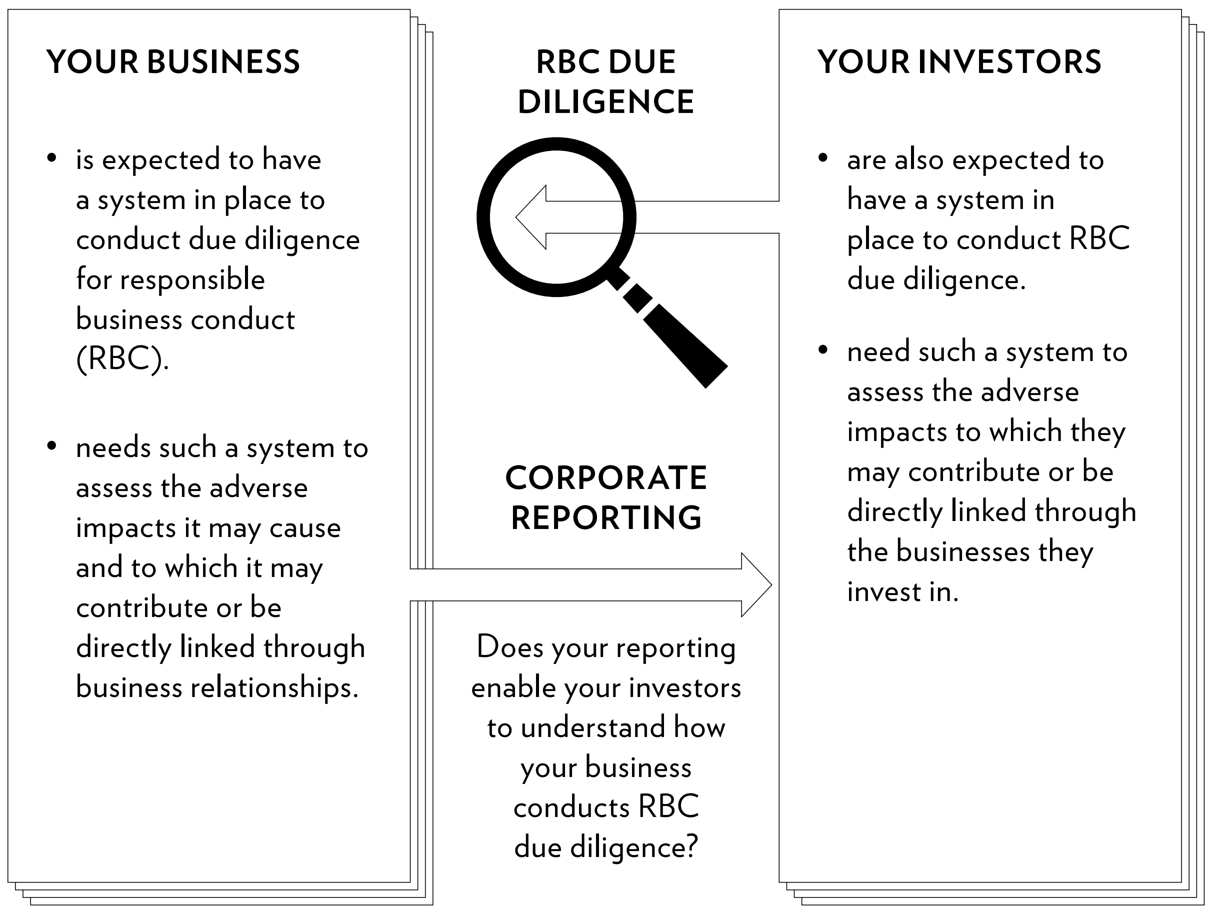
CONDUCT RBC DUE DILIGENCE AND

WRITE ABOUT IT!

Your investors care about your firm's positive impact. But they also want to know how your business avoids adverse impacts. Controversies – which may significantly damage your brand – are a key concern to them. Regulators are now also jumping on the bandwagon. As a result, even investors are expected to identify, assess and address adverse impacts when making investment decisions. What you need to know: reporting is a key pillar of such due diligence.

By Olivier Jaeggi and Gabriel Webber Ziero



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In this article, we will briefly explore four questions:

1) What is due diligence for responsible business conduct (RBC)?
2) Why does your business have to ensure that it conducts such due diligence?
3) Why do investors care?
4) What does that imply for your corporate reporting?

RBC due diligence is an ongoing management process. Businesses need to *know* what adverse impacts may be related to their operations, and to *show* (disclose!) how they identify, assess and address them. When it comes to RBC due diligence, there is no-one-size-fits-all solution, as businesses are encouraged to adapt their due diligence processes according to their specific circumstances (size, sector, country of operation, etc.).

In a 2015 blog article for the *MIT Sloan Management Review*, we discussed the two international standards that are the driving force behind RBC: the OECD's *Guidelines for Multinational Enterprises* and the UN's *Guiding Principles on Business and Human Rights*. Although not legally binding, these are government-backed recommendations. Both the G7 and the G20 have urged the private sector to implement human rights due diligence. Such guidance might also be used as a benchmark for the corporate behavior expected by courts in the future. Failing to live up to these standards may later be seen as a deliberate decision to ignore them. As in other areas, non-compliance with international standards poses significant risks.

WHAT DOES RBC DUE DILIGENCE MEAN?

The OECD acknowledges the positive contributions that businesses make. However, it also states that business activities may result in adverse impacts. Due diligence is the process that businesses should conduct in order to identify, prevent, mitigate and account for how they address actual and potential adverse impacts – in their own operations, their supply chain and other business relationships.

In addition, European countries have started to regulate RBC due diligence. This is apparent in legislation such as the UK's *Modern Slavery Act* and France's *Corporate Duty of Vigilance Law*. In Switzerland, the Responsible Business Initiative *(Konzernverantwortungsinitiative)* is currently the subject of heated public and parliamentary debate.

Investors are expected to conduct RBC due diligence

Importantly, as in any other business, investors are expected to conduct RBC due diligence. The OECD is producing a series of sector-specific guidelines on RBC due diligence. In the financial sector, the first guidelines were produced for institutional investors in 2017.

Investors' (as well as banks' and insurers') interest in RBC due diligence can only increase. The *EU Banking Package* and the legislation resulting from the EU's *Action Plan for Financing Sustainable Growth*, for example, will require financial institutions to disclose how they take sustainability issues into account.

When investors conduct RBC due diligence, they need information. However, they are only partly satisfied with the quality of the data they receive from ESG data providers. More sophisticated investors, such as BlackRock, make their own judgements about the businesses in which they invest. This will require them to understand your RBC due diligence process, its goals and priorities, and whether the process is effective. Unfortunately, corporate reporting rarely covers such issues in useful ways. For you, this is good news: it is a real opportunity to make your report stand out. Section 5 of the OECD's *Due Diligence Guidance for RBC* is a useful starting point.