The role of business in promoting inclusive growth

How can businesses change their practices to achieve inclusive social outcomes? What does the purpose-led business of the 21st century look like?

Remarks by Greg Medcraft, Director for Financial and Enterprise Affairs, OECD
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I'm going to expand on some of the points resented by my colleague Romina Boarini to describe what I see a 21st century business looking like, particularly on:

1. **The power of the crowd** in driving purpose-led behaviour in business.
2. **The role of corporate culture** in translating these expectations to business outcomes.
3. **What policymakers can do** to help facilitate good corporate culture and conduct – particularly across borders.

The power of the crowd

I said this in the last session but it's worth repeating: businesses must put their customers unequivocally first.

- Social media and the 24-hour news cycle have harnessed and amplified the power of the crowd. The crowd sets the conditions for the social license – the overall community expectations for conduct that businesses must meet if they are to be successful over the long term.
- This social license is constantly evolving. Businesses need to monitor community expectations closely and make sure they don't fall too short of them, otherwise they may find themselves adversely impacted by the law, or deserted by customers, employees or investors.

As Romina mentioned, Responsible Business Conduct is good for business. It goes straight to the bottom line.

A study in last year's OECD Business and Financial Outlook found that a business's social score – its capacity to generate trust and loyalty with its workforce, customers and society – had an overwhelming positive effect on return on equity and return on assets[1].

Reputation flows through to a business's ability to attract and retain capital, talent, and customers, and contributes to its long-term sustainability.

[1] A regression model that showed the presence of ESG policies were a significant predictive factor of superior financial performance of S&P500 and STOXX60 companies.

The role of corporate culture

Business's ability to do the right thing boils down to one key factor: corporate culture.

Culture is the set of shared values and assumptions within an organisation. It sets the 'unwritten rules' for how things really work in a business – including towards customers and compliance.

Culture is driven by three things:

1. The tone from the top: the board is responsible for setting the values of the business, and management are responsible for ensuring those values flow down and are embedded into the culture of the business.

2. The accountability of staff: which is important to ensure behaviour reflects the stated values of a business.

3. Effective communication and challenge: to encourage a diversity of views and foster an environment of open and constructive engagement. This is particularly important on conduct issues, to ensure values set from the top avoid 'white noise' in the middle.

Achieving these means having the right governance framework and controls in place.

What governments can do

Culture is not something that can be regulated by the letter of the law. The crowd will play an increasing role in holding business accountable where it believes that culture results in conduct that falls short of community expectations.

But governments still have the ability to help foster the kinds of good corporate governance that leads to good culture and good conduct – through tools like:

- The G20/OECD Principles on Corporate Governance which is the global standard for good governance frameworks.
- The OECD Anti-bribery Convention, which commits signatories to fight foreign bribery of officials in their countries.

Responsible Business Conduct is particularly important for businesses operating across borders in jurisdictions where laws and community expectations are poorly enforced.

- Responsibility flows right through the supply chain – and most supply chains today are global.

The OECD's Guidelines for Multinational Enterprises are a powerful framework for international, cross-border corporate responsibility. The guidelines communicate that adherent countries are serious about building responsible business conduct in their jurisdictions.

- The guidelines recognise the important role of due diligence in helping drive responsible business conduct by identifying, assessing and mitigating adverse impacts in operations, supply chains and business relationships – like the use of slave labour, environmental abuse and corruption.

We know Responsible Business Conduct is good for business but implementation varies – possibly because it requires significant investment of time and effort to develop the kinds of sector-specific frameworks required.

- This is why the OECD has developed specific due diligence guidance for some of the most at-risk sectors: minerals, extractives, agriculture, garment and footwear, and finance.

- And we are currently developing broader due diligence guidance for RBC applicable to all other sectors.

Many of the countries represented in this room have signed up to the Guidelines for Multinational Enterprises. Going forward, the OECD will:

- Assist implementation for adherent countries.

- Explore new ways to conduct due diligence through technologies like blockchain.

- And to help those that wish to adhere to the Guidelines to do so.