



Boards should make social responsibility a key issue

Vancouver Sun

Monday, July 21, 2008

Page: A7

Section: Editorial

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Source: Special to the Sun

Corporate social responsibility (CSR) issues are being driven into the boardroom as never before. Yet boards of directors still largely see social and environmental issues as operational matters rather than part of their oversight, strategic direction and reporting responsibilities. CSR is directly linked to a firm's future -- it gives them a licence to operate, furthers their reputation and contributes to financial viability -- but boards can do more to ensure that it is treated as a mainstream governance issue.

The fall of Enron and Worldcom, which effectively put corporate governance back on the map, was the wakeup call for boards perceived to be asleep at the wheel. As jurisdictions around the world rushed to redraft their corporate governance frameworks, the door opened to embrace employee, customer, supplier and community concerns over a firm's social, ethical and environmental effects. Canadian boards should not wait for a repetition of Enron and Worldcom before making responsibility for CSR their own.

Today, about a third of Canadian boards of publicly traded corporations have environmental, health and safety committees, while in 2007 only eight had committees with corporate social responsibility or its twin, sustainability, explicitly in their titles. Adopting the CSR or sustainability moniker is usually an indicator that the firm's board has embraced a more comprehensive, strategic approach to a full suite of environmental and social issues, risks and opportunities.

Against this backdrop, the Conference Board of Canada reviewed national and international practices of boards and their role in CSR governance. The study confirmed that boards are responsible for setting the organizational tone "at the top"-- influencing the firm's culture and orientation to critical CSR issues.

Boards are also responsible for focusing on the social and environmental issues most material to their company's operations. Most firms would list climate change among their most material environmental issues; on the social side, the labour shortage is a key firm constraint, and serving low-income markets is a key opportunity.

The Conference Board study confirmed the emergent business case for social and environmental factors in firm strategy.

The greater the clarity on the CSR business case, the more likely a board of directors is to include CSR factors in strategy development and performance oversight.

Social and environmental factors are transforming the marketplace, making CSR issues more and more material to a firm's bottom line. Boards that understand and grasp these facts and turn them into manageable risks or marketable opportunities will beat their competitors.

On the other hand, "group think" can hinder a board's approach to non-financial factors. The mindsets of the board chair and CEO are critical in determining whether and how far a board of directors embraces CSR in its deliberations.

As a director and then chair of Vancity Credit Union from the late '80s through the '90s, I found these lessons to be all too apparent. Indeed, were it not for the board's leadership, Vancity would not be benefiting from the market attention it is capturing for its strong CSR role today. Then, we did not have a map to guide our efforts. Now, this study offers guidance to boards interested in strategically engaging on CSR issues.

The Conference Board report lays out a 12-step roadmap for boards committed to good governance. Integrating CSR into the CEO's compensation program, and including social and environmental objectives in the firm's long term business strategy are key strategies to embed CSR within both operational and governance domains. One thing is clear: Corporate governance will be redefined in the years ahead to incorporate the role of the board in providing oversight on the firm's CSR performance.

Virtually all the directors interviewed agree that boards which meet this emerging fiduciary CSR governance standard -- will find they are better able to maximize shareholder value, position their firm well for future markets and weather the storms ahead.

One director commented that "public pension funds and big institutional investors will tell boards that they haven't done their jobs effectively unless they define CSR metrics and CSR accountability of the CEO".

Such board oversight means that CSR has moved from being the domain of touchy-feely do-gooders to the purview of hard-nosed directors focused on the firm's sustainability through the integration of economic, social and environmental considerations in a firm's activities.

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