GLOBAL FORUM ON RESPONSIBLE BUSINESS CONDUCT

BACKGROUND NOTE

Measuring links between business performance and responsible business conduct

9 June 2016
09:30 – 11:00
Auditorium
OECD Conference Centre
2, rue André Pascal, 75775 Paris Cedex 16, France

Increasingly, companies are expected to observe heightened standards of responsibility, such as avoiding adverse human rights, social and environmental impacts in their operations and supply chains. While these responsibilities exist independently of the "business case," many persuasive studies have demonstrated the link between socially responsible business practices (RBC) and corporate performance. The findings of these studies provide empirically based-support for pursuing responsible business practices because they contribute to concrete gains and avoidance of losses by companies.

For example, responsible business practicescan contribute to cost and risk reductions. In one study, nearly 20% of companies in a sample of over 2,500 were found to be subject to sanctions related to their social or environmental performance between 2012 and 2013, amounting to penalties upwards of EUR 95.5 billion.[1] Likewise a recent study by Harvard found that the costs attributed to delays arising from community conflict can cost a mining project with capital expenditure between USD 3 million and USD 5 billion on average USD 20 million per week due to delayed production.[2]

In addition to avoiding costs associated with operational delays, legal liabilities, or environmental clean-up costs, studies have also found that responsible business practices often also provide companies with a competitive advantage in the way of increased returns, lower cost of capital and employee retention. For example in one study coroporate social responsibility (CSR) practices were found to have the potential to reduce the cost of debt for companies by 40% or more and increase revenue by up to 20%[3]. More broadly, a cross-sector study tracking performance of companies over 18 years, found that 'high sustainability' companies, those with strong ESG systems and practices in place, outperformed 'low sustainability' companies as measured by stock performance and in real accounting terms.[4]

While empirical evidence can be persuasive to a making a business case for RBC it can be challenging to collect the data necessary to conduct meaningful analysis and to prove causation between RBC and a resulting business cost or benefit. Furthermore, even where credible research and analysis is achieved,

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[1] Paying the penalty: The cost of CSR misconduct, Vigeo, May 2015, available at: http://www.vigeo.com/csr-rating-agency/images/stories/formulaires/2015_05_Related_Sanctions_version_finale_ENG.pdf

[2] Harvard CSR Initiative, R. Davis, D. Franks Cost of Community Conflict in the Extractive Sector, 2014, http://www.hks.harvard.edu/m-rcbg/CSRI/research/Costs%20of%20Conflict_Davis%20%20Franks.pdf

[3] Steve Rochlin, Richard Bliss, Stephen Jordan, Cheryl Yaffe Kiser, Defining the Competitive and Financial Advantages of Corporate Responsibility and Sustainability, IO Sustainability and Babson (2015), available at: http://projectroi.com/wp-content/uploads/2015/07/Project-ROI-Report.pdf

[4] 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

questions remain as to how such information should be practically integrated into corporate decision making and how on an operational level businesses themselves can monitor and evaluate the impact of behaving responsibly.

This session will discuss empirical evidence regarding the impact of RBC on business performance. It will address questions of what metrics and indicators are used to measure this impact, as well as challenges and strategies related to collecting the relevant information and establishing causality. Finally it will seek to generate discussion about how such findings should be taken into account and reflected in business operations.

II. Panellists

Moderator

- **Catherine L. Mann**, Chief Economist, OECD - *@CLMannEcon*

Panellists

- **Eva Weissman**, Adjunct Associate Professor, International and Public Affairs, Columbia University
- **Hetal Damani**, Senior ESG Analyst, Responsible Investment team, Nordea Asset Management
- **Nick Johnstone**, Head, Structural Policy Division, OECD
- **Salima Benhamou**, Economist, Commissariat Général à la Stratégie et à la Prospective, Service du Premier Ministre, France – *@salimabenhamou1*
- **Benjamin Cokelet**, Executive Director, PODER – *@ProjectPODER*