The new responsible business conduct. Nothing changes, everything changes

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Over two thirds of Fortune Global 500 firms are already reporting on their Corporate Social Responsibility (CSR) practices. It has taken decades of hard work by committed Corporate Social Responsibility Managers (DIRSE in Spanish) and conscious CEOs, for sustainability to no longer be approached as a matter of best practices; it is now taking up a strategic, cross-sectional and comprehensive role within companies.

Now that we are moving towards sustainability, it is time to make even greater efforts to adapt to the times to come. Governments, investors and citizens are no longer bystanders, but have become social auditors.[1]

Early this year, regulations on sustainability took a significant step forward with the adoption of the new Directive 95/2014/EU[2] that requires certain companies to disclose non-financial and diversity information. There are also new unspoken obligations with a direct impact upon businesses. For example, 98 percent of investors believe ESG (Environment, Social and Governance) information is important or very important when making investment/divestment decisions.[3] And, of course, sustainability can also have a positive or negative impact upon factors such as customer's purchasing decisions or how the employer's brand is perceived by potential employees.

Whether we call it CSR, ESG or responsible business, the truth is that the whole concept makes us rethink what sustainability is and what its role will be in the companies of the future.

CORPORATE SOCIAL RESPONSIBILITY AND STAKEHOLDERS

These are times of great change for all sectors and activities. The companies that wish to survive today's **perfect storm** must **innovate** to show the best they have and offer it to their stakeholders in a **transparent** and **committed** way towards themselves and to their environment. Caesar's wife must not only be able to play the part, but look the part.

Organizations have evolved in recent years to adapt to changes occurring in their environment and to think ahead of markets that demand more immediate response to a specific need, such as being socially responsible.

CSR does not only depend on the company's activity, but also on its practices regarding the respect for the environment, the communities, their sphere, their shareholders and other interest groups.

At present, the Unified Good Governance Code for listed companies drafted in 2015 by the CNMV (National Stock Market Commission) sets forth specific

[1] In 1931, Professor Theodore Kreps taught the class *Business and Social Welfare* at Stanford and coined the term "social audit" to refer to companies' reporting on social responsibilities.
[2] Further information at: http://eur-lex.europa.eu/legal-content/ES/TXT/?uri=CELEX%3A32014L0095
[3] Institutional investor survey 2017. Morrow Sodali.

corporate governance and CSR recommendations that companies are not required but can choose to follow.

The current corporate governance framework for listed companies in Spain comprises two different levels: on the one hand, the rules set out in the Corporations Act and other legal instruments. On the other hand, the good governance recommendations set out in the new Good Governance Code, that companies can choose to follow but are not required to, since basic and essential matters are already covered by mandatory regulations.

The recommendations included in the Good Governance Code are intended for listed companies, irrespective of their size or capitalization level, while shareholders and investors and, in general, markets are the ones who assess what information is disclosed by listed companies.

FROM CSR TO RESPONSIBLE BUSINESS CONDUCT (RBC)

"CSR is not dead, it killed itself". This statement by the Chair of the OECD Working Party on Responsible Business Conduct, responded in January 2016[4] to Peter Bakker's controversial statements, after the president of the World Business Council for Sustainable Development surprised CSR supporters announcing its death.

These controversial statements conceal a further step forward. CSR had been for years the subject of a global restructuring process aiming for its move from being an isolated matter to a comprehensive phenomenon integrated in companies.

So if CSR is dead, what comes next? Discussions are strongly focusing on Responsible Business Conduct (RBC), a movement created by the OECD aiming to coordinate the public and private sector and civil society initiatives, so as to make sustainability a holistic concept. At present, responsible business' conduct enjoys a large following. For example, the U.S. Government presented in December 2016 its first National Action Plan on RBC[5].

The difference between this movement and all previous ones is:

"*that while the concept of CSR is often associated with philanthropic corporate conduct external to business operations, RBC goes beyond this to emphasize integration of responsible practices within internal operations and throughout business relationships and supply chains.*"[6]

> "In addition to adequate financial performance, shareholders and investors are increasingly demanding ever more responsible conduct"

With this in mind, there is still a long way ahead of us. Despite this, initial steps are already being taken. It is in this regard that the OECD is developing specific guidelines for RBC implementation in several industries, such as the textile sector, extractive industries, mining, agriculture and more recently finance, by means of the guide for institutional investors.[7]

It is indeed apparent that the financial sector is ahead of many others in making progress in this area. In addition to adequate financial performance, shareholders and investors are increasingly demanding ever more responsible conduct. In light of these trends, listed companies must follow new rules[8] to be appealing. This means that, along with developing their good governance practices, they must also care for their environment and the community.

All of this, bearing in mind the need to involve and enter into discussions with interest groups and to further improve reporting. As mentioned in the latest Global Compact report for Spain, IBEX 35 companies have improved their processes. However, there is still much room for improvement regarding the participation of groups such as suppliers, environmental stakeholders, the community, shareholders and the administration.[9]

As with Millennium Development Goals (MDG), which turned into Sustainable Development Goals (SDG), it is undeniable that this RBC trend is under development and will be reviewed on a constant basis. However, the resulting changes will only bring about more specific and ambitious regulations.

IN THIS NEW SCENARIO, HOW SHOULD RESPONSIBLE BUSINESS CONDUCT BE REPORTED?

According to former CNMV Chair Manuel Conthe: "CSR can be very helpful for the Spanish economy, provided it is more than a façade."

CSR is becoming an essential tool to foster economic development in our country, as it has a direct impact on companies' competitiveness, and a thriving and competitive business base, that will help our country to flourish and be more competitive.

We are now facing a new scenario where sustainability will permeate the whole organization, finding itself already at the same level as financial reporting in many companies. Obviously, responsible practices are now expected and analyzed by more diverse

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[4] Further information at: http://oecdinsights.org/2016/01/22/2016-csr-is-dead-whats-next/

[5] Further information at: https://www.state.gov/documents/organization/265918.pdf

[6] 2016: CSR is dead! What's next? OECD insights. 22 Jan 2016. http://oecdinsights.org/2016/01/22/2016-csr-is-dead-whats-next/

[7] Further information at: http://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf

[8] *Investment Rules 2.0: nonfinancial and ESG trends.* Global investors survey 2015. EY. http://www.ey.com/gl/en/services/specialty-services/climate-change-and-sustainability-services/ey-tomorrows-investment-rules-2

[9] Informe anual de reporting de Pacto Mundial. 2016. http://www.pactomundial.org/wp-content/uploads/2017/02/Informe-Resultados-Reporting-2016-1.pdf2

audiences, which has implications for spokespeople, audiences, measurement and contents, among other factors. To further understand the magnitude of these implications, let us briefly analyze the evolution of these four elements.

> "As with financial results, sustainability must justify the changes that have been made in society and the environment where it is present"

Let us start with **spokespeople**. Until now, CSR managers have struggled to report their achievements in a visible manner and share them both within and beyond their company. However, in the near future Boards of Directors and Management Boards will be required to elaborate on sustainability practices, commitments and performance. Undoubtedly, CFOs, CEOs, IR and other key company areas will need to be trained and updated to be able to understand and explain the impact of their organizations.

Audiences have changed too. Sustainability now needs to be explained to more interest groups. Not only that, but these interest groups also need to be more involved; to find out their expectations and to organize multi-stakeholder meetings and commitments. This is why the scope of target audiences must be widened, and information of interest must be provided to new audiences such as shareholders, investors, etc. who, so far, have not been included in this communication process.

Furthermore, impact **measurement** will become decisive. As with financial results, sustainability must justify the changes that have been made in society and the environment where it is present. Input-output measurement will not be enough and will require tools to work in depth so as to reach the expected outcome, allowing not only reporting but also sustainability management. New methods, such as SROI, are already moving toward this goal and new ones will probably arise in the coming years.

Significant changes will undoubtedly also affect **contents**, which are closely related to channels and formats. The emergence of new interest groups is fostering creativity in sustainability reporting. A consolidated storydoing processes that result in credible storytelling will be an indisputable base. Adequate segmentation of contents for each interest group will be key. Reporting responsible commitments at Shareholder meeting is not the same as explaining to new clients the innovation processes followed to manufacture their new favorite T-shirt. All this will bring about changes in the way things are told, giving rise to the new narrative of sustainability.

Unfortunately, in recent years we have witnessed how managers of some large firms, both at a national and international level, have put their personal interest ahead of those of shareholders and other interest groups. These cases, when supervision fails to serve its purpose, can have devastating results, such as the unfortunate cases of companies that have dramatically collapsed (Enron, Afinsa, Pescanova and Gowex, among others).

To conclude, we could say that, although the essence of comprehensive sustainability has always been latent, now it is finally being revealed. Today we face new challenges, new audiences, new contents and unprecedented and growing interest. Ultimately, considering this new sustainability scenario, though nothing changes, but everything changes.

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