Human Rights, Sustainability Reporting and Responsible Business Conduct
What does business need to know?

Ingrid Koch
Centro VINCULAR - PUCV
Kumasi, Ghana
18 & 19 September, 2017
How to get started:
Implementing policies and practices for responsible business conduct

Ingrid Koch
Centro VINCULAR - PUCV
Kumasi, Ghana
18 & 19 September, 2017
1. INTRODUCTION
“High sustainability” companies significantly outperformed their counterparts over an 18-year period in terms of both stock market and accounting criteria, such as return on assets and return on equity.

High sustainability companies had a stock market performance that was 4.8% higher than “low sustainability” companies on a value-weighted basis.

Source: MIT Sloan Management Review – Vol.53 No.4 2012
Leadership differences between sustainable and traditional companies

Executives from sustainable companies have a long-term vision and recognise that sustainability goals are not achieved quickly.

Source: MIT Sloan Management Review – Vol.53 No.4 2012
<table>
<thead>
<tr>
<th>Leadership willing to take measured risks in pursuit of sustainability</th>
<th>72%</th>
<th>40%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awareness of the main issues related to sustainability</td>
<td>90%</td>
<td>60%</td>
</tr>
<tr>
<td>A clearer business case for pursuing sustainability goals</td>
<td>83%</td>
<td>30%</td>
</tr>
<tr>
<td>Leaders integrate sustainability considerations into basic business decisions such as operating budgets and capital investments</td>
<td>95%</td>
<td>30%</td>
</tr>
<tr>
<td>Leaders demonstrate personal commitment to sustainability that inspires others throughout the organization</td>
<td>83%</td>
<td>50%</td>
</tr>
<tr>
<td>More employees view sustainable strategies as essential to the Company’s success</td>
<td>80%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: MIT Sloan Management Review – Vol.53 No.4 2012
Stakeholder engagement

Step 1: Encourage their employees to assimilate knowledge from external sources

- Benefits of understanding concerns and expectations: 72%
- Joint efforts with competitors to support the value chain: 20%

Listen to external stakeholders

- Encourage their supply chains to adopt sustainable strategies: 83%
- 20%

Source: MIT Sloan Management Review – Vol.53 No.4 2012
New Identity: Execution Mechanisms

<table>
<thead>
<tr>
<th>Have Enterprise-wide management systems for executing sustainability strategies</th>
<th>82%</th>
<th>20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processes that connect sustainability to Corporate Strategy, with direct ties to performance evaluation and compensation</td>
<td>66%</td>
<td>10%</td>
</tr>
<tr>
<td>Set clear targets for sustainability objectives and establish targeted programs linking the objectives to business results</td>
<td>90%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: MIT Sloan Management Review – Vol.53 No.4 2012
• Few companies are born with a broad-based commitment to sustainability

• To develop one, companies need leadership commitment, an ability to engage with multiple stakeholders along the value chain, widespread employee engagement and disciplined mechanisms for execution

Governance and leadership are key to become a sustainable company
Strategic alignment for sustainability

Impact
Sustainability activities

Maximize an organization’s contribution to sustainable development
## Sustainability maturity matrix

<table>
<thead>
<tr>
<th>Concept of sustainability</th>
<th>Stage 1 Elementary</th>
<th>Stage 2 Engaged</th>
<th>Stage 3 Innovative</th>
<th>Stage 4 Integrated</th>
<th>Stage 5 Transforming</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs, profits and taxes</td>
<td>Philanthropy</td>
<td>Stakeholder management</td>
<td>Triple bottom line</td>
<td>Change the game</td>
<td></td>
</tr>
<tr>
<td>Legal compliance</td>
<td>Licence to operate</td>
<td>Business Case</td>
<td>Value proposition</td>
<td>Market creation or social change</td>
<td></td>
</tr>
<tr>
<td>Lip Service, out of touch</td>
<td>Support, in the loop</td>
<td>Steward, on top of it</td>
<td>Chairman, in front of it</td>
<td>Visionary, ahead of the pack</td>
<td></td>
</tr>
<tr>
<td>Marginal: Staff driven</td>
<td>Functional ownership</td>
<td>Cross-functional coordination</td>
<td>Org-alignment</td>
<td>Mainstream: business driven</td>
<td></td>
</tr>
<tr>
<td>Defensive</td>
<td>Reactive, Policies</td>
<td>Responsive programmes</td>
<td>Proactive systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unilateral</td>
<td>Interactive Two-way</td>
<td>Mutual influence</td>
<td>Alliance</td>
<td>Multi-organizational</td>
<td></td>
</tr>
<tr>
<td>Flank protection</td>
<td>Public relations</td>
<td>Public reporting</td>
<td>Assurance</td>
<td>Full disclosure</td>
<td></td>
</tr>
</tbody>
</table>

### Source
Source: The Boston College Center for Corporate Citizenship
Stages of Corporate Citizenship: A development framework, 2014
2. INTEGRATING SUSTAINABILITY INTO ORGANIZATIONAL GOVERNANCE
Route to integrate sustainability in the business

- **Adoption of Best practices**
- **General practices**
- **Impacts**
  - Management of impacts, based on material topics
    - Relevant to the industry & local context

- **International standards**
- **International methodologies**
- **Financial market criteria**
Route to integrate sustainability in the business

Organisational governance
- 1. Board of directors
- 2. Sustainability integration
- 3. Stakeholder engagement
- 4. Risk management
- 5. Ethical behaviour
- 6. Human rights
- 7. Materiality
- 8. Communication & transparency
- 9. Leadership

Stakeholders
- 10. Trabajadores
- 11. Clientes
- 12. Proveedores
- 13. Comunidad
- 14. Medio ambiente
Route to integrate sustainability in the business

Organisational governance
1. Board of directors
2. Sustainability integration
3. Stakeholder engagement
4. Risk management
5. Ethical behaviour
6. Human rights
7. Materiality
8. Communication & transparency
9. Leadership

Stakeholders
10. Trabajadores
11. Clientes
12. Proveedores
13. Comunidad
14. Medio ambiente
Best practice– organisational governance

Objective:
Commitment from leaders

Practices:
1) Independent directors
2) Election of directors considers diversity and complementary skills (non-financial topics)
3) A committee/director is formally responsible for sustainability
4) CEO compensation includes non-financial measures
5) The effectiveness of the board is evaluated
Objective:

Connect to management

prácticas:

1) Mission/vision and values incorporate sustainability
2) Strategic planning considers impacts and stakeholders
3) Executive committee responsible for sustainability
4) Training on sustainability issues
5) Incentive system includes non-financial criteria
Objective:
Manage relationships

practices:
1) Identification of impacts and stakeholders across the value chain
2) Formal commitments with priority stakeholders
3) Complaints mechanisms implemented
Best practice – risk management

Objectives:
Manage non-traditional risks

Practices:
1) Governance, environmental and social criteria are included in risk identification and management
2) Risk management includes a due diligence focus
3) Scope of risk evaluation includes the supply chain
Objective:
Ensure ethical behaviour

Practices:
1) A code of conduct and implementation system
2) Implementation of the code includes evaluations/audits
3) Monitoring of regulatory changes
Best practice – human rights

**Objective:**
Address an emergent issue with a risk focus

**Practices:**
1) Explicit policy commitment to respect human rights
2) Due diligence process (aligned to the UNGP)
3) Plan to prevent, mitigate and remediate, and a monitoring programme
4) Stakeholder inclusion, with a special focus on vulnerable groups
5) Gender equality plans and indicators, publicly communicated
Best practice– materiality

Objective:
Identify impacts on the company and its stakeholders

Practices:

1) Identification and prioritization of strategic issues, based on risks and impacts (internal & external)

2) Periodic updating of strategic issues and monitoring of emerging issues

3) Strategic issues are incorporated into the planning and management processes of the company
Example: Nestlé Materiality Matrix
Example: Nestlé’s Materiality

<table>
<thead>
<tr>
<th>MATERIALITY ISSUE</th>
<th>VALUE CHAIN</th>
<th>KEY: Moderate</th>
<th>Significant</th>
<th>Major</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rural development</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Directly and indirectly promoting economic activity and improving livelihoods of agricultural workers in the supply chain to promote sustainable agricultural communities.</td>
<td>Agriculture</td>
<td>⬤</td>
<td>⬤</td>
<td></td>
</tr>
<tr>
<td>• Rural living wage</td>
<td>Tier 1 suppliers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nestle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Retail/ business channels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consumers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Traceability</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensuring that priority ingredients have been grown and processed responsibly and can be traced back to origin where possible.</td>
<td>Agriculture</td>
<td>⬤</td>
<td>⬤</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tier 1 suppliers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nestle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Retail/ business channels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consumers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Animal welfare</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safeguarding the well-being of animals in the supply chain and promoting farm animal health and welfare.</td>
<td>Agriculture</td>
<td>⬤</td>
<td>⬤</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tier 1 suppliers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nestle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Retail/ business channels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consumers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Women’s empowerment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Empowering women to participate fully in society and the economy across the value chain, in the workplace, marketplace, and community.</td>
<td>Agriculture</td>
<td>⬤</td>
<td>⬤</td>
<td></td>
</tr>
<tr>
<td>• Women farmers</td>
<td>Tier 1 suppliers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nestle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Retail/ business channels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consumers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Community development and unemployment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improving people’s lives through community and societal participation and improving access to employment, education and skills development.</td>
<td>Agriculture</td>
<td>⬤</td>
<td>⬤</td>
<td></td>
</tr>
<tr>
<td>• Community relations</td>
<td>Tier 1 suppliers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Income and wealth inequality</td>
<td>Nestle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Living wage</td>
<td>Retail/ business channels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Youth unemployment</td>
<td>Consumers</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Best practice - transparency

**Objective:**
Promote trust

**Practices:**
1. Report on compliance with code of ethics and applicable legislation
2. Report on commitment and management of human rights
3. Report on management through a sustainability report
4. Report on tax policies
Best practice – leadership

**Objective:**

Be a change agent

**Practices:**

1. Commitment to Agenda 2030 (SDGs)
2. Contribute to the development of public policies
3. Industry initiatives to improve standards
4. Adhesion to international standards
3. INTEGRATING MATERIAL ISSUES INTO BUSINESS MANAGEMENT
Route to integrate sustainability in the business

- Stakeholder interests
- Challenges of the surrounding environment and the sector
- Legal and contractual requirements

Stakeholder satisfaction
- Increased reputation
- Maximise contribution to sustainable development

Continuous improving

Revision by directors

Sustainability Policy

Planning

Implementing

Verifying
Route to integrate sustainability in the business

Material topics:

“...topics that have a direct or indirect impact on the capacity of an organization to create, maintain or distribute economic, social and environmental value for itself, its stakeholders and society in general.

Source: Global Reporting Initiative, G4
Integrating – material topics

**Guidelines:** the company has strategies, policies or procedures to guide the management of the topic

**Objectives & targets:** the company has objectives and targets associated with the topic

**Roles & responsibilities:** there is an assigned responsibility to manage the topic in the company
Integrating – material topics

Guidelines: the company has strategies, policies or procedures to guide the management of the topic

Objectives & targets: the company has objectives and targets associated with the topic

Roles & responsibilities: there is an assigned responsibility to manage the topic in the company

Programs / initiatives: the company has formal activities, integrated into the management and governance processes
Integrating – material topics

1. Planning
   - **Guidelines:** the company has strategies, policies or procedures to guide the management of the topic
   - **Objectives & targets:** the company has objectives and targets associated with the topic
   - **Roles & responsibilities:** there is an assigned responsibility to manage the topic in the company

2. Implementation
   - **Programs / initiatives:** the company has formal activities, integrated into the management and governance processes

3. Monitoring
   - **Monitoring:** the company monitors the management of the topic and measures results in relation to the established objectives and targets
Guidelines: the company has strategies, policies or procedures to guide the management of the topic

Objectives & targets: the company has objectives and targets associated with the topic

Roles & responsibilities: there is an assigned responsibility to manage the topic in the company

Programs / initiatives: the company has formal activities, integrated into the management and governance processes

Monitoring: the company monitors the management of the topic and measures results in relation to the established objectives and targets

Lessons learnt (challenges): the company analyses results, identifies challenges and manages these findings to ensure continuous improvement
Integrating – material topics

1. Planning
   - **Guidelines**: the company has strategies, policies or procedures to guide the management of the topic
   - **Objectives & targets**: the company has objectives and targets associated with the topic
   - **Roles & responsibilities**: there is an assigned responsibility to manage the topic in the company

2. Implementation
   - **Programs / initiatives**: the company has formal activities, integrated into the management and governance processes

3. Monitoring
   - **Monitoring**: the company monitors the management of the topic and measures results in relation to the established objectives and targets

4. Cont. improvement
   - **Lessons learnt (challenges)**: the company analyses results, identifies challenges and manages these findings to ensure continuous improvement

5. Communication
   - **Communication plan**: the company communicates, internally & externally, on policies and results of the topic, and collects expectations, opinions and evaluations from the stakeholders involved in the issue
Integrating – material topics

1. **Planning**
   - **Guidelines:** the company has strategies, policies or procedures to guide the management of the topic
   - **Objectives & targets:** the company has objectives and targets associated with the topic
   - **Roles & responsibilities:** there is an assigned responsibility to manage the topic in the company

2. **Implementation**
   - **Programs / initiatives:** the company has formal activities, integrated into the management and governance processes

3. **Monitoring**
   - **Monitoring:** the company monitors the management of the topic and measures results in relation to the established objectives and targets
   - **Lessons learnt (challenges):** the company analyses results, identifies challenges and manages these findings to ensure continuous improvement

4. **Cont. improvement**
   - **Communication plan:** the company communicates, internally & externally, on policies and results of the topic, and collects expectations, opinions and evaluations from the stakeholders involved in the issue
## Example: integration

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Dimension</th>
<th>CHILE</th>
<th>COLOMBIA</th>
<th>PERÚ</th>
<th>ARGENTINA</th>
<th>IMPERIAL</th>
<th>CORP 2016</th>
<th>CORP 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. Board of directors</td>
<td>50%</td>
<td>64%</td>
<td>7%</td>
<td>7%</td>
<td>21%</td>
<td>42%</td>
<td>35%</td>
</tr>
<tr>
<td>1. Gobierno Corporativo</td>
<td>2. Sustainability integration</td>
<td>100%</td>
<td>100%</td>
<td>60%</td>
<td>50%</td>
<td>70%</td>
<td>89%</td>
<td>71%</td>
</tr>
<tr>
<td></td>
<td>3. Stakeholder engagement</td>
<td>67%</td>
<td>83%</td>
<td>61%</td>
<td>33%</td>
<td>28%</td>
<td>65%</td>
<td>59%</td>
</tr>
<tr>
<td></td>
<td>4. Risk management</td>
<td>58%</td>
<td>75%</td>
<td>58%</td>
<td>50%</td>
<td>42%</td>
<td>61%</td>
<td>58%</td>
</tr>
<tr>
<td></td>
<td>5. Ethical behaviour</td>
<td>60%</td>
<td>30%</td>
<td>40%</td>
<td>20%</td>
<td>30%</td>
<td>47%</td>
<td>68%</td>
</tr>
<tr>
<td></td>
<td>6. Human rights</td>
<td>30%</td>
<td>80%</td>
<td>20%</td>
<td>10%</td>
<td>20%</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td></td>
<td>7. Materiality</td>
<td>80%</td>
<td>90%</td>
<td>40%</td>
<td>20%</td>
<td>70%</td>
<td>72%</td>
<td>68%</td>
</tr>
<tr>
<td></td>
<td>8. Transparency</td>
<td>44%</td>
<td>44%</td>
<td>33%</td>
<td>11%</td>
<td>39%</td>
<td>41%</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td>9. Leadership</td>
<td>69%</td>
<td>64%</td>
<td>38%</td>
<td>13%</td>
<td>19%</td>
<td>57%</td>
<td>61%</td>
</tr>
</tbody>
</table>

### Results

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>100% - 75%</td>
<td>74% - 50%</td>
<td>49% - 0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>62%</td>
<td>70%</td>
<td>40%</td>
<td>24%</td>
<td>38%</td>
<td>57%</td>
</tr>
</tbody>
</table>

[Images: 88x3, 106x23, 150x3]
Example: integration

(*) Corporate Index value 2015 excludes Imperial
4. PRACTICAL EXAMPLE
Sustainability & Human Rights in the Chilean Wine Industry
The Three Areas of the National Sustainability Code

**Green Area**
Processes in the vineyard (includes vineyards owned by the Company and long-term grape suppliers)

**Red Area**
Processes in the winery, including the bottling plant & other facilities related to the wine production process

**Orange Area**
Social aspects in the Company’s vineyards, offices and facilities
1. Sustainability policy
2. Ethics
3. Supplier relationships
4. Human Rights
5. Environment
6. Quality of working life
7. Community
8. Marketing and commitment with clients and consumers
9. Economic sustainability
10. Implementation & monitoring
Alignment of the National Sustainability Code with International Sustainability Instruments

Código Nacional de Sustentabilidad

Homologación CNS

BSCI
UN Global Compact
UN Guiding Principles on Business & Human Rights
OECD Guidelines for Multinational Enterprises
ILO Tripartite Declaration
Global Reporting Initiative G4
ISO 26000
Wine companies certified under the National Sustainability Code
Growth in the number of certified companies:

More than 70% of bottled wine exported by Chile comes from certified wine companies

The Code has been recognized by important buyers such as:

- Marks & Spencer
- Systembolaget
- Vinmonopolet
- LCBO
- Quebec, Canada
- Ontario, Canada
- United Kingdom
- Sweden
- Norway