



PILLAR 4
GOOD CORPORATE
CITIZENSHIP

18

GOVERNANCE & MANAGEMENT

STANDARD



18

**GOVERNANCE
& MANAGEMENT**

Commitment

Implement governance structures and management systems that center impacts of the company's operations, products, and value chain on people and planet.

Working together.
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Businesses, investors, governments, and civil society now recognize that the ways companies are governed and managed are among the root causes of today's unsustainable business practices. Indeed, the transformations needed to meet the SDGs require addressing corporate governance structures and management systems.¹

Only the companies that center sustainability and human wellbeing in governance and management can have the necessary buy-in and leadership from the top to overcome short-term commercial interests and take the measures needed to appropriately adjust business models and strategies. Oftentimes, sustainability is siloed within a single function in the company with little or no power to influence how the business operates. Governance structures and management systems centered on company impacts on people and planet are vital for ensuring social and environmental sustainability efforts are taken on holistically. Rather than sustainability only being in the purview of operational teams, top leadership ownership of these issues, with corresponding accountability for meeting targets, is required to ensure SDG-alignment is prioritized in the long term throughout the organization.



Key elements that signal a company has good governance that centers impacts on people and planet:

- The most senior level of the company (the Board, most senior governing body, or executive leadership) regularly engages with affected stakeholders to hear their perspectives on risks and impacts related to the issue areas of the Four Pillar Framework standards.
- The most senior level of the company actively seeks to understand how the business might be involved with negative impacts on people and planet and regularly discusses progress and challenges in addressing such situations.^a
- At a cross-cutting level, the most senior level of the company examines how the company's business model might be perpetuating problems across the issues included in the Four Pillar Framework standards.
- SDG-related targets linked to each of the Four Pillar Framework standards are approved by the most senior level of the company.
- Incentives for senior management are linked to the achievement of those targets^b, and existing incentives that might undermine progress are scrutinized.

Key elements that signal a company's management centers impacts on people and planet:

- Management and leadership play an active role in identifying risks and deciding what measures to take to align with the SDGs, applying a human rights-based approach to responsibly manage transformations.
- Management ensures the company has the competence, capacity, and systems in place to effectively assess and prioritize alignment with the SDGs.
- Leadership collaborates with peer companies and other stakeholders to address systemic challenges that may undermine the ability of the company and sector to address risks to people and planet and so contribute to the SDGs.
- Management and leadership routinely engage with subject-matter experts and affected stakeholders to gain additional insight about how to advance the company's practices.

a. Research from the Alliance for Corporate Transparency suggests that of the 1,000 European companies reviewed, "just 14 percent of companies report their Boards discussing specific issues in their non-financial report," as part of mandatory disclosures under the EU Non-Financial Reporting Directive. (Source: Alliance for Corporate Transparency, "2019 Research Report: An Analysis of the Sustainability Reports of 1000 Companies Pursuant to the EU Non-Financial Reporting Directive," 2019, https://www.allianceforcorporatetransparency.org/assets/2019_Research_Report%20Alliance_for_Corporate_Transparency.pdf.)

b. The 2019 report from the Alliance for Corporate Transparency found that of the 1,000 European companies reviewed, "only 15 per cent report a link between sustainability objectives and executive remuneration." (Source: Alliance for Corporate Transparency.)



SDG 10 – Reduced inequalities

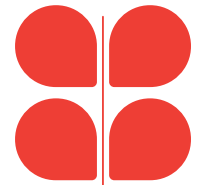
Target 10.2: By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

Target 10.3: Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard.



SDG 16 – Peace, justice and strong institutions

Target 16.7: Ensure responsive, inclusive, participatory and representative decision-making at all levels.



**PILLAR
4**

GOOD CORPORATE
CITIZENSHIP



STEPS TO MEET THE COMMITMENT

1. ADOPT A POLICY AND EMBED IT INTO GOVERNANCE AND MANAGEMENT SYSTEMS

1.1. ADOPT A POLICY

The Board or the most senior level of SDG-aligned companies adopt a policy centered on a public commitment to environmental and social sustainability, including a commitment to respect all internationally recognized human rights. This policy applies to a company's operations and business relationships, including through the use of its products and when interacting with government institutions.

1.2. EMBED THE POLICY INTO GOVERNANCE & MANAGEMENT SYSTEMS

To embed the policy, SDG-aligned companies:

- Communicate expectations for implementing the policy commitment internally and externally to business relationships, including shareholders.
- Integrate the policy into by-laws and other governance documents (e.g., Code of Conduct and Code of Ethics).
- Ensure that governance documents do not contradict the environmental and social sustainability policy commitment in form or substance.²

2. ASSESS ACTUAL & POTENTIAL IMPACTS

SDG-aligned companies identify and assess actual or potential adverse social and environmental impacts related to all Four Pillar Framework standards with which they may be involved through their activities, business relationships, or products. They also assess how features or gaps in their governance structures, management systems, culture, policies, and business model may cause or contribute to those impacts. For example, Directors evaluate the adequacy of their own expertise required to properly take account of a company's most severe and likely social and environmental issues.³ The companies also consult with potentially affected stakeholders on an ongoing basis as an integral part of assessing the actual and potential impacts of companies on people and the environment and ensuring decisions and approaches concretely serve community needs and priorities.⁴

3. INTEGRATE BY SETTING TARGETS & TAKING ACTION

SDG-aligned companies integrate the findings of their assessments of actual or potential adverse social and environmental impacts related to all Four Pillar Framework standards into relevant internal functions and processes by **setting targets** and then **taking action** to align with the standard within set target dates.

3.1. SET TARGETS

SDG-aligned companies set intermediary and long-term targets for their sustainability strategies linked to the Four Pillar Framework standards aimed at preventing, mitigating, and remediating their actual and potential social and environmental impacts that are the most severe and likely. The targets are developed with input from subject-matter experts and from affected stakeholders or their legitimate representatives.⁵ Targets are articulated in terms of the intended outcomes for affected stakeholders and the environment, relevant to addressing the companies' most severe and likely impacts, and "specific, measurable, achievable and time-bound."⁶



3.2. TAKE ACTION

SDG-aligned companies integrate the findings of their assessments into relevant internal functions and processes by taking appropriate actions to ensure their management systems are reinforced with due diligence processes to prevent, mitigate or remediate actual and potential social and environmental impacts (across all Four Pillar Framework standards).⁷ Some specific measures that the companies implement include:

- **Accepting and not rejecting shareholder resolutions that call for companies to meet commitments and responsibilities related to the Four Pillar Framework standards.** When such resolutions are filed, the companies engage with shareholders in good faith.
- **Ensuring Board independence**, meaning that the chair of the Board of Directors is not a current or former CEO of a parent company or a subsidiary of the company, and a majority of Directors are independent from the company (i.e., they do not have a monetary or material pecuniary relationship with the company).⁸
- **Including environmental and social perspectives in strategic decision-making. Board strategic decision-making** is informed by the perspectives of stakeholders affected by a company's most severe and likely environmental and social impacts, and the Board ensures it has relevant expertise to review and track the content and implementation of the company's sustainability strategy, including by:
 - Including worker and other affected stakeholder representation on the Board;⁹
 - Establishing an independent advisory board or committee that reports to the Board of Directors comprised of worker representatives, affected stakeholders, relevant civil society organizations, and experts on impacts related to the Four Pillar Framework standards;¹⁰
 - Establishing a workers' council which reports to the Board;¹¹
 - Having independent expertise on the Board related to the topics covered by the Four Pillar Framework standards.¹²
- **Ensuring that the Board approves and oversees progress in the implementation of a group-wide fit-for-purpose sustainability strategy with targets linked to the Four Pillar Framework standards** with a focus on using a human rights-based approach to responsibly manage transformations.
- **Allocating sufficient financial resources for implementing the sustainability strategy** and addressing actual and potential social and environmental impacts.¹³
- **Ensuring that the Board regularly reviews and challenges the company's business model and strategy** to ensure any inherent social and environmental risks are identified and addressed.¹⁴
- **Establishing regular Board discussion on the progress and challenges in addressing the most severe and likely social and environmental risks and impacts**, informed by related complaints or grievances from stakeholders, root cause analyses of major incidents, and insights of credible experts.¹⁵
- **Investing in a fund to remedy social and environmental impacts and safeguard the livelihoods of workers** in company operations and value chains in the event of economic shocks.
- **Ceasing publicly-traded company engagement in stock buybacks** until they have (1) achieved net-zero emissions and (2) ensured living wages and incomes across their operations and value chain.¹⁶
- **Ensuring the benefits and ownership of publicly traded companies accrue to workers**, including through dispersing dividends to workers commensurate with shareholder dividends.¹⁷
- **Tasking a cross-functional council, Board, task force, or committee with the day-to-day management of social and environmental risks throughout the company** to facilitate strategic discussions on these priorities.¹⁸ This group ensures coherence of processes through which the company makes decisions on how best to address each social and environmental issue in practice across its operations and business relationships, including in situations in which dilemmas arise between business objectives and social and environmental objectives.¹⁹
- **Integrating risk to people and planet**, with a focus on the most severe and likely actual and potential impacts on people and planet, into enterprise risk-assessments.
- **Mitigating incentives to focus on short-term metrics** by linking a significant percentage of KPIs for remuneration and performance incentives (bonuses) for the Board and senior management to achieving intermediate and long-term targets set in the sustainability strategy and aligned with the SDGs as elaborated by the Four Pillars.²⁰ Any top management performance incentives that may promote behaviors that undermine respect for people and the environment are adjusted or removed.²¹
- **Establishing stakeholder engagement systems and processes to identify and engage with stakeholders** who may be or may have been negatively impacted by company activities or business relationships.²²



4. ESTABLISH AND PARTICIPATE IN EFFECTIVE GRIEVANCE MECHANISMS & PROVIDE OR ENABLE REMEDY

4.1. ESTABLISH GRIEVANCE MECHANISMS

SDG-aligned companies have and use their leverage to ensure their business relationships have effective grievance mechanisms^c in place to handle all issues relevant to the Four Pillar Framework standards.²³ These mechanisms are accessible to workers, value chain workers, community members, and consumers.

The companies have a process for severe grievances related to environmental and social sustainability to be escalated to senior leadership or most senior governance bodies. The board or most senior governance body has the mandate to oversee the effectiveness of company grievance mechanisms.

4.2. COOPERATE IN STATE-BASED GRIEVANCE MECHANISMS

Where a company's governance and management activities contribute to negative impacts, the company participates in legitimate public grievance mechanisms and sanctions regimes for their involvement in the harm caused.

4.3. PROVIDE OR ENABLE REMEDY

When a company identifies that it has caused or contributed to impacts across any of the Four Pillar Framework standards in its operations or value chain, it acknowledges its part in the harm done and provides remedy through legitimate processes. Where the company did not cause or contribute to the harm directly, it enables remedy through legitimate processes.

5. TRACK PERFORMANCE

SDG-aligned companies monitor progress in addressing actual and potential impacts and meeting targets through the following mechanisms: independent third-party assessments and audits of company culture; surveys and interviews to collect perspectives of potentially affected stakeholders, including trade unions and civil society organizations, with a focus on those most vulnerable to impacts; complaints and grievances raised through grievance channels or mechanisms. SDG-aligned companies assess the effectiveness of their efforts to meet targets and adjust activities accordingly.²⁴

6. DISCLOSE PERFORMANCE

In an annual progress report approved by the Board, SDG-aligned companies disclose detailed information on their progress towards meeting the standard related to each of the due diligence steps described above, including integration and action measures.²⁵ The companies disclose their social and environmental risks and impacts across their operations and business relationships and how they are preventing, mitigating, and addressing actual and potential impacts related to those issues.²⁶ The companies disclose information on all of the steps described above, including how their environmental and social impacts have been integrated into their governance structures, management systems, and incentives. To support learning, SDG-aligned companies share aggregate data and high-level findings with international and local organizations, and researchers.

c. As defined by the UNGPs' Effectiveness Criteria for Non-Judicial Grievance Mechanisms ("In order to ensure their effectiveness, non-judicial grievance mechanisms, both State-based and non-State-based, should be: (a) Legitimate... (b) Accessible... (c) Predictable... (d) Equitable... (e) Transparent... (f) Rights-compatible... (g) A source of continuous learning... Operational-level mechanisms should also be: (h) Based on engagement and dialogue...") (see UNGP 31 for further information). (Source: United Nations, "Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework," 2011, https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf)



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Efforts to align with the Pillar 4 standards are distinctly catalytic due to their potential for society-level impact. By centering impacts on people and planet in governance and management systems and engaging in responsible policymaking influence, tax, and litigation practices, companies can enable, and avoid undermining, alignment with the other standards.

Bell peppers being bottled.
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