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The SDGs and Corporate Social Responsibility

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Around the world, companies are being called upon to align their business practices with the Sustainable Development Goals (SDGs). These calls are coming from many places: outside investors such as pension funds, active shareholders within companies, consumers, suppliers, and other stakeholders in society. There is still no single agreed set of standards to assess whether a company is in alignment with the SDGs. In this article, I propose four criteria to assess whether a company's performance aligns with the SDGs.

Before turning to these four criteria, let me remind readers of the background and purposes of the Sustainable Development Goals. The SDGs were unanimously adopted by the 193 UN member states in September 2015 to guide international cooperation, national policies, and business activities during the 15-year period 2016-2030. The core idea of sustainable development is that economies should achieve three simultaneous objectives: first, economic prosperity, including the end of extreme poverty (SDG 1) and the end of hunger (SDG 2); second, social inclusion, including gender equality (SDG 5), reduced income inequality (SDG 10), and peaceful and inclusive societies (SDG 16); and third, environmental sustainability in many dimensions, including urban sustainability (SDG 11), sustainable consumption and production (SDG 12), the control of global warming (SDG 13), and the protection of ecosystems (SDG 14 and 15).

In short, the SDGs call for a "triple bottom line," to achieve economic, social, and environmental goals. All governments are called upon to put the SDGs into operation in national planning, budgeting, and reporting systems. Similarly, businesses, civil society, and individuals are called upon to align their practices with the SDGs. This coming September, heads of state and government will meet at the UN to review progress on the SDGs and to suggest course-corrections to accelerate progress towards the 2030 goals.

Thousands of businesses around the world are already aligning their corporate reporting with the SDGs, though still without agreed international standards. Annual corporate and sustainability reports increasingly take the SDGs as the baseline for assessing company performance. Yet there is a tendency of companies to highlight the bright areas of their alignment without taking a serious look at ways that the company's performance needs to improve. As investors, shareholders, and other stakeholders call on companies for greater corporate social responsibility, the need for more objective and comprehensive benchmarking with the SDGs will grow.

Various benchmarking efforts are now underway around the world to try to develop an agreed framework for measuring company performance vis-à-vis the SDGs. It will take time to reach a global consensus and to implement new reporting standards. Therefore, my suggestions here are meant to support the development of agreed benchmarks.

I propose a four high-level criteria to assess a company's performance vis-à-vis the SDGs. Each of these four criteria will require more detailed sub-criteria, as mentioned below.

The four criteria should address the company's product line, environmental impact, global value chain, and corporate citizenship. Let me elaborate.

Product line

The first criterion is whether the company's goods and services are helpful, harmful, or neutral vis-à-vis the Sustainable Development Goals. The market value of a product is generally given by its price, yet the social (or true) value of the product may diverge markedly from the market value. Many products are privately profitable but socially harmful. The starting point of SDG alignment should be whether the business's goods and services are adding true value to society, not merely market value.

Consider some examples. Companies producing coal, oil, and natural gas may be making market profits but their products are also contributing to catastrophic climate change and severe air pollution. Recently, Royal Dutch Shell has been pressed by activist shareholders and investors to report on, and plan to slash, the future carbon-content of the energy that it sells, recognizing that Shell's core product line is harmful to society and directly contrary to SDG 13 (and the aims of the Paris Climate Agreement, which is closely linked with the SDGs).

Many similar examples abound. Coca Cola and other producers of sugar-based sodas are producing products that are proven major contributors to the global obesity epidemic. Indeed, much of the fast-food industry sells unhealthy and obesogenic products. These products are directly contrary to SDG 3 (health for all), and to the call in SDG 3 to control non-communicable diseases such as heart disease. Similarly, pharmaceutical companies that manufacture widely abused drugs (such as synthetic opioids contributing to the US opioid addiction), gun manufacturers whose products contribute to homicides, and entertainment companies that violent and addictive online products need to change their product lines to align with the social objectives of sustainable development.

Environmental Impact

The second criterion is the company's direct environmental impact as the result of its own production activities. Companies in the goods-producing sectors, especially agriculture, mining, construction, and manufacturing, often have enormous adverse impacts on the natural environment. These impacts include the three main forms of environmental degradation. First, the company may be emitting greenhouse gases (CO2, methane, nitrous oxides, hydrofluorocarbons, or others) contributing to global warming. Second, the company may be contributing to unsustainable land and water use, for example through deforestation, or unsustainable use of groundwater, or destruction of the habitat of other species. Third, the company may be contributing to air, water, land, or ocean pollution, through toxic chemicals, plastics and other waste products, aerosols, and so forth. Alignment with the SDGs therefore requires that companies measure, monitor, and reduce their own direct adverse environmental impacts.

Global Value Chain

In our globalized economy, it's not good enough for a company to focus only on its own production processes while neglecting the companies up and down its global supply chain. Consider the notorious example of cobalt, mined mainly in the Democratic Republic of Congo, and used in the lithium-ion batteries that power our phones and computers. Many reports of the past few years detail how DRC cobalt production engages child labor in hazardous conditions, in violation of SDG 8 calling for an end to child labor and to violations of basic labor rights. It's not good enough for Apple and other phone manufacturers to declare that they merely buy the batteries from elsewhere, so that cobalt production is not their concern. In a global value chain, there must be co-responsibility up and down the value chain.

Many sectors of the world economy are working in global value chains with major question marks regarding labor standards (child labor, slave labor, and unsafe work conditions), environmental practices (deforestation, pollution), and other aspects of corporate behavior (tax evasion, land grabbing, etc.). Sectors including apparel (with child labor and unsafe work conditions), food products (with environmentally unsustainable production processes and child labor), mining (with environmental production), finance (with movements of illicit funds and tax evasion), etc., are under scrutiny.

From a narrow legal point of view, companies may indeed be shielded from liability if the bad behavior is that of another company. Yet from an SDG point of view, each company should have a reasonable measure of co-responsibility for the alignment of the entire value chain with the SDGs. In several sectors, including apparel, mining, and fossil fuels, companies are increasingly being held to account for abuses upstream and downstream of their own activities. For these reasons, industry-wide "platforms" and "roundtables" are being created to bring together the members of the entire value chain to end the abuses.

Corporate Citizenship

The fourth criterion is the company's corporate citizenship, meaning its behavior vis-à-vis governments and local communities in both source and host countries on a range of corporate citizenship practices. These include tax behavior, corporate reporting, compliance with local laws, payment of bribes, and responsibility to local communities.

Let me summarize as follows. Many companies use very aggressive tax practices to reduce or eliminate their tax liabilities, such as intra-company transfer pricing, or arbitrarily placing intellectual property into tax havens in order to siphon off corporate profits from high-tax jurisdictions to the tax havens. Often, these practices are highly dubious and undoubtedly contrary to the spirit of the law and yet have not yet been declared illegal by beleaguered tax authorities who are unable to keep up with the aggressive accounting practices of the tax-avoiding companies. I would consider such practices to be poor corporate citizenship in violation of the spirit of the SDGs.

Similarly, many multinational companies operate without transparency and with impunity in low-income countries, knowing that the host governments lack both the institutional mechanisms and geopolitical power to ensure transparency and accountability. Once again, such behavior may not break the law but would still violate the standards of good citizenship. Powerful companies similarly violate standards of decency by offering bribes, engaging in land grabs against local communities, hiding behind shell companies registered in secrecy havens, or bringing their source governments to bear to protect them against scrutiny.

Of course there are many positive forms of corporate citizenship, including donations of critically needed commodities (for health, education, social protection, and other basic needs), transfers of technology, local training, and support for local entrepreneurship. These positive forms of CSR can be enormously valuable. My focus on the harmful practices reflects the famous and appropriate standard of the medical profession: First, do no harm!

In summary, business is, of course, a vital part of the world economy and a vital stakeholder in the SDGs. In recent years, however, following countless business scandals, financial crises, bribery cases, money laundering, land grabs, and tax evasion, the global public is wary of promises of the business community. The world is at peril, from climate change, deforestation, and growing income and wealth inequality. Too many products are harmful to the public's physical and mental health. For all of these reasons, the scrutiny of the global business sector will continue to rise in future years and the alignment of business with the globally agreed Sustainable Development Goals will be of paramount importance.

The four criteria that I have suggested – a sound product line, sustainable production practices, sustainable global value chain, and good corporate citizenship – are practicable and measurable standards for aligning business with the SDGs. My colleagues and I at the UN Sustainable Development Solutions Network (SDSN) will be working in the coming year to refine and improve these four criteria in order to contribute to the global consensus building on how to define and measure company alignment with the SDGs.

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UN SDSN

The UN Sustainable Development Solutions Network (SDSN) has been operating since 2012 under the auspices of the UN Secretary-General. SDSN has a small secretariat with offices in New York, New Delhi, and Paris.
SDSN mobilizes global scientific and technological expertise to promote practical solutions for sustainable development, including the implementation of the Sustainable Development Goals (SDGs) and the Paris Climate Agreement.
We aim to accelerate joint learning and promote integrated approaches that address the interconnected economic, social, and environmental challenges confronting the world. SDSN works closely with United Nations agencies, multilateral financing institutions, the private sector, and civil society.
The organization and governance of SDSN aims to enable a large number of leaders from all regions and diverse backgrounds to participate in the development of the network. The SDSN Leadership Council brings together global sustainable development leaders from all regions drawn from civil society, public, and private sectors. Much of SDSN's work is led by National or Regional SDSNs, which mobilize knowledge institutions around the SDGs. Several Thematic Networks mobilize experts from around the world on the technical challenges of implementing the SDGs and the Paris Climate Agreement.

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