the literature survey and fill in missing information, a survey was drafted to gather more information on the actual cost and benefits of due diligence for RBC, through interviews with key MNEs that are subject to the due diligence guidelines. The goal of this exercise was to enable OECD to:

1. Build an empirical basis to inform policy decisions and the continuing development of due diligence standards,
2. Determine RBC due diligence practices that maximize business benefits and minimize unnecessary costs, and
3. Engage with industries and reach out to new markets.

We envisage the further development of this survey to be an iterative process, engaging industry stakeholders, experts and other relevant bodies to continue to refine the survey and ensure that it collects useful information without putting undue burden on the companies asked to provide the information. The initial testing of the draft survey should probably be done through a guided interview process with a small handful of MNEs to evaluate whether the questions are phrased clearly, the effort required to answer the questions is not overly burdensome (mainly in term of time and effort required to answer the question and to collect the necessary information) and the results are meaningful. The feedback should be incorporated into the questionnaire before rolling out the survey on a larger scale.

It might be possible to fill in some of the company information in the survey (like company size, main markets, and annual revenues) from public sources, lightening the load of questions companies are expected to answer. In the survey, we have identified some of the sources that could be used to fill in this information.

A decision has to be made at a later stage on how to administer the survey. Options are either structured interviews by phone or in person with some written follow-up (some questions will require the interviewed stakeholder to compile data that he/she might not necessarily have at her fingertips) or a computer-based version (the team presented some examples for that option earlier in the semester).

In its current form the questionnaire is industry-agnostic. Thus, part of the iterative survey refinement process would be to refine the questionnaire to assess more effectively industry-specific issues.

Sections of the Questionnaire

The questionnaire is divided into five sections: (1) Company Profile, (2) Company RBC Strategy, (3) RBC Due Diligence Policies and Mechanisms, (4) Costs of RBC Due Diligence and (5) Outcomes of RBC Due Diligence.

1. *Company Profile.* The first ten survey questions seek to identify key characteristics of the companies responding to the survey. Questions in this section include general information and factors that are significant when it comes to costs, benefits and risks of due diligence for RBC. Examples of questions include where the company operates geographically, annual revenues and number of employees, number of suppliers in the company's supply chain, and questions regarding the consumer orientation of a company (as this later characteristics affects Step 3 of due diligence in a significant way). These characteristics will allow the evaluator to compare and benchmark results with other companies with similar characteristics.

2. *Company Overall RBC Strategy.* In this 5-question section, we seek to understand the company's goals with regard to Responsible Business Conduct. Information in this section is more qualitative and aimed to help the evaluator assess subjectively and from a top-level perspective: [i] the level of priority

management has given to achieve RBC goals [ii] the specific RBC strategic goals of a company relating to its supply chain, [iii] the most critical issues that the company/industry faces with regards to matters relating to RBC.

3. *RBC Due Diligence Policies and Mechanisms.* This section moves deeper into the specific policies that have been implemented to achieve the goals identified in the previous section. Similarly, the information gathered from this section should allow the evaluator to assess in more detail the prioritization of issues and level of importance placed on the accomplishment of RBC goals. Of critical importance here are: [i] assessing the year when the policy was implemented in order to be able to better evaluate the lagging effects of policies on the actual costs incurred and benefits experienced, [ii] understanding the existing RBC policies in place as they relate to the five-step risk-based due diligence framework, [iii] understanding the mechanisms that are or have been implemented to determine the effectiveness of the policies in place, and [iv] determining whether these policies are compliant with the OECD Guidelines and, to a level acceptable to the OECD, follow the five-step risk-based due diligence framework and identifying the gaps in existing policies.

4. *Costs of RBC Due Diligence.* In this section, we seek to examine the actual costs that respondents have incurred directly or indirectly in the process of implementing due diligence for RBC. This section is of particular importance. While there is a large body of both quantitative and anecdotal evidence of the benefits of RBC, cost information identified through our literature review pointed to a dearth of data, especially in the area of due diligence where only one study existed that concretely measured the cost of implementing OECD guidelines on due diligence while the estimates of due diligence and reporting costs provided by other studies for similar contexts (Dodd-Frank, Section 1502 and the EU Directive on Non-Financial Disclosure) were developed pre-implementation of these policies and were either over-simplistic, already discredited[3] or partisan. (See Annex B for a detailed review of these studies).

   While the results of these studies varied from \$5,000 to \$25 million per company, the line items identified as contributing to the cost of due diligence were useful in determining the structure of survey questions for this section. Costs were grouped first into one-time or start-up costs and recurrent costs. Key costs included were:

<u>Start-up Costs:</u>

- Time spent on developing a RBC strategy (meetings, salaries of RBC staff, consultant fees)
- Time spent orienting RBC and other company staff on RBC
- Investment in necessary IT shard- and software

<u>Recurrent Costs:</u>

- Time spent on due diligence by RBC staff (= RBC staff salaries)
- Time spent on due diligence by other staff in the company (time spent in meetings, etc.)
- Expenditures on consultants and other outside services related to due diligence and reporting

5. *Outcomes of RBC Due Diligence.* In this last section, we seek to quantify the benefits companies have experienced as a result of implementing due diligence for RBC. The section is based on the benefits that were identified in our literature review.

   - Lower Cost of Debt
   - Improved Reputation and Brand Value
   - Better Supplier Relationships
   - Improved Government and Civil Society Relationships

[3] An example would be the estimate of a required \$25 million investment in IT systems per company suggested by the National Association of Manufacturers (NAM) in the context of the implementation of the Frank-Dodd Act, Section 1502. Surveys among companies after implementation pointed to actual expenditures that were in the \$10,000 to \$50,000 range.

- New Market Opportunities
- Increased Market Share
- Better Product Quality
- More Pricing Power
- Improved Employee Productivity
- Business Model Improvements
- Improved Employee Morale
- Enhanced Talent Acquisition
- Lower Adverse Event Costs

It is noteworthy that a key benefit like improved stock performance can be verified from publicly available sources and does not need to be part of the survey.

In the survey we try to assess whether the respondents feel that their company's adoption of an effective due diligence system has led to any of these benefits. We also provide the companies with key performance indicators (KPIs) that can be used to quantify these benefits and ask them to try and quantify how they think these indicators have been affected. As in many cases it will not be possible to provide concrete numbers we ask them to rank the observed changes on scales (ranging from "not important" to "very important" or from "significant decline" to "no change" to significant increase).

Refer to Annexure F for the survey questionnaire.

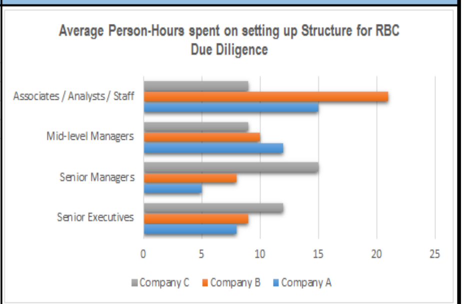
V. Analyzing and Evaluating the Results of the Survey

Expecting that the testing of the survey will lead to significant changes in the length and structure of the survey, we developed a simple draft database in Excel (attached to our submission) to demonstrate how we envision the survey data to be collated and analyzed. The following shows some screenshots examples from this Excel file.

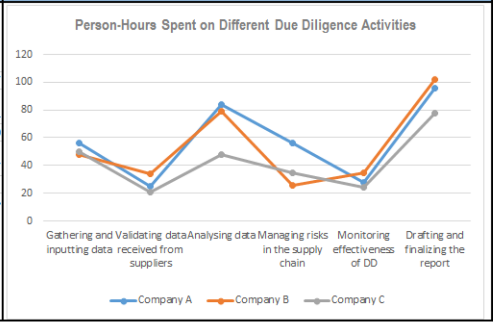
Structurally, the Excel file follows the order of sections and question in the survey. The first column contains the questions. The following columns contain the companies' answers. The columns and graphs to the right of that show the analysis of the data (average and mean, range and variance).

A.	One-off / Start Up Costs	Company A	Company B	Company C	Average	Median	Variance
37	How many person-hours were spent on setting up the structure for RBC due diligence efforts?						
	Senior Executives	8	9	12	9.7	9.0	4.3
	Senior Managers	5	8	15	9.3	8.0	26.3
	Mid-level Managers	12	10	9	10.3	10.0	2.3
	Associates / Analysts / Staff	15	21	9	15.0	15.0	36.0

Tables/Graphs

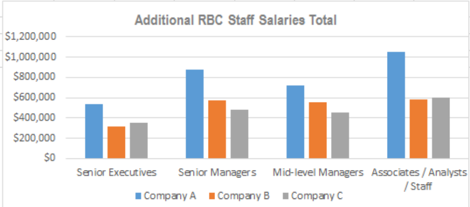


B.	Recurrent Costs	Company A	Company B	Company C	Average	Median	Variance	Tables/Graphs
	How many person-hours in total were spent on the following activities in the latest financial year?							
	Gathering and inputting data	56	48	50	51	50	17	
	Validating data received from suppliers	25	34	21	27	25	44	
	Analysing data	84	79	48	70	79	380	
56	Managing risks in the supply chain	56	26	35	39	35	237	
	Monitoring effectiveness of DD	28	35	24	29	28	31	
	Drafting and finalizing the report	96	102	78	92	96	156	

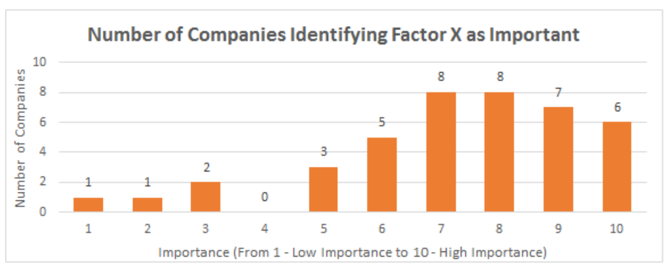


In most cases, the analysis is very straightforward like in the above two examples. In some cases, information will be linked together and consolidated into one graph (e.g. number of RBC staff hired will be multiplied by their annual salary to get to the total salary costs of RBC staff).

B.	Recurrent Costs	Company A	Company B	Company C	Average	Median	Variance	Tables/Graphs
	How many employees did you hire?							
	Senior Executives	2	1	1	1.3	1.0	0.3	
46	Senior Managers	4	3	2	3.0	3.0	1.0	
	Mid-level Managers	6	4	5	5.0	5.0	1.0	
	Associates / Analysts / Staff	15	9	12	12.0	12.0	9.0	
	At what salaries (including all benefits) were they hired?							
	Senior Executives	$270,000	$320,000	$350,000	$313,333	$320,000	$1,633,333,333	
47	Senior Managers	$220,000	$190,000	$240,000	$216,667	$220,000	$633,333,333	
	Mid-level Managers	$120,000	$140,000	$90,000	$116,667	$120,000	$633,333,333	
	Associates / Analysts / Staff	$70,000	$65,000	$50,000	$61,667	$65,000	$108,333,333	
	Additional RBC Staff Salaries							
	Senior Executives	$540,000	$320,000	$350,000	$403,333	$350,000	$14,233,333,333	
	Senior Managers	$880,000	$570,000	$480,000	$643,333	$570,000	$44,033,333,333	
	Mid-level Managers	$720,000	$560,000	$450,000	$576,667	$560,000	$18,433,333,333	
	Associates / Analysts / Staff	$1,050,000	$585,000	$600,000	$745,000	$600,000	$69,825,000,000	



Other graph types show the relevance of different benefits or costs in spider graphs or results of questions involving ranking as shown below.



Ranking	Low									High
	1	2	3	4	5	6	7	8	9	10
# of Companies	1	1	2	0	3	5	8	8	7	6
Percentage	2.4%	2.4%	4.9%	0.0%	7.3%	12.2%	19.5%	19.5%	17.1%	14.6%

Annex A: Glossary of Terms

Responsible Business Conduct

"Contribution to the economic, social, and environmental progress with a view to achieving sustainable development' – 'Business contribution to the social progress that globalization should deliver"
(OECD Guidelines for Multinational Enterprises – OECD Secretary General speech at the OECD-ILO Conference on CSR, June 2008)

"Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large"
(Definition by World Business Council for Sustainable Development – WBCSD)

Elements of Responsible business practice:

- **Environmental** - the environmental impact, direct or indirect, of an organization's operations, products or services including those of its suppliers.
- **Community/Social** - the impact of an organization's projects, products, services or investments on the community at a local or global level.
- **Workplace Practices** - including respectful, treatment of employees in matters related to recruitment and selection, diversity and equal opportunity, work/life balance, professional development and progression, managing redundancies and full entitlement to employment rights.
- **Marketplace & Business Conduct** – responsible behavior in developing, purchasing, selling and marketing products and services.
- **Ethical Governance** - from board level and throughout an organization: transparency; risk management; due diligence; effective codes of conduct and ethics.

http://sustainable-event-alliance.org/responsible-business-practice/

CSR: Corporate Social Responsibility

"Corporate social responsibility, often abbreviated "CSR," is a corporation's initiatives to assess and take responsibility for the company's effects on environmental and social wellbeing. The term generally applies to efforts that go beyond what may be required by regulators or environmental protection groups.
CSR may also be referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change."
http://www.investopedia.com/terms/c/corp-social-responsibility.asp

Environmental, Social and Governance (ESG) Criteria

"A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights. Investors who want to purchase securities that have been screened for ESG criteria can do so through socially responsible mutual funds and exchange-traded funds."

Annex B: Detailed Literature Review - Cost of Due Diligence for RBC/CSR/ESG

The literature review conducted on the cost of conducting due diligence for RBC pursued a dual purpose:

1. Identification of different costing frameworks used
2. Collection of cost data incurred

1. Different Costing Frameworks

The literature review identified the following possible frameworks for assessing costs related to due diligence

a) Following OECD's Five-step Framework

Step 1. Establish strong management systems for due diligence: Adopt a responsible business conduct policy, build internal capacity & functional alignment, supplier & business partner engagement (outreach, incorporating into contracts, etc), set-up internal controls & data collection on supply chain, establish grievance mechanism.

Step 2. Identify and assess risks of adverse impacts in the supply chain: Map operations, business partners & supply chains, prioritize further assessment based on severity of harm (sector, counterparty, and site for high-risk issues), identify risks of circumstances inconsistent with standards in the Guidelines.

Step 3. Manage risks in the supply chain: inform senior management, fix internal systems, build leverage individually or collaboratively, use existing networks to manage risk (e.g. industry, workers reps, non-traditional partnerships), build internal and business partner capacity, provide remedies when "caused" or "contributed" to adverse impacts

Step 4. Verify the effectiveness of the enterprise's due diligence: where relevant, monitor medium-high-risk operations, products or services, after change of circumstance; undertake audits, assurance, etc.

Step 5. Report publicly and communicate, with due regard for commercial confidentiality and competitive concerns

b) GIZ Framework

A recent paper published by the German development organization GIZ (GIZ, 2012) suggested the following three cost categories related to CSR:

Type of Cost	Detail
1. Sunk costs	• Costs related to adapting the business model to comply with the new standards • All initial investments to improve safety or update technology to reduce harmful outputs
2. Recurrent costs	• Cost of maintaining compliance • Cost of reporting (data collection, report-writing, publishing, auditing, certification costs, as well as training costs)
3. Opportunity costs	• Any activities that cannot be undertaken due to capital and labor being bound to the CSR activity.

This framework is a bit more comprehensive than the OECD framework in that it includes potential upgrades or modifications of the production process as well as opportunity costs.

c) Framework Used for Developing Costs Estimates for Dodd-Frank Section1502

The SEC and several other organizations (SEC 2010, NAM 2011, Bayer and de Buhr 2011, Claigan Environmental 2012) projected how much it would cost to implement Section 1502 of the Dodd-Frank Act which requires US companies to disclose whether the minerals they source are "conflict minerals", i.e. originate from the DRC or neighboring countries. The following shows the key activities for which these reports made cost projections.

1. Strengthening internal management systems in view of performing due diligence
2. Instituting the necessary IT systems (to collect information and maintain auditable records for the SEC
3. Commissioning Audit (Conflict Mineral Report audit)
4. Issuer-led implementation of risk-based programs that use company control processes to verify that suppliers are providing credible information
5. Cost of filing SEC forms

One of the key flaws of this framework is the lack of differentiation between initial/one-off costs (steps 1 and 2) and recurrent costs (steps 3-5). The framework also does not include any risk mitigation or remediation.

d) Global Reporting Initiative (Reporting Costs)

The Global Reporting Initiative (GRI) has been cooperating with OECD since 2010 to facilitate the reporting on CSR. The following steps suggested by GRI do not actually present a framework but provide a useful outline of the activities required for a successful reporting process:

- Time for senior management and other staff to discuss report contents
- Developing and implementing data gathering systems
- Time for gathering and inputting data
- Implementing new processes, including staff training, on data collection
- Time for checking information
- Preparing the report itself, involving internal resources (time, capacity building, etc.), and potentially external resources (consultancy, writing/editing, layout, printing, etc.)
- External verification and auditing, if applicable

e) The Conflict-Free Sourcing Initiative

Another outline useful for estimating the potential cost of due diligence is published in a white paper published by Conflict-Free Sourcing Initiative (CSFI) - **Five Practical Steps to Support SEC Conflict Minerals Disclosure.** The key steps are shown below.

Step 1: Build a Company Conflict Minerals Program Framework

1. Adopt a conflict minerals company policy.

A policy is a management or procedure based primarily on material interest. A company's conflict minerals policy may establish and communicate conflict minerals goals that are reasonable and achievable. This policy thus forms the expectations to which the company holds itself and its supply chain accountable.

RCOI and possibly the due diligence practices that the company will employ to implement its policy may be contained in the policy itself. These elements may also be found in a separate document, such as implementing guidelines or standard operating procedures, as may be consistent with the company's normal practice.

2. Assemble an internal team.

The company should assemble an internal team of relevant subject matter experts from functional areas that may include engineering, design, finance, IT, procurement, communications, legal and/or environmental, health and safety (EHS) to develop a conflict minerals program that implements the policy and oversee the company' program. This team should also have senior management support.

3. Establish a system of controls and transparency over the conflict minerals supply-chain.

Downstream Companies should establish systems of controls and transparency over conflict minerals supply chains. This can be achieved by creating a process to engage relevant first-tier suppliers and request information, including information gathered by those suppliers about the SORs identified in their own supply chains

4. Strengthen engagement with relevant suppliers.

Downstream Companies should enlist the support of their relevant first-tier suppliers in executing conflict minerals programs. This can take place through such means as incorporating expectations regarding suppliers' conflict minerals policies, processes and disclosure of relevant information into supplier contracts or other relevant documents.

5. Establish a company grievance mechanism
According to the OECD Guidance 3T Supplement, companies may, depending on their position in the supply chain, institute an individual or a collaborative industry grievance mechanism.

Step 2: Explore Risks in the Supply Chain

- Identify "to the best of their efforts" smelters or refiners (SORs) in their supply chain.
- Engage with SORs to obtain mine of origin and transit routes.
- Assess whether SORs have carried out all elements of due diligence for responsible supply chains of minerals from conflict-affected and high-risk areas.
- Where necessary, carry out, including through participation in industry-driven programs, joint spot checks at the SORs' own facilities.

The risk management action by the downstream actor involves influencing the multi-tiered supply chain to cause the SOR to become validated as conflict-free (such as by the Conflict-Free Smelter Program of the Conflict-Free Sourcing Initiative) or, failing that, to switch to a different smelter

1. Identify relevant or highest priority first-tier suppliers.
Downstream Companies may identify relevant or highest priority first-tier suppliers that supply products that contain 3TG.
2. Request information from relevant first-tier suppliers.
Downstream Companies should request information from relevant suppliers to identify SORs in the supply chain.
3. Review information provided by relevant first-tier suppliers.
- Companies may use any of the following methods when reviewing supplier representations:
- Review information relative to the expectations established by the company (e.g., Did the supplier adopt its own conflict minerals policy?).
- Review the responses for completeness.
- Review the response for reasonableness – that is, whether the response is consistent with the downstream company's knowledge of the supplier.

There are only a few hundred SORs of the 3Ts in the world and on the order of 100 large-volume gold refiners, companies with large supply chains are likely to see that all or a very substantial proportion of the total SOR population is present in their supply chains

4. Downstream Companies should compare the names of the 3TG processing facilities identified in supplier representations to independently verified lists (e.g., the CFSI Conflict-Free Smelter Program list, the London Bullion Market Association Good Delivery program or the Responsible Jewellery Council Chain-of-Custody Certification).

Step 3: Develop a Risk Management Plan
[…]

Step 4: Audit Smelters or Refiners
[…]

Step 5: Report Findings
[…]

http://www.conflictfreesourcing.org/media/docs/CFSI%20White%20Paper-Conflict%20Minerals%20Disclosure-Feb%202015.pdf

Downstream: minerals supply chain from smelters/refiners to retailers.
Upstream: mineral supply chain from the mine to smelters/refiners.
RCOI: reasonable country of origin inquiry

2. Cost Data

Available data on the cost of implementing OECD due diligence for RBC are limited. The aspect that is covered the most thoroughly is the cost of reporting (step 5 of OECD guidelines and part of recurrent cost in the GIZ framework). The cost estimates made for Dodd-Frank, Section 1502 are more comprehensive and cover all 5 steps. The following reviews key cost estimates produced in the context of the EU Non-financial reporting directive, Section 1502 of the Dodd-Frank Act and the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Regulations (RoHS) directive passed by the EU in 2006.[4]

1) EU Non-financial Reporting Directive

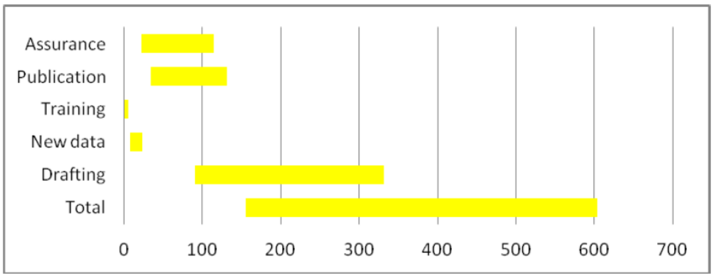
In 2014, the European Parliament adopted a Directive for the Mandatory Disclosure of Non-financial and Diversity Information which requires all "public interest" companies that have more than 500 employers to disclose certain non-financial information in their management reports. According to EC estimates, this directive will affect about 6,000 large companies across the EU. Required information includes "relevant and material information on policies, outcomes and risks, including due diligence", "and relevant non-financial key performance indicators concerning environmental aspects, social and employee-related matters, respect for human rights, anti-corruption and bribery issues, and diversity on the boards of directors" (EC, 2014a)"

Several studies have tried to quantify the costs associated with the implementation of this directive.

- An impact assessment by the EC (Commission Staff Working Document, 2013) estimates that the required disclosure would result in "an additional direct cost for large companies of less than €5,000 per year. This is based partly on the EU Council estimates of costs between €600 and €4300 per year per company.
- This estimate in itself is not very meaningful as it assumes that companies are already collecting the required data; the cost estimate refers solely to the cost of including a statement on non-financial information in companies' Annual Reports.
- More detailed and probably more realistic estimates can be found in a **2011 report by the Centre for Strategy and Evaluation Services** (CSES 2011). According to that study, which analysed data from 71 companies (financial, food and agriculture, textile, consumer goods, extractive) in eight countries, the cost of non-financial reporting ranged €155,000 to €604,000 annually.
  The study looked at five key activities related to reporting:
  1. Training of employees
  2. Collection of new data
  3. Report Drafting
  4. Report Design and Publication
  5. External Audit

  It generated two cost estimates, one for small and medium-sized companies (<250 employees), one for large companies (>250 employees). The drafting of the made up by far the largest share of total costs, publication costs depended on the publishing strategy (web or print). On a per employee basis, costs were much higher for small companies (between €68 and €212 per employee) than for large companies where the cost was between €3 and €13.

Figure 3.5– Cost range for larger companies (in 1,000 €)



[4] A policy brief published by C. Blome of Sussex University in May 2016 on the costs incurred complying with OECD's Guidance for Responsible Supply Chains of Minerals will be included in an updated future version of this review.

Figure 3.6– Cost range for SMEs (in 1,000 €)

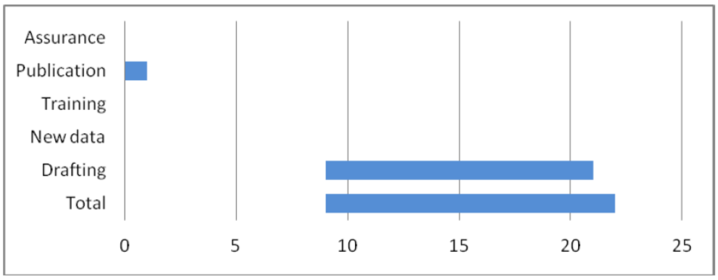


Table 3.3– Cost per employee of non-financial disclosure (€ per employee)

	Low	High
Large firms	3	13
SMEs	68	212

Expressed as a cost per employee, the reporting costs for smaller companies (€68 to €212) are substantially higher than those for larger companies (€3 to €13).

The following table shows detailed estimates of time and resource requirements:

CSES Report: EU Non-financial Reporting Directive - Cost per Company

	Large Companies	*Small and Medium-Sized Compani*
Training costs	Up to 18 days (often also no training or training on the job) Up to €5,000	
Collection of New Data (internal staff)		
- Days	35 to 100 days	
- Cost	Costed at €227 per day[5] €8,000 and €23,000	
Report Drafting (internal staff)		
- Days	80 to 480 days	15-20 days
- Cost	Costed at €227 per day: Between €18,000 and €109,000	Costed at €227 per day: Between €3,000 and €5,000
Report Design (usual external cost)	Between €10,000 and €100,000	Between €1,000 and €2,000
Report processing (external cost)	Up to €97,000	Under €20,000
Report Publication depending on publishing strategy – internet or printed		
- Days	2 to 50 days	2 days
- Cost	Between €1,000 to €192,000 (prin version) Between €10,000 and €35,000 (online) Overall: Between €1,000 and €131,000	Under €1,000
External Assurance/Audit	Between €22,000 and €114,000	--
TOTAL		
- Days		
- **Cost**	**Between *€155,000 and €604,000***	**Between €8,000 and €25,000**

Other cost estimates:

- The **Federation of German Industries** notes that the EC estimate (of €5,000 per company) fails to take into account "amongst others, the sunk costs of introducing the corresponding structures and capacities to collect the

[5] Rate for professional staff of €227 per day based on standardised ESTAT data (the four-yearly labour cost survey and the annual updates of labour cost (ALC) statistics) and includes an allowance for overhead costs.

necessary data, or the external auditing of the additional information in the management report." They support the above CSES estimates of €155,000 to €604,000. (BDI, 2013)

- A **UK report from the Confederation of British Industry** (CBI, 2013) estimates cost of £30,000 per company (approximately €40,000) in the first year. This estimate is based on responses from 90 businesses and business organizations in the UK, and over 20 business organizations across Europe. The estimate refers to the potential expansion of due diligence rules to private companies, the report does not provide any detail on how it came up with these costs thus is of limited usefulness.

- The **French business submission to the EC Consultation on non-financial reporting** reported costs between €50,000 and €200,000 per firm for data collection, internal processing and consolidation; €50,000 to €100,000 for data publication in the management report; and the largest cost (between €100,000 and €750,000) for external verification of reporting processes (mandatory in France as of 2012) and of CSR data (on a voluntary basis), adding up to total annual costs per company between €200,000 and over €1 million.

- The **Global Reporting Initiative (GR**I) which has been cooperating with OECD since 2010 to facilitate the reporting on CSR reports the following: "The required investment is a result of the breadth of a sustainability report, which is proportional to the size of an organization's impacts. The cost of reporting can therefore vary from as little as €2.000 to over €100.000. The report gives no breakdown of these costs

Summary – Annual Cost per Company

CSES	BDI	CBI	French submission	GRI
€155,000 to €604,000 (large companies) €8,000 to €25,000 (small companies)	Supports CSES estimates	€40,000	€200,000 to over €1 million (€750,000 of that for auditing)	€2.000 to over €100.000

2) Dodd-Frank Chapter 1502

The **US Conflict Minerals Act (Section 1502) in the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act** requires US registered companies to disclose whether the minerals they source originate from the DRC or its neighboring countries. It was passed in an effort to end abusive labor practices and conflict in the DRC. The goal of the law is to provide transparency of material origin and allow customers to make purchasing decisions based on that information.

The four minerals from DRC mines or adjoining countries defined as **"conflict minerals"** in Section 1502(e)(4) of the Act are cassiterite (tin), columbite-tantalite (tantalum) and wolframite (tungsten) – also referred to as the "3Ts" and gold.

"Companies that manufacture products containing these "conflict minerals are required to document if any 3TG in their products have been purchased from Covered Countries where armed groups are suspected of committing human rights violations. The three-step procedure to be followed is:

1. Assessment whether conflict minerals are necessary to functionality or production of products manufactured in the reporting year.
2. Conducting a reasonable country of origin inquiry to determine whether any originate in the DRC or adjoining countries
3. If so, conducting supply chain due diligence in accordance with internationally recognised due diligence framework and issue a Conflict Minerals Report (CMR).

Thousands of manufacturers – ranging from Fortune 500 companies to companies with $10 million in annual sales – in the industrial, aerospace, healthcare, automotive, chemicals, electronics/high tech, retail and jewelry industries are consumers of these metals, and thus affected by the new law."

The first reports were submitted to the SEC in June 2014.

There are six main studies on the potential cost implications of this regulation for US companies.

1) **US Securities and Exchange Commission (SEC) Proposed Rules**

The SEC's cost estimate of the annual burden imposed on US companies by Section 1502 ranges from about $14,000 for companies that have to carry out due diligence but do not have to file a CMR to just above $53,000 for companies that have to also undergo an audit ($25,000) and file a report with the SEC ($3,600 to $10,800 in consultant costs).

The $14,000 figure was arrived at by using estimates obtained from "one entity that works with NGOs and one industry group" based on the preliminary information those groups had at that point in time (pre-implementation). The first group estimated that the annual cost of conducting the due diligence would range between $20 million and $25 million. The industry group estimated that it would cost between $8 and $10 million to set up a mineral source validation scheme. While these estimates refer to different things (one the annual recurrent cost of carrying out due diligence, the other one to the one-off cost of establishing the framework for carrying out due diligence going forward) the SEC then averaged the highest and the lowest estimates ($8 million and $25 million) to obtain an aggregate estimate of $16.5 million which they divided by the 1,199 issuers they estimated to be required to file a Conflict Minerals Report.

The SEC also estimated that the average company would spend about 36 additional hours a year on disclosure preparations, specifically "collecting the information, preparing and reviewing disclosure, filing document and retaining records, costing companies between $3,600 and $10,800 depending on how much of that work was carried out by consultants (in-house staff time was not included in that estimate).

2) **National Association of Manufacturers (NAM) Study**
The National Association of Manufacturers, the nation's largest manufacturing industrial trade association, representing 11,000 small and large manufacturing companies in every industrial sector all over the US, produced a very high estimate of costs of compliance, ranging from $1.2 to $25 million per company, with an industry-wide total cost of $8 to $16 billion. Over 90% of the total cost per company was related to the updating of IT systems. Most other studies that looked at these results found these costs vastly overestimated.

3) **Byer and de Buhr, Tulane University study**
This study by Tulane University critically analyzed both the SEC and NAM figures and produced its own estimates. It suggested costs substantially lower than the NAM estimates, primarily due to dramatically lower estimates of the IT costs faced by companies (assuming costs between $200,000 and $1 million per company, compared to NAM's $1 to $25 million). Average costs in the first year of implementation came to $235,000 (small companies) to $1.1 million (large companies) and $28,500 (small companies) to $106,000 (large companies) in the following years. (See table for a detailed breakdown of these costs)

4) **Claigan Environmental study**
The product compliance consulting company Claigan Environmental (Claigan 2011) also produced estimates for the proposed SEC regulation, putting total first-year costs for companies with $1 billion in revenues at $228,000. Costs for companies with more than $10 billion in revenues were estimated at $813,000. The company estimated that these costs would drop by 50% in each of the following two years as growing experience with the process reduces efforts required to obtain and verify the necessary information from the companies' supply chain.

5) **IPC Survey**
In February 2011 the IPC, a trade group for the electronic interconnect industry, surveyed its members and found median internal staff due diligence effort estimates of 1,300 hours (ranging from 80 to 2,280 hours) for the first year, including identification of the supplied products containing conflict minerals (median of 180 hours), identification of the country of origin for all supplied conflict materials (350 hours), identification of mines that supplied conflict minerals from the DRC or adjacent states (475 hours), and gathering of data, assembling and filing the CMR (200 hours). At $100 per hour that would be the equivalent of $8,000 to $228,000 in due diligence costs in the first year. The IPC survey indicates that the electronics manufacturing services (EMS) companies account for the high end of the range.

6) **Green Research**
Green Research carried out interviews with 20 global companies ranging in size from $ 500 million to over $120 billion in annual revenues and representing a variety of industries including electronic components, computers, and consumer health care, automotive and retail. They found that Section 1502 compliance cost varied widely with the size and complexity of companies' supply chains but seemed to be manageable for all types of companies. The largest companies (with annual revenues over $50 billion) expected facing one-time costs ranging from $500,000 to $2 million. Many smaller companies expected to be able to meet their obligations for less than the cost of a full-time employee in the first year, with costs declining over time. Green Research also found that most companies found the

effort of updating their IT system “a relatively modest burden.” Overall, especially for companies that already have state-of-the art supply chain management systems and practices and strong relationships with their suppliers, the costs of implementing 1502 was expected to present at most a modest increment above what companies already are spending on supply chain management and reporting.

Green Research also quotes some cost figures for consulting services related to Section 1502 due diligence. Claigan Consulting was, for instance, hired to handle conflict minerals compliance obligations of a $30 million publicly traded electronics company at a cost of $10,000 to $15,000, including the production of a conflict minerals report. A $2 billion maker of consumer products incurred fees between $30,000 and $50,000, including minor work to modify information systems. A company of a similar size with more complex projects, such as an aerospace component maker, might see fees of up to $100,000.

The following table compares the cost estimate of the different studies. Costs are shown per company, an attempt was made to divide costs into one-time and recurrent costs (several of the studies, especially the SEC study are a bit unclear on this aspect)

Frank-Dodd Section 1502 - Cost per Company

	SEC	National Association of Manufacturers	Bayer/de Buhr (Tulane	Claigan Environmental Inc.	IPC
One-time Costs					
1. Changes to corporate compliance policies and supply chain operating procedures	---	2 hours per supplier x 2,000 suppliers x $50 per hour **Total: $200,000 per company**	40-100 hours (depending on company size) x $50 (in-house) to $200 (consultants)[i] **$3,500 to $6,500**	Legal/organization/CMR: $60,0000 Program management (1/4 person for 1 year): $38,000 **Total: $98,000**	80 to 2,280 hours in first year at $100 per hour (high end – electronics **Total: $8,000 to $228,000**
2. Instituting the necessary IT systems (to collect information and maintain auditable records for the SEC)	---	**$1 million -$25 million** per company	Large companies: **$1 million** Small companies: $205,000[ii]	IT Systems $40,000+ IT Support (1/4 person for 4 **Total: $50,000**	Anticipated costs for IT modifications ranged from $12,500 to $750,000"
Recurrent Costs					
3. Commissioning audit of conflict minerals report (CMR)	**$25,000 per audit**	Large companies: **$100,000 per audit** Small and Medium sized companies: **$25,000 per audit**	Only for listed companies: Large companies: **$100,000 per audit** Small companies: **$25,000 per audit**	**$15,000 per audit**	
4. Issuer-verification that suppliers are providing credible information	For 1,199 companies $16.5 million **(general data collection)** =average of $14,000 per company[iii])---	Half hour per supplier x 1,000 suppliers X $50 per hour **Total: $50,000**	Included in the 40-100 hours under Step 1.	Data gathering in the supply chain: 2000 suppliers x $40 per supplier **Total: $80,000**	
5. Cost of filing SEC forms	Disclosure preparations: 36 additional hours, 25-75% in-house, 25%-75% outside consultants Costing only consultant hours:@ $400 per hour[iv] **$3,600 to $10,800**	Not estimated		Included under 1	
Total 1st Year Cost	**$14,000** for non-filing companies **Up to-$51,000** if company needs to file SEC report	**$1.2 - $25 million**	**$235,000** (small companies) to **$1.1 million** (large companies)	**$228,000** (Companies with $1B in **$813,000** for largest companies	
Total Recurrent Cost in following Years	**$14,000** for non-filing companies **Up to-$51,000** if company needs to file SEC report	**$75,000 to $150,000** excluding filing costs	**$28,500** (small companies) to **$106,000** (large companies)	**$114,000** (revenues of $1B), **$406,000** (>10B in revenues	
Comments	Includes only outsourced labor costs, not in-house staff time	Probably significantly overstates cost of IT system upgrade. Overestimates number of suppliers per company	Probably significantly overstates cost of IT system upgrade		
Cost estimate including internal company labor?	No	Yes	Yes	Yes	
Number of Companies Affected	5,994 x 20% = 1,199[v]	5,994 x 2,000 direct or 1st tier suppliers = **12 million**	5,994 US companies 28% (1,678) large and 72% + 1st tier suppliers 36 to 424 per company[vi] 860,066 **Total: 866,060**	**All estimates at company level**	
Total Cost Estimate (all affected companies)	**$71.2 million**	**$9–16 billion**	**$7.93 billion**		

Footnotes to Frank-Dodd Section 1502 - Cost per Company Table

(i) *Tulane Study - Calculation of Strengthening Internal Management System for Due Diligence*

	No. of Companies	Total Suppliers	In-Hours Hours	Consultant Hours	Total Personnel Cost In-House ($50/h)	Total Personnel Cost In-House ($200/h)	Total Cost
Large Companies	1,678	711,608	90	10	$3,202,234,560	$1,423,215,360	$4,625,449,920
Small Companies	4,316	153,707	30	10	$230,560,888	$307,414,518	$537,975,406
TOTAL	**5,994**	**865,315**			**$3,432,795,448**	**$1,730,629,878**	**$5,163,425,326**

(ii) *"Based on its 2011 survey, IPC found that "anticipated costs for information technology modifications ranged from 12,500 to 750,000 dollars." The survey result details indicate an average unit cost of $205,000 for IT system changes, which was skewed by the single largest value of $750,000.*

(iii) *Average of estimates, one from an entity that works with NGOs and one industry group. "The entity that works with NGOs estimated that the annual cost of conducting the due diligence for the four conflict minerals ranged between $20 million and $25 million. An industry group provided a much lower range of between $8 million and $10 million to set up a mineral source validation scheme. Therefore, for purposes of the PRA, we have averaged the highest and the lowest estimates we received of the due diligence costs to obtain an aggregate estimate of $16.5 million for the 1,199 issuers estimated to be required to file Conflict Minerals Reports"*

(iv) ***SEC - Calculation of Time Requirements and Consultant Costs***
https://www.sec.gov/rules/proposed/2010/34-63547fr.pdf
"We estimate that the disclosure preparation for all affected registrants will take 36 hours per Form 10–K (27 hours in-house personnel time and a cost of approximately $3,600 for professional services). We estimate that for Forms 20–F and 40–F, the disclosure preparation will also take 36 hours (9 hours in-house personnel time and a cost of approximately $10,800 for professional services).

When determining these estimates, we have assumed that:

- *For Form 10–K, 75% of the burden of preparation is carried by the company internally and that 25% of the burden of the preparation is carried by outside professionals retained by the company at an average cost of $400 per hour;*
- *For Forms 20–F and 40–F, 25% of the burden of preparation is carried by the company internally and that 75% of the burden of preparation is carried by outside professionals retained by the company at an average cost of $400 per hour."*

	Additional Hours	Hours In-house	Hours Consultants	Cost per Company	Affected companies	Consultant hours	Total Cost
Form 10-K	36	27	9	$3,600	5,551	49,959	$19,983,600
Form 20-F	36	9	27	$10,800	377	10,179	$4,071,600
Form 40-F	36	9	27	$10,800	66	1,782	$712,800
TOTAL					5,994	61,920	$24,768,000

(v) *The method the SEC employed to derive this figure, as explained in its proposed rules, was to find the amount of tantalum produced by the DRC in comparison to global production (15% – 20%), then select the higher figure, 20%, and multiply that by the total number of affected issuers, which they stated is 5,994. IPC, agreeing with NAM, characterizes the SEC figure as based on "a flawed assumption because 1) the minerals supplied by the DRC may be distributed such that they account for 20% of the supply for 100% of users, and 2) the vast majority of users will be unable to identify the origin of their conflict minerals, especially until more viable audit and tracking systems are in place, and therefore will need to complete a CMR." IPC concludes that it expects "that nearly 100% of affected issuers will need to complete a CMR, especially in the initial years of the regulation*

(vi) ***Tulane Study - Calculation of No. of 1st Tier Suppliers***

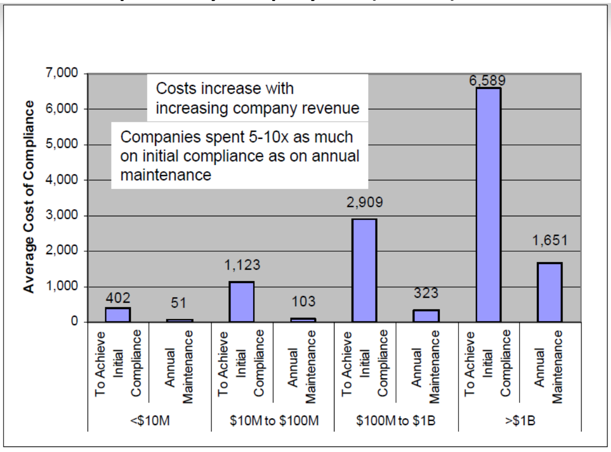
	% of Companies	No. of Companies	1st Tier Suppliers per Comp.	Relevant 1st Tier Suppliers (53%)	Suppliers Adjusted for Overlap (60%)	Total Suppliers
Large Companies	28%	1,678	2,000	1,060	424	711,608
Small Companies	72%	4,316	168	89	36	153,707
TOTAL		**5,994**	**2,168**	**1,149**	**460**	**865,315**

3) RoHS EU's Hazardous Waste Directive

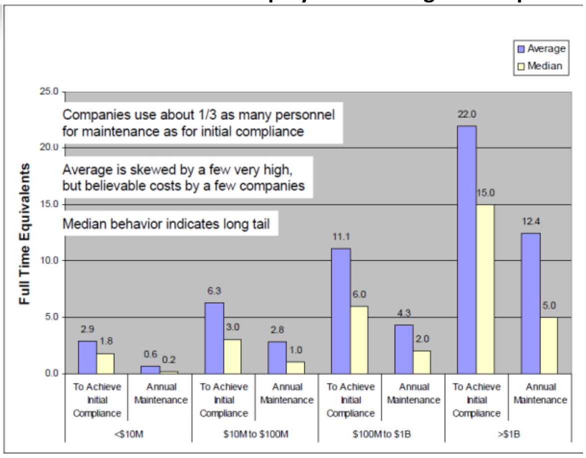
The total cost estimate for Section 1502 put forth by the National Manufacturing Association - "as high as $16 billion" - was arrived at by "extrapolating from the experience of company costs in complying with the European Union's hazardous waste directive ("RoHS)" adopted in 2003. This directive banned lead (Pb) and five other substances from electronics sold in the EU. Based on findings of a survey conducted by Technology Forecasters, Inc. (TFI) in 2008, electronics companies incurred $2,640,000 in expenditures per company to achieve initial RoHS compliance and another $482,000 annually to maintain compliance.

The web survey designed by TFI and sent to over 1,000 companies covered EU RoHS compliance costs and procedures, as well as other existing substance restriction laws. It was completed by 205 companies (58% OEM, 16% component manufacturers, and 13% contract manufacturers (also called electronics manufacturing services - EMS). 64% of the companies were US-based, 15% from Europe, 12% from Asia. The graphs below shows the main results.

Cost of Compliance by Company Size (in $000)



Number of FT Employees Working on Compliance



Opportunity Costs of Implementing Due Diligence

Opportunity costs include any activity that a company cannot undertake due to its capital or staff being tied up in a CSR/due diligence activity. Companies have also voiced concerns that due diligence might affect their competitiveness.

"Beyond the actual financial burden of complying and reporting on different CSR-related schemes, a key concern for companies and indeed governments is the effect on the competitiveness of their companies. In the UK's Impact Assessment Implementation of Chapter 10 of the EU Accounting Directive (2013/34/EU) it states that "It is possible that complying with this measure will place UK companies at a competitive disadvantage. Whilst disclosing payments to governments will not give direct insight into the levels of turnover, costs and profits that an extractives company generates in a particular area, there may be instances when confidential business data will be revealed or can be deduced from such data". 48 According to the German Federation of Industry in reference to non-financial reporting, "These additional financial burdens would put European companies at a serious disadvantage with regards to their international competitiveness, and should therefore be avoided on all accounts." In contrast, an IISD (2008) survey finds that 38 percent of SMEs and 60 percent of consultants suggested that social responsibility-related investments "did not present additional cost-burdens, provided that the mix of social responsibility strategies was suited to the firm's immediate priorities."

From: Costs If You Do, Cost If you Don't…

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Annex C: Literature Review – Costs of RBC DD and Benefits of RBC – Key Studies

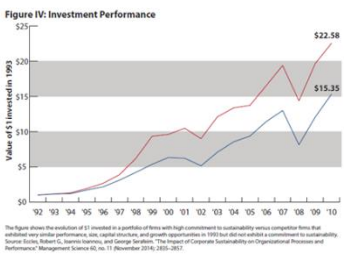
Details of Studies on RBC DD Costs					
Sub-Topic	**Published**	**Methodology/Sample Size**	**What was Being Studied**	**Findings**	**Source**
Dodd-Frank Section 1502 (US Conflict Minerals Act)					
DD and disclosure for Dodd Frank Section 1502	2011	Estimate for 1,199 US companies that would be required to file a Conflict Minerals report Estimates for proposed, not yet implemented regulation	Cost of complying with Dodd Frank Section 1502 Due diligence, audit + filing of CM report	Annual burden imposed on US companies by Section 1502 estimated to range from about $14,000 for companies that have to carry out due diligence but do not have to file a CMR to just above $53,000 for companies that have to also undergo an audit ($25,000) and file a report with the SEC ($3,600 to $10,800 in consultant costs). Estimate that average company would spend 36 additional hours on disclosure preparations	Securities and Exchange Commission (SEC). Federal Register / Vol. 75, No. 246 / Thursday, December 23, 2010 / Proposed Rules 17 CFR Parts 229 and 249 Conflict Minerals https://www.sec.gov/rules/proposed/2010/34-63547fr.pdf
DD and disclosure for Dodd Frank Section 1502	2011	Estimate of US.'s largest manufacturing trade association Estimates for proposed, not yet implemented regulation	Cost of complying with Dodd Frank Section 1502 Cost of IT upgrades, staff time required for supplier data collection and verification, audits and reporting	Estimates costs of compliance ranging from $1.2 to $25 million per company, with an industry-wide total cost of $8 to $16 billion. Over 90% of total cost per company related to the updating of IT systems (for large companies estimate of required upgrades of $25 million)	National Association of Manufacturers (NAM). Comments submitted to the SEC. March 2, 2011. http://www.sec.gov/comments/s7-40-10/s74010-212.pdf
DD and disclosure for Dodd Frank Section 1502	2014	Analysis of previous studies of the cost of the Dodd-Frank Section 1502 and generation of new estimate Estimates for proposed, not yet implemented regulation	Critical analysis of both the SEC and NAM figures and new, improved estimate of Section 1502 costs	Estimated costs between $200,000 and $1 million per company. Average costs in the first year of implementation: $235,000 (small companies) to $1.1 million (large companies) and $28,500 (small companies) to $106,000 (large companies) in the following years	Bayer, C. (with contributions from Dr. Elke de Buhr) 2011. A Critical Analysis of the SEC and NAM Economic Impact Models and the Proposal of a 3rd Model in view of the Implementation of Section 1502 of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act. LA: Tulane University. http://www.payson.tulane.edu/welcome-tulanes-dodd-frank-section-1502-post-filing-survey-2014-presentation
DD and disclosure for Dodd Frank Section 1502	2011	Estimates for proposed, not yet implemented regulation	Cost of complying with Dodd Frank Section 1502	Estimate of total first-year costs of $228,000 for companies with $1 billion in revenues. Costs for companies with more than $10 billion in revenues estimated at $813,000. Estimate that these costs would drop by 50% in each of the following two years as growing experience with the process reduces efforts required to obtain and verify the necessary information from the companies' supply chain	Claigan Environmental comment to the SEC on Dec. 16, 2011
DD and disclosure for Dodd Frank Section 1502	2012	Interviews with 20 global companies ranging in size from $ 500 million to over $120 billion in annual revenues and representing a variety of industries including electronic components, computers, consumer health care, automotive and retail Pre Implementation of the law	Cost of complying with Dodd Frank Section 1502	Compliance cost varied widely with the size and complexity of companies' supply chains but seemed to be manageable for all types of companies. The largest companies (with annual revenues over $50 billion) expected facing one-time costs ranging from $500,000 to $2 million. Many smaller companies expected to be able to meet their obligations for less than the cost of a full-time employee in the first year, with costs declining over time	Green Research. 2012. The Costs and Benefits of Dodd-Frank Section 1502. A Company-Level Perspective. https://www.sec.gov/comments/s7-40-10/s74010-470.pdf

Details of Studies on RBC DD Costs					
Sub-Topic	**Published**	**Methodology/Sample Size**	**What was Being Studied**	**Findings**	**Source**
EU					
Costs specific to OECD responsible mineral supply chain guidelines	2016	Based on in-depth interviews with senior executives from 29 EU-based companies. Size: from 5 million EUR to 75 billion EUR in annual revenues (12 SMEs and 17 large companies) Overall, representing an aggregated sales volume of 347 billion Euros Industries: Automotive, Aerospace & Defense, Electronics and General Manufacturing industry, Jewellery industry, and smelting and refining companies.	The purpose of this study was to thoroughly investigate both the costs that are required and the benefits that arise out of the implementation of the OECD Guidance for responsible mineral supply chains.	Independent of firm size, maturity in supply chain management, industry, and supply chain tier step, almost all companies in the sample indicate that the costs for full OECD Due Diligence implementation are relatively low when compared to company sales. Overall, companies estimate an average of approximately **270,000 EUR** as investment cost in the first year, followed by recurring annual cost expenditures of **535,000 EUR** for full implementation. Also, these costs can be further reduced significantly through industry and supply chain collaboration.	Blome, C. 2016. Stopping Conflict Minerals with OECD Guidance for Mineral Supply Chain. University of Sussex, School of Business, Management and Economics
Cost of EU non-financial reporting	2011	Analysis of data from 71 companies (financial, food and agriculture, textile, consumer goods, extractive) in eight countries	Cost related to reporting for EU Non-financial Reporting Directive (2014) 1. Training of employees 2. Collection of new data 3. Report Drafting 4. Report Design and Publication 5. External Audit	Cost of non-financial reporting ranged between €155,000 to €604,000 annually depending on company size. On a per employee basis, costs were much higher for small companies (between €68 and €212 per employee) than for large companies where the cost was between €3 and €13.	Centre for Strategy and Evaluation Services (CSES). 2011. Framework Contract for Evaluation and Impact Assessment activities of Disclosure of non-financial information by Companies. Final report. UK: CSES. http://ec.europa.eu/finance/accounting/docs/non-financial-reporting/com_2013_207-study_en.pdf
Cost of EU non-financial reporting	Undated		Cost of Reporting	"The required investment is a result of the breadth of a sustainability report, which is proportional to the size of an organization's impacts. The cost of reporting can therefore vary from as little as **€2.000 to over €100.000**." No breakdown of these costs given.	Global Reporting Initiative. Cost and Burden of Reporting. https://www.globalreporting.org/resourcelibrary/Cost-and-burden-of-reporting.pdf

Details of Studies on RBC Benefits					
Sub-Topic	**Published**	**Methodology/Sample Size**	**What was Being Studied**	**Findings**	**Source**
General					
General Benefits	2011	Review of reputable academic and practitioner/business literature and of Business in the Community (BITC) CR Index submissions Study Period: 2003 and 2010	Benefits from RBC	184 unique companies were identified stating a benefit, 127 from empirical data, and 57 from the literature review. Identification of over 60 benefits (top 7 in order of relevance); 1. Brand value and reputation 2. Employees and future workforce 3. Operational effectiveness 4. Risk reduction and management 5. Direct financial impact 6. Organisational growth 7. Business opportunity	Doughty Center for Responsible Business. 2011. The Business Case for being a Responsible Business http://www.bitc.org.uk/sites/default/files/kcfinder/files/Business_case_final1.pdf
Relationship of a company's social performance vs. its financial performance (CSP and CFP)	2003	Review of 127 studies published between 1972 and 2002	Review of three decades of studies that empirically examined the relationship between companies' social and their financial performance (CSP vs CFP)	• A clear signal emerges from these 127 studies. A simple compilation of the findings suggests there is a positive association, and certainly very little evidence of a negative association, between a company's social performance and its financial performance. • 109 of the studies predicted financial performance based on corporate social performance. Almost half of the results (54) pointed to a positive relationship between corporate social performance and financial performance. Only seven studies found a negative relationship; 28 studies reported non-significant relationships, while 20 reported a mixed set of findings. • 22 of the 127 studies predicted CSP based on CFP. The majority of results (16 studies) pointed to a positive relationship between corporate financial performance and social performance	Joshua D. Margolis and James P. Walsh. Misery Loves Companies: Rethinking Social Initiatives by Business *Administrative Science Quarterly* Vol. 48, No. 2 (Jun., 2003), pp. 268-305
CSP and CFP	2007	Meta-analysis of 192 effects revealed in 167 studies over a 35 year period Event studies: the impact of a company's social performance is measured through a comparison of the stock market's valuation of that company's stock preceding and following the announcement of positive or negative news.	Relationship between corporate social performance and corporate financial performance.	• After thirty-five years of research, the preponderance of evidence indicates a mildly positive relationship between corporate social performance and corporate financial performance. The overall average effect of r=.132 across all studies is statistically significant but, on an absolute basis, is small • First and most clear, revealed corporate misdeeds are costly to companies • Second, CSP does not systematically destroy shareholder value. The overall effect of CSP on CFP is positive. Only 2% of the individual studies reported a significant negative effect.	Margolis, J. D., Elfenbein, H. A., and Walsh, J. P. 2007. Does It Pay To Be Good? A Meta-Analysis and Redirection of Research on the Relationship between Corporate Social and Financial Performance, Working paper www.hks.harvard.edu/m-rcbg/papers/seminars/margolis_november_07.pdf

Details of Studies on RBC Benefits

Sub-Topic	Published	Methodology/Sample Size	What was Being Studied	Findings	Source
Business Case for ESG/ Sustainability	2015	Enhanced meta-study using 200 different sources Covering 11 years (2005-2015)	Do companies' sustainability efforts affect their bottom line (cost of capital, brand reputation and operational performance measures)?	• 90% of the studies on the cost of capital show that sound sustainability standards lower the cost of capital of companies. • 88% of the research shows that solid ESG practices result in better operational performance of firms. • Reputation is directly correlated with ESG issues	Clark, Gordon L. and Feiner, Andreas and Viehs, Michael, From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance (March 5, 2015). http://www.arabesque.com/index.php?tt_down=51e2de00a30f88872897824d3e211b11
Business Case for ESG/Sustainability	2010	Study period: 1992 - 2010	Correlation between ESG issues and company's performance	• Financial performance of companies with strong ESG performance is better than that of companies with weak ESG performance, as observed from 1992 to 2010 • According to McKinsey's global survey of 7,751 consumers, 87 percent are concerned about the environmental and social impacts of the products they buy and 54 percent are willing to pay a premium for products that are sustainably manufacture • Example of cost borne due to failure in risk management: Gulf of Mexico oil spill, BP lost more than $32 million a day in brand value.	International Finance Corporation, The Business Case for Sustainability. http://www.ifc.org/wps/wcm/connect/9519a5004c1bc60eb534bd79803d5464/Business+Case+for+Sustainability.pdf?MOD=AJPERES
General Benefits (specific to OECD's Guidelines on Conflict Minerals)		Based on in-depth interviews with senior executives from 29 EU-based companies. Size: from 5 million EUR to 75 billion EUR in annual revenues (12 SMEs and 17 large companies) Overall, representing an aggregated sales volume of 347 billion Euros Industries: Automotive, Aerospace & Defense, Electronics and General Manufacturing industry, Jewellery industry, and smelting and refining companies.	Benefits specific to the implementation of OECD's Guidelines on Conflict Minerals	Overall, 82.8% of respondents believe that fulfilling the standards set out by the OECD Guidance results in significant benefits, even though most of them cannot be quantified. Companies typically believe in positive reputation effects. Supply chain rationalization including securing future supply also plays a dominant role for several companies.	Blome, C. 2016. Stopping Conflict Minerals with OECD Guidance for Mineral Supply Chain. University of Sussex, School of Business, Management and Economics

Details of Studies on RBC Benefits					
Sub-Topic	**Published**	**Methodology/Sample Size**	**What was Being Studied**	**Findings**	**Source**
General Benefits of Non-Financial Reporting	2011	Analysis of published non-financial reports and follow-up interviews with 71 companies in eight countries - Germany, Denmark, Spain, France, Italy, the Netherlands, Poland and the UK. Covered sectors: banking and financial services, food and agriculture, textile, consumer goods, extractive and other sectors. 58 companies with more than 250 employees, 13 less. June – November 2011	The purpose of this survey-based study was two-fold: a) to assess the cost of non-financial reporting b) to assess related benefits as perceived (and, where available, measured) by companies	Survey on perceived benefits (company's own description and prompted responses): Main benefits of non-financial reporting mentioned by companies: External: • Increased confidence in the company • Improved brand image • Enhanced ability to do business Internal: • Reduced vulnerability to risks • Making company a more attractive employer • Improved internal staff relationships Only 3 of the 20 companies interviewed had actually tried to quantify the benefits of non-financial reporting	Centre for Strategy & Evaluation Services (CSES). 2011. Framework Contract for projects relating to Evaluation and Impact Assessment activities of Directorate General for Internal Market and Services. Disclosure of non-financial information by Companies. http://ec.europa.eu/finance/accounting/docs/non-financial-reporting/com_2013_207-study_en.pdf
Stock Performance					
Stock Price	2011	Compared a matched sample of 180 companies, 90 classified as High Sustainability companies and 90 as Low Sustainability companies over an 18-year period (1993-2011)	Comparison of stock price performance related to companies sustainability policies (high sustainability companies placing high importance on environmental and social performance in addition to financial performance)	Findings show that High Sustainability companies dramatically outperformed the Low Sustainability ones in terms of both stock market and accounting measures. Investing $1 in the beginning of 1993 in a value-weighted portfolio of sustainable companies would have grown to $22 by the end of 2010. In contrast, investing $1 in the beginning of 1993 in a value-weighted portfolio of traditional companies would have only grown to $15 by the end of 2010. On a risk-adjusted basis the outperformance was 4.8% annually. However, the results suggest that this outperformance occurs only in the long term. Managers and investors who are hoping to gain a competitive advantage in the short term are unlikely to succeed by embedding sustainability in their organization's strategy. 	Eccles G.R., Ioannou I. Serafeim G. "The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance," Harvard Business School, November, 2011. http://hbswk.hbs.edu/item/the-impact-of-corporate-sustainability-on-organizational-process-and-performance **George Serafeim. 2014. Turning a Profit While Doing Good: Aligning Sustainability with Corporate Performance. Center for Effective Public Management at Brookings** www.brookings.edu/research/turning-a-profit-while-doing-good-aligning-sustainability-with-corporate-performance/

Details of Studies on RBC Benefits					
Sub-Topic	**Published**	**Methodology/Sample Size**	**What was Being Studied**	**Findings**	**Source**
Stock Performance	2015	Enhanced meta-study based on more than 200 academic studies, industry reports, newspaper articles, and books. Review of 41 studies that dealt with relationship between good sustainability and financial market performance Covering 11 years (2005-2015)	Do companies' sustainability efforts affect their bottom line (cost of capital, brand reputation and operational performance measures)?	33 (80%) of the studies reviewed showed a positive correlation between good sustainability and superior financial market performance. • Superior sustainability quality (as measured by aggregate sustainability scores) is valued by the stock market: more sustainable companies generally outperform less sustainable companies. • Stocks of well-governed companies perform better than stocks of poorly governed companies. • On the environmental dimension of sustainability, corporate eco-efficiency and environmentally responsible behavior are viewed as the most important factors leading to superior stock market performance. • On the social dimension, the literature shows that good employee relations and employee satisfaction contribute to better stock market performance.	Clark, Gordon L. and Feiner, Andreas and Viehs, Michael, From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance (March 5, 2015). http://www.arabesque.com/index.php?tt_down=51e2de00a30f88872897824d3e211b11
Impact of RBC on Shareholder Return	2011	Statistical analysis using financial data of companies listed on the London Stock Exchange and part of the Business in the Community (BITC)'s CR Index Study period: 2002 to 2009	How do companies with strong CSR commitment perform in terms of shareholder return compared to their peers?	Companies that consistently manage and measure their responsible business activities outperformed their FTSE 350 peers on total shareholder return (TSR) in seven out of ten years and by between 3.3% and 7.7% per year. The TSR of these companies also recovered more quickly in 2009 compared with that of their FTSE350 and FTSE All-Share peers, with an average 10 percentage points higher shareholder return.	Business in the Community. June 2011. The Value of Responsible Business http://www.bitc.org.uk/system/files/legal_and_general_research_2010_v5.pdf
Impact of CSR on Firm Value	2013	Combination of two databases. KLD Stats database constructed by KLD Research and Analytics, Inc. (KLD) in Boston to measure CSR activities: Second index, also by KLD, to capture the performance of companies that have positive social and environmental records, but that also meet certain financial standards Covering all companies in the S&P 500 Index and the Domini 400 Social Index Study period: 1991–2005	Impact of Corporate Social Responsibility on Firm Value	• CSR activities can enhance firm value for companies with high public awareness, as proxied by advertising intensity. However, companies with high public awareness are also penalized more when there are CSR concerns. • For companies with low public awareness, the impact of CSR activities on firm value is either insignificant or negative. • Advertising has a negative impact on the CSR– value relation if there is an inconsistency between the firm's CSR efforts and the company's overall reputation. • After including firm fixed effects there is no direct relation between CSR and firm value.	Henri Servaes and Ane Tamayo. The Impact of Corporate Social Responsibility on Firm Value: The Role of Customer Awareness. Management Science Vol. 59, No. 5, May 2013, pp. 1045–1061 http://faculty.london.edu/hservaes/ms2013.pdf

Details of Studies on RBC Benefits					
Sub-Topic	**Published**	**Methodology/Sample Size**	**What was Being Studied**	**Findings**	**Source**
Cost of Capital					
CSR and Access to Capital	2011	Use of a panel data set from Thompson Reuters ASSET4 for 2,439 publicly listed companies from a total of 49 countries during the period 2002 to 2009. Thompson Reuters ASSET4 rates companies' performance on three dimensions ("pillars") of CSR: social, environmental and corporate governance. The dependent variable of interest is the "KZ index", first advocated by Kaplan and Zingales (1997) and subsequently used extensively in the corporate finance literature as a measure of capital constraints.	Does superior performance on corporate social responsibility (CSR) strategies lead to better access to finance?	Results suggest that superior CSR performance leads to lower capital constraints. The reverse also applies : lower capital constraints lead to an improvement in CSR performance. 2002 – 2009 Moreover, stakeholder engagement and CSR disclosure were found to be significantly related to capital constraints.	Cheng, Beiting, Ioannis Ioannou, and George Serafeim. "Corporate Social Responsibility and Access to Finance." Strategic Management Journal
CSR and Cost of Equity Financing	2011	Sample of 12,915 U.S. firm-year observations from 1992 to 2007, Analysis through merging of 4 databases - 1. Thompson Institutional Brokers Earnings Services (I/B/E/S), (analyst forecast data), 2. Compustat North America, (industry affiliation and financial data), 3. KLD STATS (created and maintained by KLD Research & Analytics, Inc. (KLD)), (CSR data), and 4. CRSP monthly return files, (information on stock returns)	How does a company's CSR score affect cost of capital?	Companies with better CSR scores exhibit cheaper equity financing. In particular, findings suggest that 1. investment in improving responsible employee relations, 2. environmental policies, and 3. product strategies contribute substantially to reducing companies' cost of equity. CSR-related actions in the area of community relations, diversity and human rights do not. Participation in two "sin" industries, namely, tobacco and nuclear power, increases companies' cost of equity Effect of CSR on Information asymmetry and perceived risk are the key channels through which CSR affects the cost of equity capital.	El Ghoul, S., Guedhami, O., Kwok, C. C., & Mishra, D. (July 2010). Does Corporate Social Responsibility Affect the Cost of Capital? http://responsiblebusiness.haas.berkeley.edu/documents/moskowitz_2011_csr_cost_of_capital.pdf
Cost of Capital	2015	Enhanced meta-study based on more than 200 academic studies, industry reports, newspaper articles, and books. Covering 11 years (2005-2015)	Do companies' sustainability efforts affect their bottom line (cost of capital, brand reputation and operational performance measures)?	• 90% of the studies on the cost of capital show that sound sustainability standards lower the cost of capital of companies.	Clark, Gordon L. and Feiner, Andreas and Viehs, Michael, From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance (March 5, 2015). www.arabesque.com/index.php?tt_down=51e2de00a30f88872897824d3e211b11

Details of Studies on RBC Benefits					
Sub-Topic	**Published**	**Methodology/Sample Size**	**What was Being Studied**	**Findings**	**Source**
Reputation					
Reputation as an Employer	2015	Enhanced meta-study based on more than 200 academic studies, industry reports, newspaper articles, and books. Covering 11 years (2005-2015)	Do companies' sustainability efforts affect their bottom line (cost of capital, brand reputation and operational performance measures)?	Good reputation with respect to corporate working environments can translate into superior financial performance and help gain a competitive advantage by increasing attractiveness of the company to potential employees and through increased worker motivation and retention of existing employees.	Clark, Gordon L. and Feiner, Andreas and Viehs, Michael, From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance (March 5, 2015). http://www.arabesque.com/index.php?tt_down=51e2de00a30f88872897824d3e211b11
Reputation, employee satisfaction and long-run stock returns	2012	Stock market returns of ''100 Best Companies to Work For in America''	Relationship between employee satisfaction and long-run stock returns	A value-weighted portfolio of the ''100 Best Companies to Work For in America'' earned an annual four-factor alpha of 3.5% from 1984 to 2009, and 2.1% above industry benchmarks The Best Companies also exhibited significantly more positive earnings surprises and announcement returns.	Edmans, A. (2011). Does the Stock Market Fully Value Intangibles? Employee satisfaction and equity prices. Journal of Financial Economics, 101, 621-640. http://faculty.london.edu/aedmans/Rowe.pdf Edmans, A. (2012). The Link Between Job Satisfaction and Firm Value, With Implications for Corporate Social Responsibility. Academy of Management Perspectives, 26(4), 1-19. http://faculty.london.edu/aedmans/RoweAMP.pdf
Moral Capital	2005	Literature review	Relationship between corporate social responsibility and shareholder value: risk management hypothesis	CSR can contribute to enhancing moral capital that insulates the firm from negative consequences in the event of future adverse shocks Theoretical Case – supplemented by Godfrey 2009 empirical study (below)	Godfrey, P. C., Merrill, C. B., & Hansen J. M. 2005. The relationship between corporate philanthropy and shareholder wealth: a risk management perspective. Academy of Management Review, 30(4): 777–798. https://faculty.fuqua.duke.edu/~moorman/Marketing-Strategy-Seminar-2015/Session%2012/Godfrey.pdf
Moral Capital	2009	Tests theory of the 'insurance-like' property of CSR activity using an event study of 178 negative legal/regulatory actions against companies over 11 years (from 1993–2003).	Relationship between corporate social responsibility and shareholder value: an empirical test of the risk management hypothesis	Participation in institutional CSR activities—those aimed at a firm's secondary stakeholders or society at large—provides an 'insurance-like' benefit, while participation in technical CSRs—those activities targeting a firm's trading partners—yields no such benefits.	Godfrey, P. C., Merrill, C. B., & Hansen J. M. 2009. The relationship between corporate social responsibility and shareholder value: an empirical test of the risk management hypothesis Strategic Management Journal Volume 30, Issue 4, pages 425–445, April 2009 http://onlinelibrary.wiley.com/doi/10.1002/smj.750/epdf

Details of Studies on RBC Benefits					
Sub-Topic	**Published**	**Methodology/Sample Size**	**What was Being Studied**	**Findings**	**Source**
Consumer attitudes		Poll of 30,000 consumers in 60 countries via the Internet to take a pulse on: • How passionate consumers are about sustainable practices when it comes to purchase considerations. • Which consumer segments are most supportive of ecological or other socially responsible efforts.	Consumers say they care about sustainability, but do they follow through when it comes to buying decisions? Are they willing to pay more for products and services that come from companies that engage in actions that further some social good?	55% of consumers will pay extra for products and services from companies committed to positive social and environmental impact 52% check product packaging to ensure sustainable impact	Nielsen. 2012. Doing Well by Doing Good. http://www.nielsen.com/content/dam/nielsenglobal/apac/docs/reports/2014/Nielsen-Global-Corporate-Social-Responsibility-Report-June-2014.pdf
Operational Efficiency					
Operational Performance	2015	Enhanced meta-study based on more than 200 academic studies, industry reports, newspaper articles, and books. Review of 51 studies on the relationship between CSR and operational performance Covering 11 years (2005-2015)	Do companies' sustainability efforts affect their bottom line (cost of capital, brand reputation and operational performance measures)?	88% of the 51 operational performance studies reviewed show that solid ESG practices result in better operational performance. Research on the impact of ESG issues on operational performance shows a positive relationship: • With regard to governance, issues such as board structure, executive compensation, anti-takeover mechanisms, and incentives are viewed as most important. • Environmental topics such as corporate environmental management practices, pollution abatement and resource efficiency are mentioned as the most relevant to operational performance. • Social factors such as employee relationships and good work force practices have a large impact on operational performance.	Clark, Gordon L. and Feiner, Andreas and Viehs, Michael, From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance (March 5, 2015). http://www.arabesque.com/index.php?tt_down=51e2de00a30f88872897824d3e211b11
Human Resources					
Attracting Talent	2000	Experiment in which the authors manipulated CSP values of companies and measured likelihood of prospective applicants pursuing jobs with these companies.	Do companies with strong CSR reputation have an advantage when it comes to attracting employees?	Companies perceived to have a strong CSR commitment often have an increased ability to attract and to retain employees, which leads to reduced turnover, recruitment, and training costs. Prospective job applicants are more likely to pursue jobs from socially responsible companies than from companies with poor social performance reputations.	Greening, Daniel W; Turban, Daniel B. Corporate Social Performance As a Competitive Advantage in Attracting a Quality Workforce. Business & Society September 2000 39:254-280,
Corporate Attractiveness to employees		Poll of 30,000 consumers in 60 countries via the Internet to take a pulse on: • How passionate consumers are about sustainable practices when it comes to purchase considerations. • Which consumer segments are most supportive of ecological or other socially responsible efforts.	Do employees prefer to work for a socially responsible company?	More than two-thirds (67%) of respondents in Nielsen's third annual global online survey on corporate social responsibility say they prefer to work for a socially responsible company	Nielsen. 2012. Doing Well by Doing Good. http://www.nielsen.com/content/dam/nielsenglobal/apac/docs/reports/2014/Nielsen-Global-Corporate-Social-Responsibility-Report-June-2014.pdf

Details of Studies on RBC Benefits					
Sub-Topic	**Published**	**Methodology/Sample Size**	**What was Being Studied**	**Findings**	**Source**
Corporate Attractiveness to potential employees		Survey of Millennials by Cone Communications online survey conducted February 18 – March 6, 2015 by Ebiquity among a demographically representative random sample of 1,003 adults, comprising 500 men and 503 women, ages 18-34	Do employees (age 18-34) prefer to work for a socially responsible company?	78% of Millennials say that CSR directly influences whether they would work at an organization.	ADP. Attracting Talent Through Corporate Social Responsibility: 3 Myths Debunked. ADP Huamn Capital Insights. Vol. 4 https://www.adp.com/-/media/Solution%20Center/NAS/PDF/05_HCI-Vol-4-CSR-Article.ashx
CEO perception		Global survey of 1,122 corporate executives	Does CSR make a company more attractive to employees (CEO view)?	CEOs perceived that businesses benefit from CSR because it increases attractiveness to potential and existing employees	Economist 2008:13
Job Satisfaction	2012	US Survey looking at a statistically-significant national sample of 1,726 individuals: currently-enrolled university students about to enter the workforce, and currently-employed college graduates spanning three generations (Millennials, Generation X, and Baby Boomers). We examined each group's life goals, job satisfaction, and prioritization for making an impact at work against other key job criteria.	Do employees who work at companies a socially responsible company experience higher job satisfaction?	Employees who say they have the opportunity to make a direct social and environmental impact through their job report higher satisfaction levels than those who don't. In fact, employees who say they can make an impact while on the job report greater satisfaction than those who can't by a 2:1 ratio. All other things being equal, 35% of employees said they would take a 15% paycut to work for a company committed to CSR. 45% said they would take a 15% paycut to work for a job that makes a social or environmental impact.	Zukin C. Talent Report: What Workers Want in 2012. John J. Heldrich Center for Workforce Development at Rutgers, The State University of New Jersey https://www.netimpact.org/research-and-publications/talent-report-what-workers-want-in-2012
Attracting and Retaining Talent	2000	Experiment in which the authors manipulated CSP values of companies and measured likelihood of prospective applicants pursuing jobs with these companies.	Do companies with strong CSR have an advantage when it comes to attracting and retaining employees?	Companies perceived to have a strong CSR commitment often have an increased ability to attract and to retain employees, which leads to reduced turnover, recruitment, and training costs. Prospective job applicants are more likely to pursue jobs from socially responsible companies than from companies with poor social performance reputations.	Greening, Daniel W; Turban, Daniel B. Corporate Social Performance As a Competitive Advantage in Attracting a Quality Workforce. Business & Society September 2000 39:254-280,
Employee Satisfaction	2002	Survey of 52,000 employees in more than 200 companies across 15 industries	Does CSR make companies moe attractive to employees? Does this attractiveness translate into better financial returns?	Employees are attracted to and stay with their companies because of learning and development opportunities, company image and culture, and the workplace itself. The best employers showed growth in return on capital employed despite most sectors recording negative returns in the period. 2002	Prakash-Mani, K., Thorpe, J., & Zollinger P. Developing Value: The Business Case For Sustainability In Emerging Markets. AON Empower Results http://www.aon.com/apac/human-resources/thought-leadership/talent-organization/best-employers/default.jsp
Job Satisfaction	2012	Comparison of stock prices from 1984 through 2011.	Does Job Satisfaction affect Stock Price?	Companies listed in the "100 Best Companies to Work For in America" generated 2.3% to 3.8% higher stock returns per year than their peers from 1984 through 2011.	Alex Edmans. The Link Between Job Satisfaction and Firm Value, With Implications for Corporate Social Responsibility. Academy of Management Perspectives Nov 2012 http://faculty.london.edu/aedmans/RoweAMP.pdf

Details of Studies on RBC Benefits					
Sub-Topic	**Published**	**Methodology/Sample Size**	**What was Being Studied**	**Findings**	**Source**
Decreased turnover and increase in motivation and productivity	2010	Survey	Survey of employees' reasons for staying with, or leaving, a company. Measures the performance of employees who have participated in CSR programs to those who have not, controlling for prior performance.	CSR can lead to reduction in employee turnover The costs of employee turnover can be quite steep, ranging from50% of base salary for entry-level positions to 400% of base salary for highly-skilled specialists CSR may increase employee motivation and reduce the need for costly performance evaluation and measurement systems.	Blake, R. (2006, July 24). Employee retention: What employee turnover really costs your company. www.webpronews.com Balakrishnan, R., Sprinkle, G. B., & Williamson, M. G. (2010). Contracting benefits of corporate giving: An experimental investigation (Working Paper). Bloomington, IN: Indiana University.
Risk Management					
Effect of negative CSR events on shareholder value	2011	Event study analysis Companies listed on the FTSE 100 Review of the Financial Times identified 151 events associated with 78 companies between January 2007 and July 2011. Filtered for confounding effects, reduced to 71 events. Use of Vigeo data (Vigeo is leading CSR rating agency in Europe producing ratings of corporations' CSR performance on both environmental, social and governance aspects)	Short term capital market reaction to CSR negative events	The event study analysis reveals a significant negative stock price response to CSR related negative events. For reputational and legal risks, the market value response is much stronger than for other risk categories namely operational and human capital risks. Overall, the results strongly support the business case view that CSR negative related risk poses a significant threat to the market value of companies, providing a rationale for companies to manage these kinds of risks, even though such risks tend to be non-systematic. Investors do —price reputational and legal risk into their views on the future profitability of a firm.	Houssam Lahrech . 2011. Disarming the Value Killers: Through a Sharp Risk Management Lens. MSc Dissertation Paper, Nottingham University Business School www.vigeo.com/csr-rating-agency/images/PDF/Publications/Tribunes/THESIS-DISARMING_THE_VALUE_KILLERS_CSR_VIEWED_THROUGH_A_SHARP_RISK_MANAGEMENT_LENS.pdf
Amount of fines paid and stock market reaction to these fines		Sample of 101 Foreign Corrupt Practices Act cases against corporations starting in 1991 through 2015 CSR measured using the Kinder, Lydenberg and Domini (KLD) scores which measure firm-level social responsibility along the lines of community relations, product characteristics, environmental impact, employee relations, diversity and governance. Amount and terms of fines from FCPA prosecutorial press releases .	Does a good CSR reputation reduce fines companies have to pay in corporate infractions (bribery cases)? Is the stock market reaction to these penalties different for companies with a good reputation?	Using enforcements of the Foreign Corrupt Practices Act, we find that socially responsible firms receive more lenient settlements from prosecutors and have higher resulting market valuations. A one standard deviation increase in CSR is associated with 5 million dollars less in fines, or 25% lower than the mean and less costly subsequent monitoring. High CSR firms outperform low CSR firms by 2.4% in the six months following the announcement of the settlement.	Hong H, LiskovichI. 2016. Crime, Punishment and the Value of Corporate Social Responsibility http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2492202
Environment					
Pollution Control measures and Financial Performance		Study of corporations in the Standard and Poor's 500 Index (mining, manufacturing, production) Environmental performance and emissions reduction data	Does it pay to invest in pollution control measures?	Efforts to reduce emissions were significantly related to an increase in operating performance (ROA, ROS) after 1 year and an increase in financial performance (ROE) after 2 years. Initial cost burden (up-front investment in technology and training), savings take some time to materialize	Hart & Ahuja. 1996. Does it Pay to be Green? An Empirical Examination of the Relationship between Emission Reduction and Firm Performance. Business Strategy and the Environment, Vol. 5, 30-37 (www.stuartlhart.com/sites/s

Details of Studies on RBC Benefits					
Sub-Topic	**Published**	**Methodology/Sample Size**	**What was Being Studied**	**Findings**	**Source**
		from the Investor Responsibility Research Center's Corporate Environmental Profile Operating and financial performance measures from Compustat. 1988-1992 data		Example: 1975 3M's Pollution Prevention Pays (3P) program – rather than merely collecting and treating waste after it and been created (as required by law), 3M sought to prevent pollution in the first place, served as a model for score of other companies for years to come. Between 1975 and 1990, 3M saved $0.5 billion through lower raw material, compliance, disposal and liability costs.	tuartlhart.com/files/Does%20It%20Pay%20To%20Be%20Green.pdf
Pollution Control measures and Financial Performance		Sample of 652 publicly traded U.S. manufacturing firms during the period 1987-1996 combining the U.S. EPA's Toxic Release Inventory (TRI) with facility data from Dun & Bradstreet and corporate data from Standard & Poor's Compustat database.	Does it pay to invest in pollution control measures?	Evidence of an association between lower pollution and higher financial valuation, but a firm's fixed characteristics and strategic position might cause this association. Dependent variable for our analysis is financial performance as reflected by Tobin's q. Evidence of an association between pollution reduction and financial gain, but not possible to prove the direction of causality. Do more profitable firms invest more in environmental performance or does environmental performance lead to profit?	King A and Lenox M. Does it Really Pay to be Green? An Empirical Study of Firm Environmental and Financial Performance. http://www.kellogg.northwestern.edu/faculty/jagannathan/research/dan-liz/paystobegreen.pdf
Business Case for sustainable environmental performance	2015	Enhanced meta-study using 200 different sources Covering 11 years (2005-2015)	How does environmental performance affect operational performance?	Proper corporate environmental policies result in better operational performance. In particular, higher corporate environmental ratings, the reduction of pollution levels, and the implementation of waste prevention measures, all have a positive effect on corporate performance. L ikewise, the adoption of proper environmental management systems increases firm performance. Moreover, the implementation of global standards with respect to corporate environmental behaviour increases Tobin's Q for multinational enterprises. More eco-efficient firms have significantly better operational performance as measured by return on assets (ROA). With regard to poor environmental policies, both the release of toxic chemicals and the number of environmental lawsuits have been found to have a significant and negative correlation to performance. Additionally, carbon emissions have been found to affect firm value in a significant and negative manner. Hence, evidence related to the 'E' dimension shows that a more environmentally friendly corporate policy translates into better operati onal performance.	Clark, Gordon L. and Feiner, Andreas and Viehs, Michael, From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance (March 5, 2015). www.arabesque.com/index.php?tt_down=51e2de00a30f88872897824d3e211b11
Pollution control - savings			Does pollution control pay?	Benefits from handling pollution before it occurs: avoided material and labor losses, averted disposal charges and waste handling expenses	Rooney C. 1993. Economics of Pollution Prevention: How Waste Reduction Pays. Pollution Prevention Review, Summer, 261-276 http://infohouse.p2ric.org/r

Details of Studies on RBC Benefits					
Sub-Topic	**Published**	**Methodology/Sample Size**	**What was Being Studied**	**Findings**	**Source**
					ef/27/26808.pdf
Governance and Internal Processes					
Governance & Company value	2011	6,663 firm-year observations from 22 developed capital markets Study period: 2003-2007 Analysis of previously unused dataset by Governance Metrics International (GMI) which covers 64 individual corporate governance attributes provided by Governance Metrics International (GMI) Covering U.S. and non-U.S. companies in the MSCI World and the MSCI EAFE Index	Effect of firm-level corporate governance on firm value	Strong and positive relation between company-level corporate governance and social behavior and company valuation 2003-2007	Ammann, M., Oesch, D., & Schmid, M. M. (2011). Corporate Governance and Firm Value: International Evidence. Journal of Empirical Finance, 18, 36-55.
Shareholder Rights and Stock Performance	2003	Stock performance: Long-short portfolio of 1,500 large well- and poorly-governed companies listed by the Investor Responsibility Research Center (IRRC) which tracks more than 93% of the total market capitalization of the NYSE, AMEX and NASDAQ Using the incidence of 24 governance rules, construction of a "Governance Index" to proxy for the level of shareholder rights at about 1500 large companies Study Period: 1990-1999	Relationship between Shareholder Rights and Stock Performance	Companies with stronger shareholder rights had higher firm value, higher profits, higher sales growth, lower capital expenditures, and made fewer corporate acquisitions. An investment strategy that bought companies in the lowest decile of the index (strongest rights) and sold companies in the highest decile of the index (weakest rights) would have earned 8.5 percent higher returns per year during the sample period.	Gompers, Paul A. and Ishii, Joy L. and Metrick, Andrew, Corporate Governance and Equity Prices. Quarterly Journal of Economics, Vol. 118, No. 1, pp. 107-155, February 2003. http://fic.wharton.upenn.edu/fic/papers/02/0232.pdf

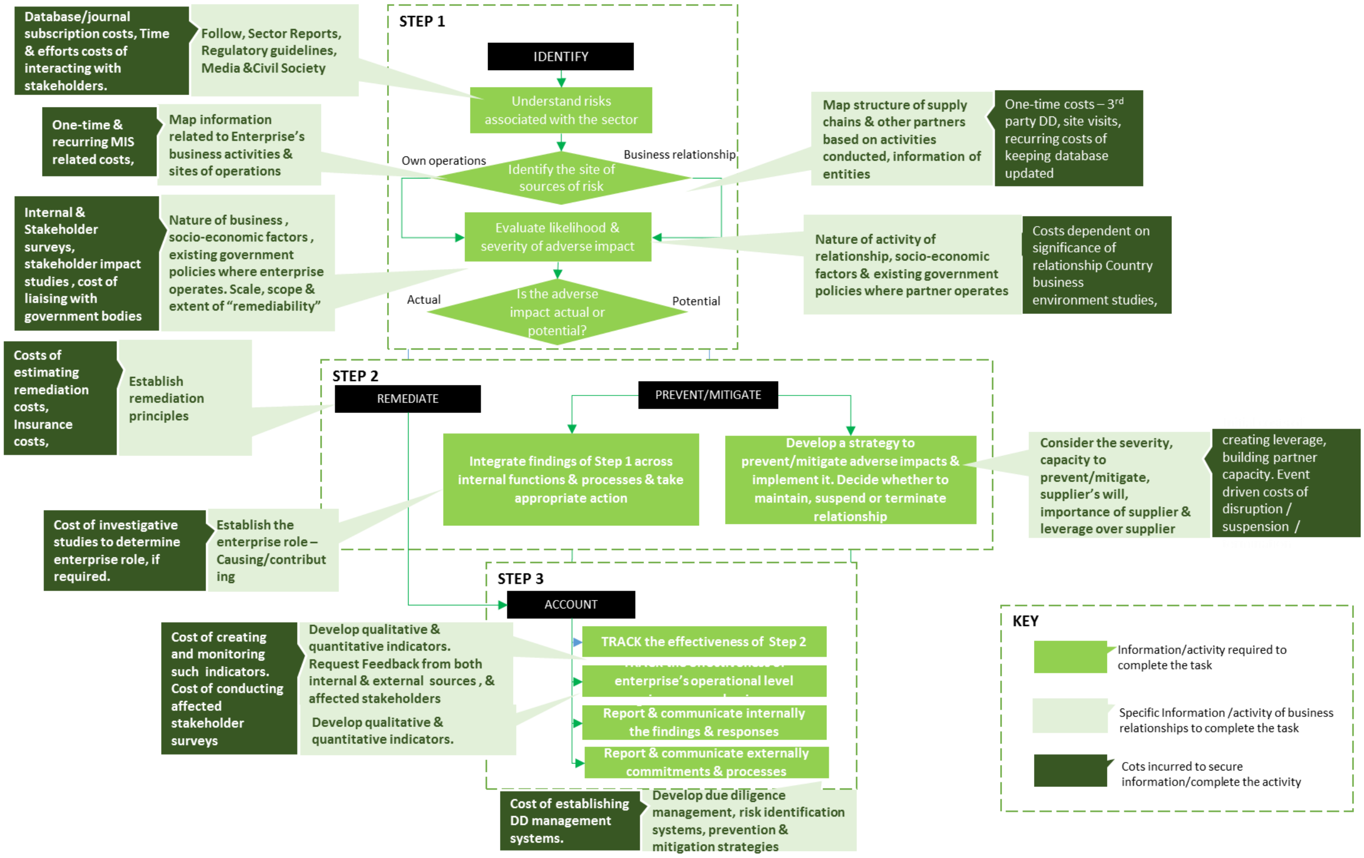
Details of Studies on RBC Benefits					
Sub-Topic	**Published**	**Methodology/Sample Size**	**What was Being Studied**	**Findings**	**Source**
Governance Mechanisms and Equity Prices	2005	Proxies to measure extent of internal governance: • percentage of shares held in each firm by the firm's largest institutional blockholder (greater than 5% ownership)[6] from CDA Spectrum • percentage of shares held by the 18 largest public pension funds[7] 1990-2001	Interaction of internal and external governance mechanisms with equity returns Interaction of governance mechanisms with firm values (Qs), and accounting measures of performance	A portfolio that buys companies with the highest level of takeover vulnerability and shorts companies with the lowest level of takeover vulnerability generates an annualized return that is10% to 15% higher than expected only when public pension fund (blockholder) ownership is high.	Cremers, Martijn and Nair, Vinay B., Governance Mechanisms and Equity Prices. Journal of Finance, Vol. 60, No. 6, pp. 2859-2894, 2005. http://ssrn.com/abstract=938528
CSR and value for acquiring shareholders	2013	Stock performance: 1,566 completed US mergers KLD ratings of acquired companies[8] 1992-2007	Does CSR create value for acquiring companies' shareholders Comparison of low CSR acquirers, high CSR acquirers	High CSR acquirers realize higher merger announcement returns, higher announcement returns on the value-weighted portfolio of the acquirer and the target, and larger increases in post-merger long-term operating performance. Long-term stock returns, suggesting that the market does not fully value the benefits of CSR immediately Mergers by high CSR acquirers take less time to complete and are less likely to fail 1992 – 2007	Deng, Xin and Kang , Jun-Koo and Low, Buen Sin, Corporate Social Responsibility and Stakeholder Value Maximization: Evidence from Mergers (March 1, 2013). Available at SSRN: http://ssrn.com/abstract=2067416 or http://dx.doi.org/10.2139/ssrn.2067416

[6] By using institutional blockholding rather than institutional holdings, we mitigate the problem that institutions with minor stakes may have little incentive to monitor. In addition, a blockholder also has substantial voting control to pressure the management (see, e.g., Shleifer and Vishny (1986)).

[7] Public pension funds are generally more free from conflicts of interest and corporate pressure than other institutional shareholders.

[8] KLD Ratings cover the 650 companies that comprise the Domini 400 Social SM Index and the S&P 500 since 1991 and more than 3,000 companies that comprise the Russell 3000 since 2003

Annex D: Component-wise Due Diligence Activities and Associated Costs



Annex E: Indicative Framework of RBC Due-diligence for a Typical MNE

COSTS

RBC DD COSTS

ONE-TIME COSTS

- Dedicated Manpower: Hiring and training costs
- Non-dedicated Manpower: Time spent by employees not working full-time on RBC on set-up activities: Kickoff, training, meetings with business partners etc
- Professional Services hired from external consultants, industry experts for initial set-up
- Procurement and Installation of IT Systems required for RBC DD implementation

RECURRING COSTS

- Dedicated Manpower: Salary costs
- Non-dedicated Manpower: Time spent on recurring activities: meetings, audits etc
- Professional Services for recurring activities – 3rd party audit costs, surveys
- Maintenance of IT Systems

COST DRIVERS

- Sector of the Company
- Nature of business
- Domicile of enterprise
- Size of the organization
- Existing RBC/DD Framework
- Breadth & depth of business relationships
- Domicile of significant business partners

RBC DD Costs by DD Component

COMPONENT	Indicative Set of activities	Associated cost examples
I. IDENTIFY	• Following industry coverage • Participating in industry forums, interacting with peers, stakeholders to understand shared industry wide concerns • Mapping own and business partner's operating activities with risk areas	• Membership fees of Industry forums • Hiring consultants to conduct DD, background checks of partners • Country business environment studies
II. PREVENT AND MITIGATE	• Investing in capacity building & training of business partners • Cost of securing leverage • Establish capabilities (legal & operational) in countries of business partners	• Increased site visits • Third party audits of own/vendor sites • Insurance costs • Investments / soft loans to business partners
III. ACCOUNT	• Developing indicators for measuring effectiveness • Conducting stakeholder surveys	• Reporting costs • Cost of publishing public reports • Person-hours spent on filling surveys • Hiring dedicated due-diligence personnel

Cross Cutting Elements

- **Strong management systems**: Adopting new or incorporating into existing management systems an enterprise level policy for RBC and DD
- **Enhanced Stakeholder engagement**: Continuous interaction to ensure concerns of all stakeholders are integrated & addressed
- **Support for remediation**: Demonstrates Company's commitment to RBC

BENEFITS

RBC DD Benefits by DD Component

I. IDENTIFY	• Improved understanding of business activities and cause effect relationships – internal as well as business linkages • Early detection of problems • Ability to prioritize risks and plan accordingly
II. PREVENT AND MITIGATE	• Averted costs of remediation • Amelioration of long term adverse impacts
III. ACCOUNT	• Reduced risk perception leading to higher valuation • Increased ability to spot risks of adverse impact • Reduced Insurance costs in long run

Benefits of successful RBC DD implementation

- Compliance with OECD and regulatory guidelines
- Improved image across stakeholders – employees, customers. community, regulators, civil society
  - Higher revenues through reduced price elasticity, price premiums, access to new markets, enhanced market share etc.
  - Lower costs through reduced employee turnover, process efficiency, increase productivity etc
- Improved returns for shareholders
  - Reduced risk perception among financial analysts/investors reducing cost of capital
  - Access to new sources of capital traditionally unavailable to peers
  - Reduced litigation and catastrophe remediation costs

RISKS

RBC DD Potential Risks by DD Component

I. IDENTIFY	• Misdiagnosis / misguidance due to lack of initial analysis • Diverted decision-making • Miscommunication of goals
II. PREVENT AND MITIGATE	• Diversion of funds and attention from company's day-to-day operations • General interference with the business model and organizational structure
III. ACCOUNT	• Diversion from core competencies • Excessive build-up of bureaucratic monitoring departments • Loss of agility, risk-taking instincts

Annex F: Survey on Costs and Benefits of Due Diligence for RBC

UNDERSTANDING RESPONSIBLE BUSINESS CONDUCT (RBC) COSTS AND BENEFITS

I. Survey Overview

This survey was designed to facilitate a better understanding of the costs of implementing the risk-based due diligence process framework for Responsible Business Conduct, as prescribed by the OECD Guidelines for Multinational Enterprises. Additionally, this survey seeks to quantify the benefits that companies can derive from implementing this process. The data obtained from this survey will be used to build an empirical basis to inform further development of due diligence standards with the objective of minimizing unnecessary RBC due diligence costs and maximizing benefits to businesses. The results will also be used for outreach and engagement with industry and new markets.

With this survey, OECD seeks to determine which RBC due diligence practices companies are implementing, how much costs they incur to implement those practices, what outcomes and resulting benefits they observe and how they determine the effectiveness of their RBC practices.

The survey is organized into five sections:

1. Company Profile
2. Company RBC Strategy
3. RBC Due Diligence Policies and Mechanisms
4. Costs of RBC Due Diligence
5. Outcomes of RBC Due Diligence

Where all the necessary information is available, the estimated time to complete this survey is estimated to be approximately two hours.

Thank you for your participation.

II. Key Terms and Definitions

Term	Definition
Adverse Impacts	Adverse impacts on matters covered by the Guidelines, unless explicitly excluded, which are either caused or contributed to by the enterprise, or are directly linked to their operations, products or services by a Business Relationship. The risk of Adverse Impacts is not limited to risk to the enterprise itself, but also includes risk of impacts on others, although the two are often interrelated.
Business Relationship	Includes relationships with business partners, entities in the supply chain and any other non-State or State entities directly linked to its business operations, products or services.
OECD Guidelines for Multinational Enterprises (the "Guidelines")	Developed by the Organization for Economic Co-Operation and Development, the Guidelines are the most comprehensive government-backed recommendations on responsible business conduct for MNEs operating in or from adhering countries. The full text of the Guidelines can be obtained from https://mneguidelines.oecd.org/text/
Responsible Business Conduct (RBC)	The ethical conduct of business activities as defined by the Guidelines
Risk-Based Due Diligence ("Due Diligence" or "DD")	An on-going proactive and reactive process whereby enterprises take reasonable steps and make good- faith efforts to identify and respond to risks of Adverse Impacts in accordance with the Guidelines. The OECD Guidelines recommend carrying out risk-based due diligence, meaning that the level of due diligence applied corresponds with the level of risk. The OECD has incorporated these components into the following five-step framework for due diligence. Step 1. Establish strong management systems for due diligence: Adopt a responsible business conduct policy, build internal capacity & functional alignment, supplier & business partner engagement (outreach, incorporating into contracts, etc.), set-up internal controls & data

	collection on supply chain, establish grievance mechanism. Step 2. Identify and assess risks of adverse impacts in the supply chain: Map operations, business partners & supply chains, prioritize further assessment based on severity of harm (sector, counterparty, and site for high-risk issues), identify risks of circumstances inconsistent with standards in the Guidelines. Step 3. Manage risks in the supply chain: inform senior management, fix internal systems, build leverage individually or collaboratively, use existing networks to manage risk (e.g. industry, workers reps, non-traditional partnerships), build internal and business partner capacity, provide remedies when “caused” or “contributed” to adverse impacts Step 4. Verify the effectiveness of the enterprise’s due diligence: where relevant, monitor medium-high-risk operations, products or services, after change of circumstance; undertake audits, assurance, etc. Step 5. Report publicly and communicate, with due regard for commercial confidentiality and competitive concerns

III. Company Profile				
Ref#	**Question**	**Unit**	**Response**	**Notes/Comments**
1.	For the latest fiscal year, please provide the following information about your Company:			
	Full corporate name of the ultimate parent company	Text		--
2.	Location of the ultimate parent company’s headquarters	Text		--
3.	Full corporate names of all publicly-listed entities in the Group and the stock exchange where the entity is listed	Text	Corporate Name Stock Exchange	--
4.	Total annual sales of the Company • Domestic • International	 US$m US$m		SMEs have maximum annual sales of EUR50 million (https://stats.oecd.org/glossary/detail.asp?ID=3123)
5.	Annual sales in all sectors and subsectors the Company is engaged in	Text / US$m	Drop-down for ISIC sector Drop down for ISIC subsector US$m	International Standard Industrial Classification (http://unstats.un.org/unsd/publication/seriesM/seriesm_4rev4e.pdf)
6.	Total number of suppliers (directly related to the production of the Company’s inventory)	Number		
7.	Total number of supplier contracts (directly related to the production of the Company’s inventory)	Number		
8.	Total cost of production of the Company where [•]% of the value of labor, raw materials, overhead are sourced/produced • Domestic • International	 US$m US$m		
9.	Total number of full-time equivalent employees as of [cut off date]: • Headquarters • Domestic (employed in the ultimate parent company’s home country) • Foreign (employed outside the ultimate parent company’s home country)	 Number Number Number		SMEs have a maximum of 250 employees (https://stats.oecd.org/glossary/detail.asp?ID=3123)

	If the number of employees as of cut-off date is not typical due to seasonal fluctuations or to some extraordinary circumstance, please approximate the typical number.			
10.	How important is brand recognition (from a consumer's perspective) to the Company?	Number	Not important Very important N/A 1 2 3 4 5	--
IV. Company's RBC Strategy				
Ref#	**Question**	**Unit**	**Response**	**Notes/Comments**
11.	Does the Company have a written policy for performing due diligence to ensure RBC? If yes, please attach.	Y / N	[Company to attach a copy of the RBC policy]	--
12.	When was the first year that the Company implemented a RBC policy?	Number	Year	--
13.	What are the Company's primary RBC goals?	Text	Text	--
14.	How many times are RBC-related issues discussed at the Board level (in an average year year/ last year)?	Number	# out of # Board meetings	--
V. RBC Due Diligence Policies and Mechanisms				
Ref#	**Question**	**Unit**	**Response**	**Notes/Comments**
	Risk Assessment			
15.	Please indicate the five RBC risks that were given the highest priority for due diligence and the respective geographies where they are relevant, according to the order of priority.	Text	1. [Risk] – [Geography] 2. [Risk] – [Geography] 3. [Risk] – [Geography] 4. [Risk] – [Geography] 5. [Risk] – [Geography]	Example: A chocolate company Risk: Child labor in cocoa plantations Geography: Ivory Coast
16.	Does the Company share the cost of the following risk identification measures with suppliers? Approximately what percentage is covered by the Company? • General on-boarding assessments • Audits • Enhanced follow up measures		Y / N - % Y / N - % Y / N - %	--
17.	Do you think OECD's Guidelines on Risk Assessment for RBC adequate? What improvements would you propose?	Text		
	Risk Prevention and Mitigation			
18.	Please indicate up to ten RBC risks that are given the highest priority for enhanced risk prevention and mitigation and the respective geographies where they are relevant, according to the order of priority.	Text	1. [Risk] – [Geography] 2. [Risk] – [Geography] ... 10. [Risk] – [Geography]	Should we provide a list here?
19.	Has the Company experienced any serious impacts or disasters in its supply chain in the last [•] years? If yes, how many?	Number		
20.	What measures/characteristics does the Company use to categorize a disaster as 'serious'?	Text	Text	
21.	Is the Company meeting its goals in preventing and mitigating risk? If not, please identify which goals are not being met and why.	Text	Text	
22.	Do you think OECD's Guidelines on Risk Prevention and Mitigation for RBC adequate? What improvements would you propose?	Text		
	Accounting for Risk			
23.	What type of follow up measures to track prevention and mitigation plans of suppliers is the Company taking, if any?	Text	Text	

24.	How many responses to external stakeholder requests for information regarding RBC has the Company made in the latest fiscal year?	Number		
25.	Please enumerate all public RBC-related reports the Company publishes and indicate how often these reports are published.	Text	[Type of Report] – [Frequency]	
26.	What sustainability reporting framework/s does the Company use, if any?	Text	Drop down (others, specify) - Global Reporting Initiative - Carbon Disclosure Project - Dow Jones Sustainability Indexes - GRESB - Sustainable Accounting Standards Board Other, please specify	For more information on each of these frameworks: (https://www.measurabl.com/wp-content/uploads/2014/04/top-sustainability-frameworks.png)
27.	Is the Company meeting its goals in accounting for risk? If not, please identify which goals are not being met and why.	Text	Text	
	Management Systems			
28.	What office is responsible for handling matters related to RBC?	Text		
29.	Is RBC policy making a centralized function?	Y / N		
30.	Does the Company have dedicated staff that is responsible solely for RBC? If not, please indicate the position of the employee responsible for RBC due diligence.	Y / N Text	 [Position]	
31.	How many FTE does the Company have dedicated to RBC for the most recent year? • Senior Executives • Senior Managers • Mid-level Managers • Associates / Analysts / Staff	 Number Number		
32.	What level of seniority does this officer have (levels away from the CEO)?	Text		
33.	Since when has this officer been in this position?	Number	Year	
	Risk Remediation			
34.	How many instances of risk remediation, as a result of RBC due diligence, has the Company had • in the latest fiscal year? • since the year RBC was first implemented?	 Number Number		Example: A cocoa company Situation: the Company discovers that cocoa suppliers are employing child laborers Remediation: the company warns supplier that children cannot be employed and contract will be terminated if practice is continued

35.	Is the Company meeting its goals in risk remediation? If not, please identify which goals are not being met and why.	Text	Text	
	Stakeholder Engagement			
36.	Since implementation of the RBC policy, what has the Company done to engage with stakeholders?	Text		
37.	Do the OECD Guidelines provide sufficient guidelines on how to engage with stakeholders? Can you propose improvements that can be made?	Y / N Text		
38.	Is the Company meeting its goals in stakeholder engagement? If not, please identify which goals are not being met and why.	Text		
VI. Costs of Due Diligence				
Ref#	**Question**	**Unit**	**Response**	**Notes/Comments**
	One-off / Start Up Costs			
39.	How did the Company develop its RBC policy/process? Did the Company hire a consultant(s) to do this? If yes, how much did the Company pay?	Y/N Number		
40.	Does the Company have dedicated staff that is responsible solely for RBC? If not, please indicate the position of the employee responsible for RBC due diligence.	Y / N Text	Y / N [Position]	
41.	How many FTE does the Company have dedicated to RBC for the most recent year? • Senior Executives • Senior Managers • Mid-level Managers • Associates / Analysts / Staff	 Number Number Number Number		
42.	How many person-hours were spent on setting up the structure for RBC due diligence efforts? • Senior Executives • Senior Managers • Mid-level Managers • Associates / Analysts / Staff			Hiring people Training people IT set up Policy implementation
43.	In the initial year of RBC adoption, how many company meetings with management staff dedicated to RBC efforts did the Company have? • Senior Executives • Senior Managers • Mid-level Managers • Associates / Analysts / Staff		Y / N	
44.	Estimate number of person hours spent in the first year on RBC-dedicated meetings (by non-RBC dedicated staff).	Number		Number of meetings x approximate number of attendees
45.	What was the average salary cost per person per hour involved in the RBC set-up (again excluding staff dedicated full-time to RBC issues? • Senior Executives • Senior Managers • Mid-level Managers • Associates / Analysts / Staff	 US$ US$ US$ US$		

46.	How many staff members were trained? • Senior Executives • Senior Managers • Mid-level Managers • Associates / Analysts / Staff	Number Number Number Number		
47.	If yes, was the training conducted by in-house staff or outside consultants?	Text	In-house staff / Outside consultants	
48.	What was the duration of the training?	Number		
49.	Has the Company hired additional staff to carry out due diligence for RBC?		Y / N	
50.	How many employees did the Company hire? • Senior Executives • Senior Managers • Mid-level Managers • Associates / Analysts / Staff	Number Number Number Number		
51.	At what salaries (including all benefits) were they hired? • Senior Executives • Senior Managers • Mid-level Managers • Associates / Analysts / Staff	US$ US$ US$ US$		
52.	What other associated start up costs (e.g. office renovation, equipment, furniture, etc.) did the Company incur to implement its due diligence policy? How much did the Company spend on each?		Office renovation – US$x Office equipment (computers, printers, etc.) – US$x Office furniture and fixtures – US$xOther – US$x	
53.	Has the Company had to make investment in IT hardware and/or software? If yes, how much?	US$m	Y / N US$m	
54.	What kind of software did the Company use to collect data, monitor its supply chain and report on its due diligence findings?	Text		
55.	In the initial year of RBC policy implementation, how many full time equivalent hours was spent on RBC due diligence? (Non-RBC staff only as RBC staff time commitment is already captured by their salary) • Senior Executives • Senior Managers • Mid-level Managers • Associates / Analysts / Staff	Number Number Number Number		
	Recurrent Costs			
56.	How many person-hours in total were spent on the following activities in the latest financial year? • By non-RBC dedicated employees • By consultants	Number Number		
57.	How much did the Company pay in the latest financial year, if any, for consultants or other outside services related to ongoing RBC due diligence efforts for the following activities? • Collecting data	US$ US$ US$		

	• Verifying data • Analysing data • Writing/editing data • Auditing of a report • Layout and design • Printing • Distribution	US$ US$ US$ US$		
58.	Did the Company incur any additional expenditures to encourage its suppliers to comply with the Company's RBC policies?	Y / N		
59.	How much has the Company spent on activities described in question 58? • One-time cost • Recurrent cost	 US$ US$		
	Challenges in Implementing RBC Due Diligence Policies			
60.	Please rank how significant of an obstacle the following issues are in the implementation of the Company's RBC due diligence policies.		Least Most	
61.	• Data collection and storage: Lack of established software systems for non-financial supply chain information	Number	1 2 3 4 5 6 7 8 9 10	
62.	• Confidentiality: Disclosure of supply chain information may violate contractual obligations of the firm or its suppliers or clients.	Number	1 2 3 4 5 6 7 8 9 10	
63.	• Adopting a supply chain policy: Limited sphere of control may be a barrier to adopting a supply chain policy.	Number	1 2 3 4 5 6 7 8 9 10	
64.	• Strengthening company engagement with suppliers: Difficulties in communicating due diligence requirements with suppliers in different countries, primarily due to language barriers or lack of knowledge of the OECD	Number	1 2 3 4 5 6 7 8 9 10	
65.	• Please identify and briefly define other challenges not listed above.	Number	1 2 3 4 5 6 7 8 9 10	
VII. Outcomes				
Ref#	**Question**	**Unit**	**Response**	**Notes/Comments**
Improved Reputation				
66.	Have any customer surveys the company has conducted in the past included the customer's perception of the company and the impact of RBC implementation on this perception? If yes, how much has the implementation of RBC policies affected the company's reputation with its customers?	Y / N	N/A 1 2 3 4 5 With 1 being the least impact	Customer opinion scores
67.	Does the company conduct brand valuation studies? If yes, has the company observed an increase in the value of its brands as a result of the implementation of RBC? Where possible, please provide an estimate of the total	Y / N Y / N %		

	percentage increase in brand value since the first year of the implementation of RBC DD policies.			
68.	Has the Company brand become more recognizable or positively associated with its RBC efforts by clients, as confirmed by clients or market surveys/ available industry rankings etc.?	Y / N		
69.	Has negative/positive press or social media coverage of the Company reduced/increased?		Significantly No Significantly declined impact increased -2 -1 0 1 2 Do not track	
70.	What other KPIs does the company use to monitor its reputation in relation to RBC-related issues?	Text		
New Market Opportunities				
71.	Has the company been able to access new markets/countries following the implementation of RBC DD policies? Please provide the percentage of total sales that are derived from the markets specified in the previous question.		Text | Do not track % | Do not track	
Increased Market Share				
72.	Has the Company been able to observe an increase in the market share of the company caused directly or indirectly by the implementation and reporting of RBC policies? Please identify the kind of RBC practice implemented (e.g. environmental friendliness, fair labor treatment, community support, etc.) and describe the observed impact. Where possible, please quantify the percentage increase in sales as a result of RBC implementation. What is the scope of the impact?		Y / N | Do not track Text | Do not track % | Do not track Specific Product | Specific Brand | Local Company Level | Regional Company Level | Global Company Level | Do not track	
73.	How have the Company's RBC initiatives influenced the Company's market share relative to its competitors?		Not at all Very Negatively Very Positively -2 -1 0 1 2	
Pricing Power and Market Elasticity				
74.	Has the Company's RBC initiative has increased customer retention/satisfaction? Has the Company carried out surveys or analyses to support this?		Y | N | Do not track Y | N Text	

	What were the findings?			
75.	How much of a premium does the Company charge over its competitors?		% | N/A	
Talent Acquisition				
76.	Has the Company conducted surveys with job applicants on how RBC DD implementation affects their • Perception of the company and • Motivation to work for the company? If you answered yes to any of the above, how important are RBC policies in their motivation to work for the Company? What % of applicants quote the Company's RBC policies as an important reason for working for the company?		 Y / N Y / N Not Important Very Important 0 1 2 3 4 5 % | Do not track	
Employee Productivity				
77.	How much have labor capacity ratios (actual hours / budgeted hours) improved following the implementation of RBC policies? Where possible, please elaborate on the RBC initiative that was implemented that contributed to this improvement. Please estimate the cumulative percentage improvement in the labor capacity ratios since the implementation of the company's RBC policy.		None Significantly improved 0 1 2 3 4 5 Do not track Text | Do not track % | Do not track	
78.	How much have labor efficiency ratios (standard labor hours worked / actual time) improved following the implementation of RBC policies? Where possible, please elaborate on the RBC initiative that was implemented that contributed to this improvement. Please estimate the cumulative percentage improvement in the labor efficiency ratios since the implementation of the company's RBC policy.		None Significantly improved 0 1 2 3 4 5 Do not track Text | Do not track % | Do not track	
Employee Morale				
79.	Has the number of sick days per employee decreased following the implementation of RBC policies?		None Significantly decreased 0 1 2 3 4 5 Do not track	
80.	Has the Company's employee turnover rate declined as a result of the implementation of RBC policies? Where possible, please elaborate on the RBC initiative that was implemented that contributed to this decline. Please estimate the cumulative percentage decline in the employee turnover rate since the implementation of the company's RBC policy.		Y / N | Do not track Text | Do not track % | Do not track	
81.	Has the average employment time increased?		Y / N	

82.	Have the number of labor strikes declined following the implementation of RBC policies?		Significantly decline Increased 0 1 2 3 4 5 Do not track	
83.	Has the Company conducted surveys with existing employees on how RBC DD implementation has affected their • Perception of the company and • Motivation to work If you answered yes to any of the above, how important are the Company's RBC policies in their motivation to work for the company? What % of employees quote the Company's RBC policies as an important reason for working for the company?		Y / N Y / N Not Important Very Important 0 1 2 3 4 5 % | Do not track	
84.	Has the number of plant closures due to RBC-related events been reduced?		Significantly No Significantly Declined Impact Improved -2 -1 0 1 2	
Product Quality				
85.	Has the quality of supplied products improved?		Significantly No Significantly Declined Impact Improved -2 -1 0 1 2	
86.	How has the percentage of products returned to the supplier been impacted by RBC implementation?		Significantly No Significantly Declined Impact Improved -2 -1 0 1 2	
87.	Has the share of suppliers having ISO certification increased?		Significantly No Significantly declined impact increased -2 -1 0 1 2 Do not track	
Supplier Relationships				
88.	Has the Company conducted surveys with its suppliers on the implementation of RBC DD policies? If yes, how important are RBC policies in the supplier's decision to do business with the Company?		Y / N Not Important Very Important 0 1 2 3 4 5	
89.	What is the impact on the supplier retention rate following the implementation of DD policies?		Significantly No Significantly Declined Impact Improved -2 -1 0 1 2	
Governance and Civil Society Relationships				

90.	Has the Company been formally recognised in any way by a business association, civil society or the government for the Company's RBC efforts?		Y / N	
91.	Has the Company obtained any form of public support or incentive as a result of the Company's efforts (e.g. subsidy or in-kind support, in form of personnel training, new land or building availability etc.)? Please elaborate on what initiative the incentive was for and the total financial value that was given.		Y / N Text	
92.	Has the Company been approached by an Investment Promotion Agency or any other part of the government in any country the Company is operating in to invest locally based on the Company's RBC credentials?		Y / N	
93.	Has the Company observed that obtaining business licenses or dealing with public officials as a result of the Company's DD efforts has been easier?		Y / N	
Cost of Debt				
94.	How much have interest rates from bank and capital market borrowings declined following the implementation of RBC policies? Where possible, please elaborate on the RBC initiative that was implemented that contributed to this improvement.		None Significantly declined 0 1 2 3 4 5 Do not track Text | Do not track	
95.	Apart from interest rates, how have loan terms improved following the implementation of RBC policies?		Text	
96.	Has the company been able to access more options for financing following the implementation of RBC policies? Please elaborate.		Y / N Text	
Adverse Event Costs				
97.	What major adverse RBC-related events has the company experienced since the date of IPO/listing? Please indicate the year and a description of the event.		Year | Text	
98.	Since the implementation of RBC due diligence measures… has the number of litigation cases due to adverse RBC-related events declined?		Significantly No Significantly declined impact increased -2 -1 0 1 2 Do not track	
99.	…have legal costs resulting from adverse RBC events declined as a percentage of total revenues? Is this above, at par with or below the industry average?		% before % after Above | At Par | Below | Do not track	
100.	… has the implementation of RBC due diligence affected the amount of reserves the company holds for the mitigation or remediation of adverse events?		Significantly No Significantly declined impact	

			increased -2 -1 0 1 2 Do not track	
101.	… has the number of adverse RBC incidents changed?		Significantly No Significantly declined impact increased -2 -1 0 1 2 Do not track	
102.	… has the management time spent on resolving adverse RBC-related events declined?		Significantly No Significantly declined impact increased -2 -1 0 1 2 Do not track	
103.	… how much has the company paid in remediation and clean up costs due to adverse RBC-events (annual average) • Prior to the implementation of RBC DD After the implementation of RBC DD?	US$m US$m		
104.	Please estimate or describe the i**mmediate and short-term impact** of the three most expensive adverse RBC events on: • Sales • Reputation • Costs • Stock prices	Text		
105.	Please estimate or describe the **long-term impact** of the three most expensive adverse RBC events on: • Sales • Reputation • Costs • Stock prices	Text		

Annex G: Benefits for Due Diligence for Responsible Business Conduct - Description

BENEFIT SOF ENGAGING IN DUE DILIGENCE FOR RESPONSIBLE BUSINESS CONDUCT

- The **intermediate benefits** of due diligence related to RBC most often brought up in the literature are

  Due Diligence:
  1. improves a company's knowledge of its operations and supply chain,
  2. reduces a company's operational and strategic risks,
  3. improves transparency (internally and externally),
  4. enhances governance, and
  5. improves relationships with its stakeholders such as employees, business partners, communities, host governments

- All the above work together to strengthen a company's reputation and brand value, give it a social vision and purpose and positively affect a company's bottom line.

The following illustrate how these intermediate benefits of DD for RBC translate into concrete financial benefits in different areas of a company's operation

HUMAN CAPITAL/EMPLOYEES

- Many studies have found convincing evidence that a sharpened social vision and purpose and enhanced reputation generated by pursuing a RBC policy **make companies more attractive employers**. This affects not only existing employees who tend to be more motivated, involved and productive. Employees of socially responsible, purpose-driven companies tend to miss fewer days of work and have lower turnover rates, directly affecting the cost of doing business. Being a more attractive employer also makes it easier to attract larger numbers of highly qualified new employees.

  Companies listed in the "100 Best Companies to Work For in America" generated 2.3% to 3.8% higher stock returns per year than their peers from 1984 through 2011 (Edmans 2012).

OPERATIONS

- **Deeper knowledge of operating processes** and the company's supply chain acquired through the due diligence has a myriad of benefits, first and foremost lower operational and strategic risks which a can pose significant threats. It can take companies years to recover the impact of negative events on their reputation and financial performance.

STAKEHOLDER RELATIONSHIPS

- **Better relationship with communities**. This is particularly relevant for sectors like the extractive industry, mining and minerals. One of the single most often overlooked cost is staff time spent managing conflicts with local communities. Such conflicts can easily escalate – and then come the major advocacy campaigns and law suits, which certainly do show up on the corporate ledger. The greatest costs of conflict identified through the research were the opportunity costs in terms of the lost value linked to future projects, expansion plans, or sales that did not go ahead. The costs most often overlooked by companies were indirect costs resulting from staff time being diverted to managing conflict – particularly senior management time, including in some cases that of the CEO.

ENVIRONMENT/SUSTAINABILITY

- Efforts targeted at trying to produce in a more environmentally sustainable way by **reducing waste, pollution, and energy** tend to lead to cost savings - these measures often pay for themselves, in the form of lower expenditures for **raw material, and averted compliance, disposal and liability costs.** While there often is an initial cost burden (up-front investment in technology and training), ensuing savings have been shown to usually outweigh these initial investments. (Often quoted Example: 1975 3M's Pollution Prevention Pays (3P) program – rather than merely collecting and treating waste after it and been created (as required by law), 3M sought to prevent pollution in the first place, served as a model for score of other companies for years to come. Between 1975 and 1990, 3M saved $0.5 billion through lower raw material, compliance, disposal and liability costs.)

- An **enhanced reputation** for environmental and social commitment has been shown to improve brand value and enhance customer loyalty, improving a **company's competitive position, pricing power and sales**. Especially over the last few years, there has been a growing desire among customers for ethically produced products (no sweat shops, child labor) that have been produced in an environmentally sustainable way, without harmful substances (pesticides, etc). According to McKinsey's global survey of 7,751 consumers, 87 percent are concerned about the environmental and social impacts of the products they buy and 54 percent are willing to pay a premium for products that are sustainably manufacture. A Nielsen survey found that 55% of consumers will pay extra for products and services from companies committed to positive social and environmental impact. This makes it possible for companies to access new markets, charge price premiums for their products and increase its profit margins.

GOVERNMENT REGULATIONS

- Acting proactively, companies can also successfully **prevent regulatory interventions by governments**. Studies have found that they often face less scrutiny and are given freer rein by both national and local government entities. This can mean less paperwork and inspections and fast track treatment when it comes to operating permits, zoning variances and other government administrative requirements.

COST OF CAPITAL

- Finally, effective due diligence for RBC has also been demonstrated to increase **access to and lower cost of capital**. Financial institutions are increasingly likely to demand evidence of sound management of social and environmental issues as a condition of any deal. Being part of an index of socially responsible firms can open the company **access to financing sources** they would otherwise not have access to. (The growth of SRIs has increased exponentially in the last 10 years, growing at an annual rate of 22 % per year. By 2015, SRI assets under management reached more than $26 trillion or 15 percent of the global total.)

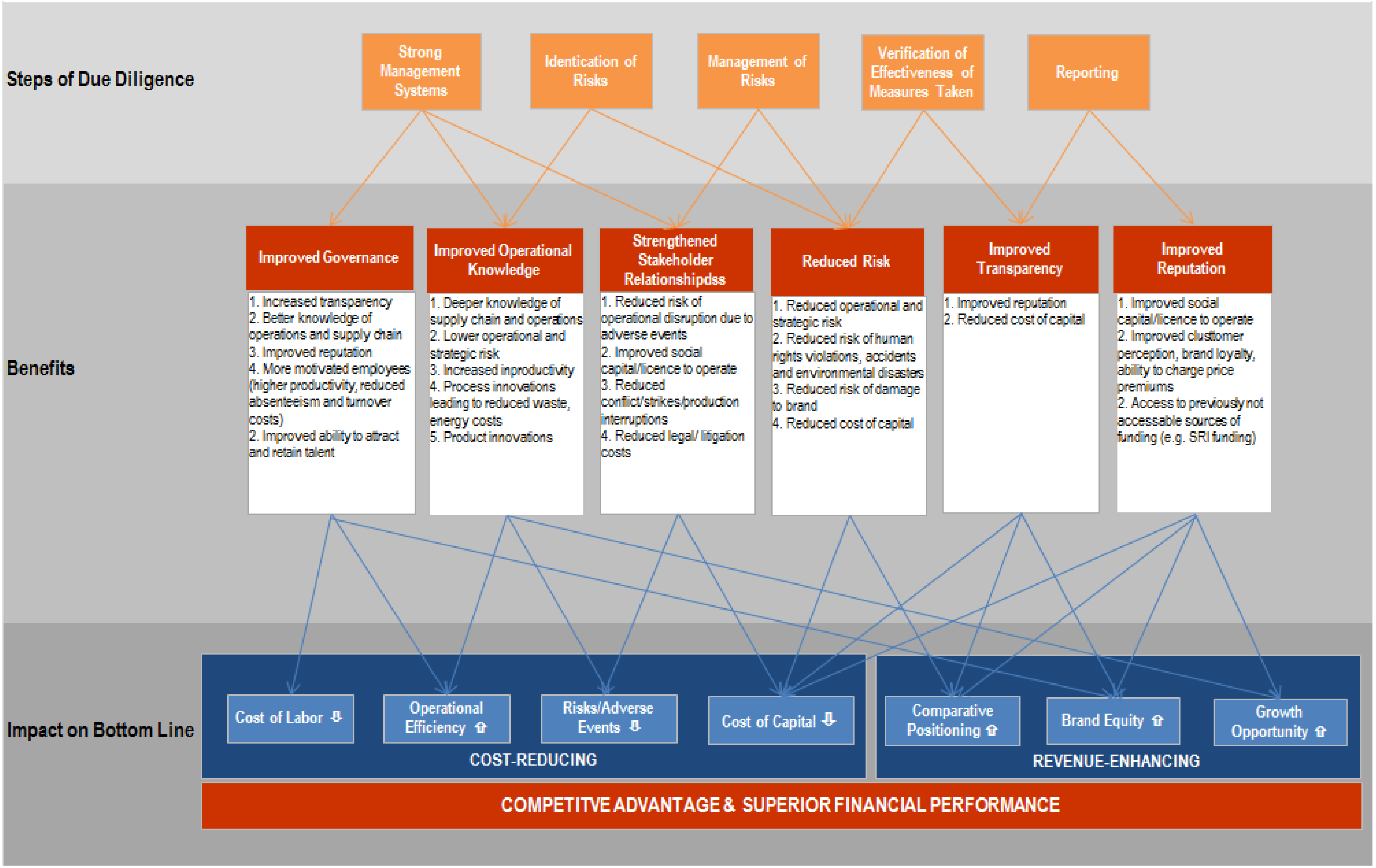
- Negative example (Coca-Cola being dropped from KLD Broad Social Market Index, led the TIAA-CREF, the largest US retirement fund to sell more than 50 million shares of Coca-Cola stock).

- Studies have also shown that companies that follow RBC have **lower borrowing costs** due to reduced business risks and improved transparency. In a recent meta-analysis of 200 studies (Clark etal, 2015), 90% of the studies found lower capital costs for companies with solid RBC practices.

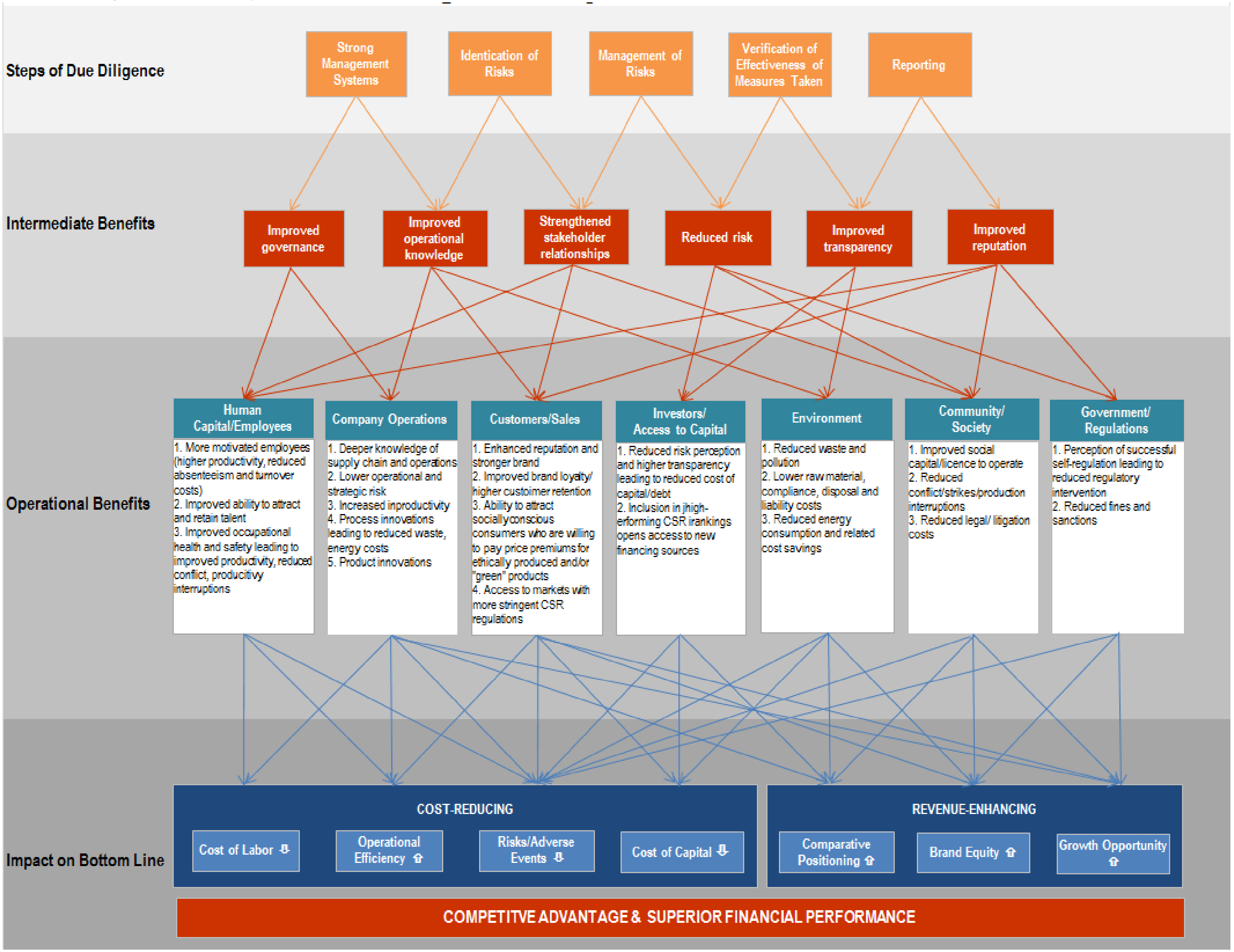
STOCK PRICE

- Finally, **RBC and sustainability efforts are also rewarded by superior stock performance**. A study by Ecces et al. created a portfolio of high sustainability and low sustainability companies and followed their performance over 17 years found that the High Sustainability group significantly outperformed firms in the Low Sustainability group in terms of both stock market performance and accounting measures . On a risk-adjusted basis the outperformance was 4.8% annually. Another study (BITC, 2011) looked at companies on the FTSE 350 and found similar results (companies that consistently manage and measure their responsible business activities outperformed their FTSE 350 peers on total shareholder return (TSR) In seven out of ten years and by between 3.3% and 7.7% per year.

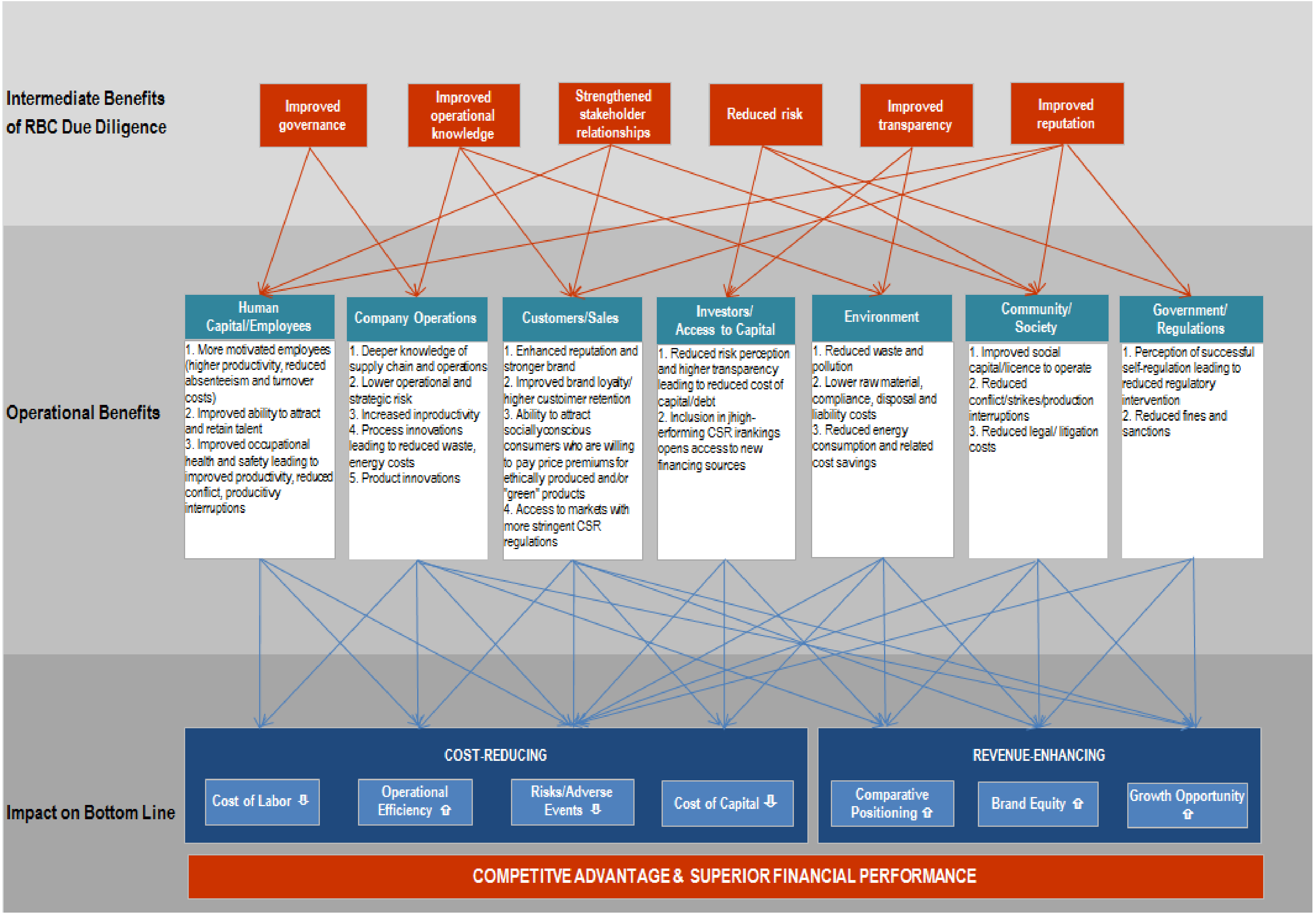
Annex H: Benefits for Due Diligence for Responsible Business Conduct – Version 1



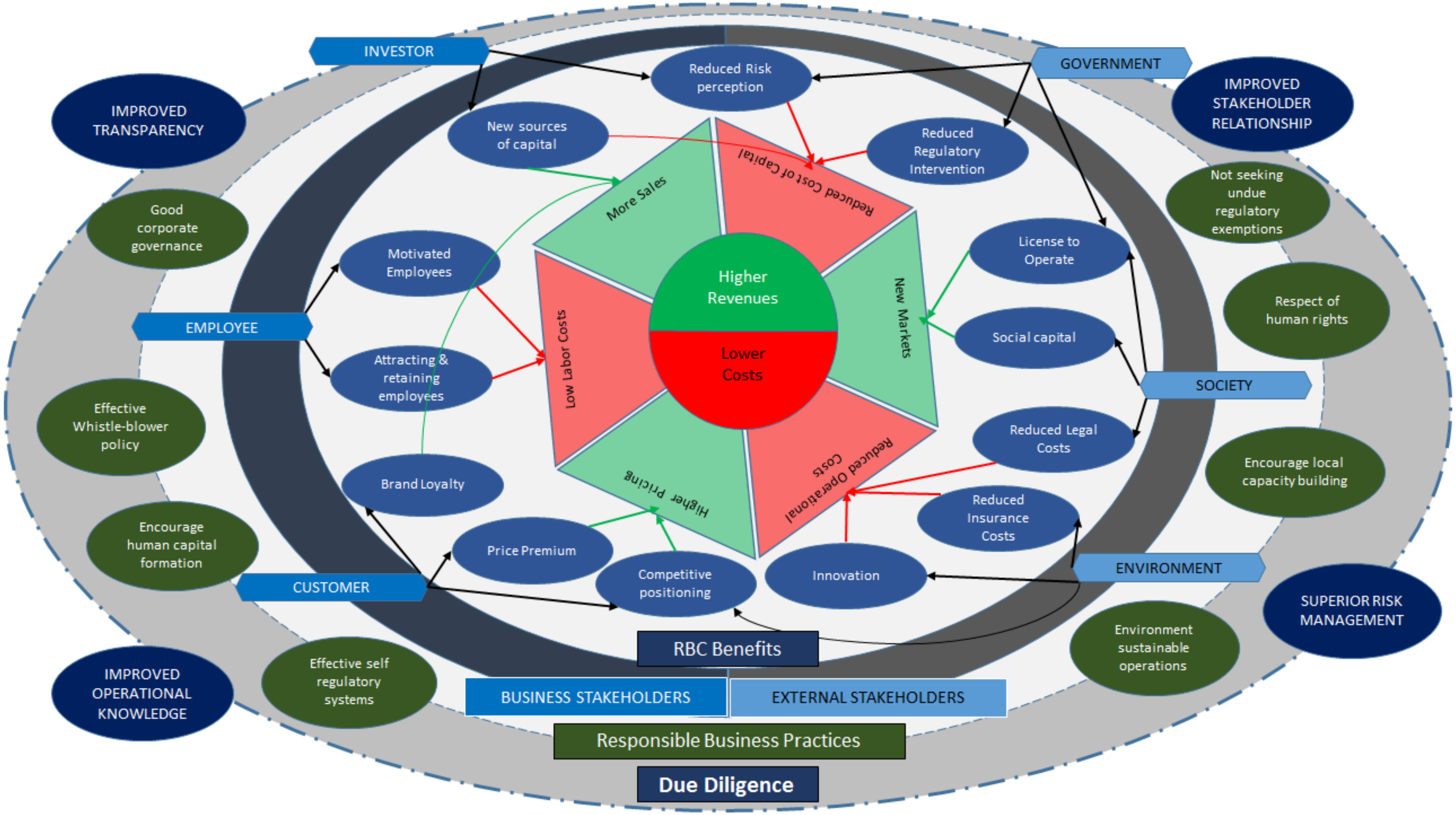
Annex I: Benefits for Due Diligence for Responsible Business Conduct – Version 2



Annex J: Benefits for Due Diligence for Responsible Business Conduct – Version 3



Annex K: Benefits for Due Diligence for Responsible Business Conduct – Version 4



Annex L: Benefits for Due Diligence for Responsible Business Conduct – Version 5