

## Responsible Business in a post-COVID world

### Why business leaders should seize the opportunity to integrate social value within their organizations

As the world emerges from the COVID-19 pandemic, global companies will reorganise their business operations and supply chains to focus on resilience and risk mitigation. Cost and supply chain management should dominate early agendas; however lessons learned from the pandemic will undoubtedly open up current operations to scrutiny and adjustment. Business leaders should see this as an opportunity to build operational resilience and at the same time incorporate elements of social value capture initiatives, including Corporate Social Responsibility (CSR) topics, into their strategies.

Research suggests that while most board members in Switzerland understand the concept of CSR, they struggle to create value from them<sup>1</sup>. Business leaders often rely on isolated, or one-off 'feel good' measures to address CSR objectives, without properly integrating social value into their operations. Deloitte's Responsible Business (RB) approach is designed to help organizations embed CSR initiatives into their broader strategic goals and day-to-day business operations. In doing so, organizations can generate a positive social impact, whilst also maximizing added value and Return of Investment (ROI).

### The corporate social imperative is expanding

There are growing environmental, political and social pressures for the world to find a more sustainable and responsible path towards development. Political initiatives such as the European Union's Green Deal and the Responsible Business Initiative (RBI) in Switzerland show that the imperative to act is understood by society and politicians globally. Organizations are expected not only to apply socially responsible practices such as Extended Producer Responsibility (EPR), but also to become responsible business leaders.

More and more, organizations are expected to establish and operate ethical value chains, and run their processes with integrity. In addition, the COVID-19 pandemic has amplified the demand for companies to address complex supply chains and increase transparency. In Switzerland for example, the production of much-needed Personal Protective Equipment (PPE) such as face masks was localized to address supply shortages whilst maintaining quality standards.

Investors are using technology to monitor the application of ESG (Environment, Social and Government) criteria at an unprecedented rate to increasingly invest in sustainable finance products. Digitalization offers external stakeholders critical insights into the real impact of companies and their operations on society and the environment. As supply chains extend globally, organizations must master management of increasingly complex arrangements with third parties whilst maintaining compliance with local regulatory requirements.

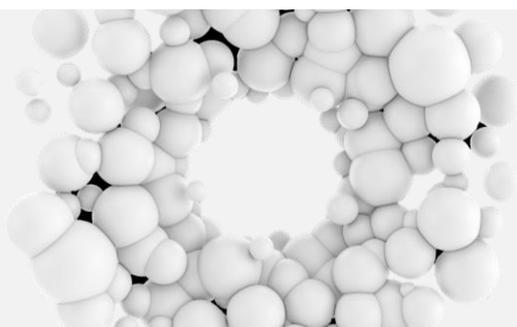
-  **30%** of the average company's annual revenues are at risk from consumer backlash or regulatory non-compliance
-  **15%** annual growth in the third party ecosystem of a typical company, both in numbers of relationships and volume of transactions leading to increased complexity
-  **35%** of companies experienced a moderate impact on their customer service, financial position, reputation or regulatory compliance caused by a third party

CSR objectives are already included in many corporate strategies, and are considered crucial for strengthening business reputation and creating a competitive advantage. However, our recent study of 430 board members of Swiss companies of various sizes and in different industries found that companies struggle to implement and prioritize CSR-related initiatives. Nearly four in ten respondents indicated that their board lacked the required resources and talent to implement their CSR programs properly despite an overwhelming number of them confirming that they understood the value proposition of CSR<sup>2</sup>.

-  **39%** say that their board does not have the resources and expertise to implement CSR successfully
-  **92%** responded that CSR makes their company more attractive as an employer and increases employee loyalty
-  **85%** of board directors see CSR as an important tool for achieving competitive advantage

In their current form, CSR initiatives are isolated, uncoordinated and will struggle to generate the desired benefit for both their organization and society. The challenges to successful implementation can range from the organization's conservative views about traditional drivers of revenue and value to a general lack of knowledge and expertise of holistic CSR programs. Many CSR initiatives are detached from business processes. As a result, programs are ill-supported or inadequately integrated and have turned into marketing tools and cost centers rather than a way to deliver value, as originally intended.





## Growing public and government pressure in the EU and Switzerland

Growing public pressure on governments to invest in and promote sustainability initiatives is gaining traction. The €100bn European Green Deal announced in December 2019 proposes a European Climate Law to enable the EU to achieve climate neutrality by 2050.

### The Deal aims to reach net zero carbon emissions without sacrificing a competitive and prosperous economy

Key elements of the draft law include technical and financial assistance to:<sup>3</sup>

-  Support industries in innovating and implementing a circular economy action plan, including a 'sustainable products' policy with a focus on the textiles, electronics, plastics and construction markets
-  Maximize energy efficiency, e.g. with zero emission buildings
-  Increase the deployment of renewable energy to reduce fossil fuel usage
-  Invest in cleaner and cheaper public and private transportation
-  Reap the benefits of a bio-economy, e.g. innovative farming practices, afforestation/re-forestation, and the creation of carbon sinks

The initial proposal of the law was issued in March 2020 and voting was intended to occur prior to the Glasgow UN Climate Change Conference (COP26) in November 2020 (now postponed due to COVID-19).

### Heated discussions around the Swiss Responsible Business ('Konzernverantwortungsinitiative') Initiative illustrates growing public pressure to increase the responsibility and accountability of businesses.

The RBI would require Swiss companies to 'respect internationally recognized human rights and environmental standards both at home and abroad'<sup>4</sup>. The RBI was launched in 2016, but rejected by the Federal Council in 2017 for being too stringent. The Swiss Parliament is currently working on its counter-proposal, which was originally expected in 2020 but currently delayed due to COVID-19.

The key elements of the Initiative include:



Mandatory due diligence in accordance with the United Nations Guiding Principles on Business and Human Rights on all business relationships and activities at home and abroad<sup>5</sup>

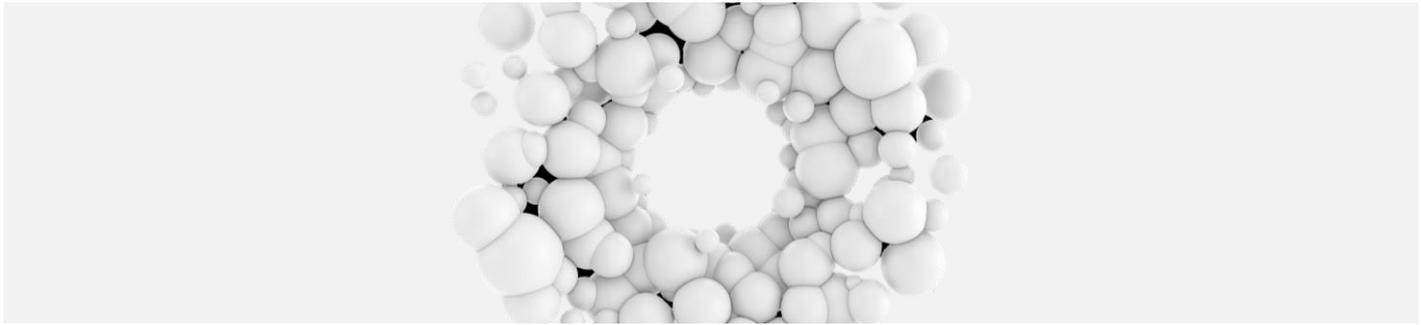
Liability for human rights abuses and environmental violations caused abroad by companies under their control

Victims of human rights violations and environmental damage able to seek redress in Switzerland unless the company can prove that they took necessary measures to prevent violations<sup>6</sup>

### The Swiss 2050 Climate Target is under discussion within the Federal Council. It would set a target to reduce net greenhouse gas emissions in Switzerland to zero by 2050<sup>7</sup>.

Switzerland is currently revising the CO2 Act, a key piece of climate legislation, to introduce a number of measures for achieving climate goals. Key targets include reducing CO2 emissions from transportation, buildings and industry through use of technology and renewable resources, as well as the reduction of greenhouse gas emissions from agriculture and emissions created abroad. There are also proposals to focus on the offsetting of greenhouse gas emissions through increased usage of natural carbon sinks. The 2050 Climate Strategy is planned to be finalised in December 2020<sup>8</sup>.

**These government initiatives demonstrate the scale of emerging regulatory trends. If approved, they will have a significant impact on most industries. Now is the right time to anticipate regulatory changes by being agile and proactive, and seizing Responsible Business opportunities.**



## Responsible Business as a value driver

Deloitte's approach to Responsible Business centers on a holistic understanding of what Corporate Social Responsibility is, and how it should be integrated within organizations. This approach recognizes that for a CSR program to succeed, the board of directors should first ensure that there is sufficient support, and a long-term commitment from senior management in the organization. At times, Responsible Business can call for the complete redefinition of a company's strategy in order to articulate a distinct purpose for the CSR and compliance journey.

### Possibilities for capturing value from Responsible Business

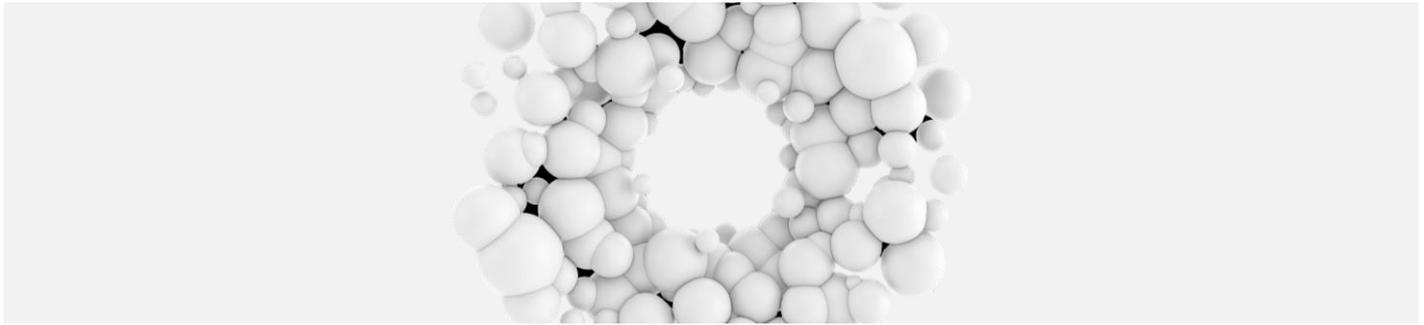
 <p><b>Marketing appeal:</b> In committing to sustainable development, businesses are responding to consumer expectations and increasing prospects for commercial success.</p>	 <p><b>Lean operations:</b> Cost savings (e.g. energy, materials) from implementation of Responsible Business. An ethical value chain will have a positive impact on society, minimize supply chain risks, and support regulatory compliance.</p>
 <p><b>Employer attractiveness:</b> Engaging with employees and establishing a culture that goes beyond profit that will attract and retain top talent.</p>	 <p><b>Access to capital:</b> A growing number of investors consider Responsible Business &amp; ESG performance data in their capital allocation decisions, recognizing the long-term benefits.</p>
 <p><b>Innovation and development:</b> Discovering new market opportunities and introducing innovative products, to create competitive advantage and increase market share.</p>	 <p><b>Risk management and regulatory compliance:</b> Companies can build positive relationships with regulators as well as industry leaders, by creating a business that focuses on pursuing innovative sustainable opportunities.</p>

## The main challenges faced by our clients

 <h3>Strategy &amp; Culture</h3> <ul style="list-style-type: none"> <li>Putting Responsible Business on the management agenda by determining the incremental value (qualitative and quantitative) and ROI of Responsible Business and securing wider internal commitment</li> <li>Defining a holistic Responsible Business strategy and framework that aligns with existing strategies and risk and compliance frameworks</li> <li>Transforming strategy, culture and management toward a more purpose-driven approach</li> <li>Defining, and embedding measurable KPIs to measure progress towards defined goals, especially with affiliated departments that committed their buy-in</li> </ul>	 <h3>Risk &amp; Compliance</h3> <ul style="list-style-type: none"> <li>Lack of urgency, and inability to anticipate future local and global regulatory requirements that could potentially significantly impact operations (e.g. use and reuse of materials) and sourcing strategy (reshaped value chains).</li> <li>Defining required controls for identifying and monitoring supply chain risks (process risks, macro-environmental risks (e.g. geopolitical, natural hazards, regulatory) and functional risks (e.g. finance, HR, IT and legal)</li> <li>Ability to anticipate and respond effectively to internal occupational health and safety risks</li> </ul>	 <h3>Process, Tools &amp; Reporting</h3> <ul style="list-style-type: none"> <li>Applying appropriate tools and technologies for gathering data, and reporting and tracking operations</li> <li>Reliability of data obtained from third parties, including availability and integrity issues</li> <li>Establishing Responsible Business targets and devising performance indicators to measure, follow-up and report on progress towards achievement of targets</li> <li>Adapting traditional business processes to the needs of the Responsible Business strategy (e.g. circularity, new KPIs as well as overcoming the gap between execution and different stakeholder expectations)</li> </ul>
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## A systematic approach to address common challenges

<p><b>Identify and prioritize stakeholders:</b> Identify key stakeholders, define priorities, and acquire the necessary capabilities. This step also involves building trust by developing an awareness among key stakeholders about priority areas and sensitive topics.</p>	<p><b>Develop strategic objectives:</b> An important step to developing strategic objectives is to engage stakeholders. Stakeholder buy-in and continual support is critical to program continuity. The development of strategic objectives should be based on updated materiality assessments.</p>	<p><b>Embed Responsible Business priorities within the organization:</b> Put Responsible Business and its KPIs high on the management agenda, and track progress on initiatives against clearly defined targets. However, the initiatives need to align with the overall strategy of the organization and must be financially sustainable. At an early stage of the process design, processes should be established to identify, assess and manage sustainability-related risks (e.g. climate risks, supply risks, bribery and corruption risks)</p>
 <p><b>Define purpose:</b> Define a clear purpose, aligned with corporate strategy, that explains the ambitions of the company and how long-term value is created for stakeholders through the inclusion of ESG targets.</p>	 <p><b>Scope material topics for value creation:</b> Evaluate areas with the greatest potential for value creation in the near- and mid-term from the perspectives of suppliers, customers, employees, shareholders and society in general. Establish governance measures that take your organization's actions from 'good intentions' to driving scalable projects with a tangible business impact. The right focus for Responsible Business depends on the organization, location and industry. Results should be measured and documented in a updated materiality assessment.</p>	 <p><b>Define and manage value drivers and KPIs:</b> Identifying financial and non-financial value drivers and KPIs for measuring impact and Return on Investment (ROI). Subsequently, the defined metrics and KPIs should be managed and implemented throughout planning, execution and controlling cycles.</p>



## Case studies

### Case Study 1

Deloitte supported a client in the consumer goods industry, which was subject to increasing global regulation concerning extended producer responsibility (EPR), and which wanted to address consumer-related issues about product returns in the design and implementation of a reverse logistics program.

Deloitte focused a program on a philosophy of product and environmental stewardship, as the client's ambition was to reduce returns from customers through detailed failure analysis, and also to prioritize its ambitions for a circular economy by recycling 100 percent of customer returns.

### Case Study 2

Deloitte supported a client in its ambition to conduct business only with third parties that met its high ethical standards. The scope of the program took into consideration the potential requirements under the upcoming Swiss Responsible Business Initiative (RBI) toward implementing an ethical value chain.

Deloitte assisted the client with the design and global implementation of a process to assess, qualify and manage its third parties. The result was enhanced transparency and accountability for the client's supply network and risk management framework.

### Case Study 3

The existence of an under-age labor force was discovered in the workshops of a company's supplier. This led to widespread coverage in the media of child labor allegations and a reported drop in the company's share price. Subsequently, Deloitte provided support for the client in third party risk mitigation and providing insights to help make its supply chains more transparent, while enhancing regulatory vigilance and reporting.

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## References to learn more

<sup>1,2</sup> <https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/audit/deloitte-ch-en-swissvr-monitor-i-2020.pdf>

<sup>3</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0773>

<sup>4</sup> <https://www.bj.admin.ch/bj/de/home/wirtschaft/gesetzgebung/konzernverantwortungsinitiative.html>

<sup>5,6</sup> <https://corporatejustice.ch/about-the-initiative/>

<sup>7</sup> <https://www.bafu.admin.ch/bafu/en/home/topics/climate/info-specialists/climate-target2050.html>

<sup>8</sup> <https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-76206.html>

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