CSR Governance

Thought Leader Study

Working Paper #3

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March 2007

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Executive Summary

Strandberg Consulting conducted a thought leader study, interviewing global subject matter experts on the topic of CSR governance from January – May 2007. This report is a summary of the thought leader interview findings. The Thought Leader Study informed the Conference Board Report: "The Role of the Board of Directors in CSR", published in 2008, available at www.e-library.ca and www.corostrandberg.com.

Twenty-eight thought leaders from 6 countries were interviewed for this study, 10 in the U.S., 9 in the U.K., 6 from Canada, and 1 each from Switzerland, France and South Africa. They were interviewed fro their thoughts on the ideal role of the board in CSR, ways boards can integrate CSR into their operations barriers to addressing CSR, and trends and drivers for CSR governance. Key conclusions are that boards should focus on long term performance, which is likelier to bring CSR issues into account, boards should set the CSR tone at the top and should incorporate CSR within strategic plans and incentive programs. They held divergent views on whether or not boards should strike CSR committees to focus on CSR matters, with many of the view that CSR should be the focus of the entire board. Thought leaders were mostly of the view that boards should be balanced and diverse, obviating the need for boards to engage directly with stakeholders. They pointed to the lack of a business case for CSR and lack of awareness of CSR as part of fiduciary duty as two main barriers to boards adopting a CSR role. Regardless of the barriers, most thought leaders predict that CSR governance will become mainstream over the decade, driven by investors and other stakeholders.

Corporate Social Responsibility (CSR) Governance Thought Leader Study

Introduction

Strandberg Consulting conducted a thought leader study, interviewing global subject matter experts on the topic of CSR governance from January – May 2007. The following provides the results of these interviews.

Background and Methodology

We interviewed 28 thought leaders from 6 countries around the world: US (10), UK (9), Canada (6), Switzerland (1), France (1) and South Africa (1). They represented diverse organizational perspectives from sustainable business think tanks, to CSR membership organizations, academics, institutional investors and shareholder activists, sustainability rating and reporting organizations, academia, NGOs, labour, and corporate governance consulting organizations. See Appendix A for the list of interviewees.

They were interviewed for 45 – 60 minutes during January – May, 2007 and were advised their comments would not be personally or organizationally attributed to facilitate frank commentary. The interview schedule is attached in Appendix A.

Key questions surveyed through the interview process included the following:

- What is the ideal role of the board in CSR and why?
- What tools and practices could boards use to integrate CSR into their operations and processes?
- What are the barriers to addressing CSR issues at board level and how can these be overcome?
- What are the trends, future best practice and drivers for CSR governance?
- What top CSR issues do boards face today and in the future and why?
- What companies, sectors and regions are leading the way on CSR governance and why?
- How will effective CSR governance affect firm performance?

CSR was not explicitly defined for interviewees but was assumed generally to mean the integration of social and environmental considerations in board affairs for the purpose of this study. The term CSR, CR (corporate responsibility) and sustainability are used inter-changeably throughout this paper.

Interviewee comments were analyzed for common themes and differences and are presented below.

1. Ideal role of the Board in CSR

Thought leaders pointed to a number of board roles in CSR, primarily that boards take a long term orientation to shareholder value, set values and the tone at the top, reward executives in line with CSR objectives, and incorporate CSR within the company's strategic direction.

Long term orientation

The role of the board is to secure the long term success of the organization – and not succumb to the short term performance imperative. According to some thought leaders, this is the single most important approach the board can adopt to ensure companies take social and environmental issues more fully into account. That means structuring performance incentives so that senior management, particularly the CEO, is not incentivized to focus on the short term but rather the long term. It means overseeing the senior executive team to ensure they are building long term value in staff development, product development, finance strategy, etc. And it also means seeking to educate and inform their investors so they better understand the company's approach to long term shareholder value. For some thought leaders, this long term orientation fully captured their views on the board's role.

> "The board's main CSR role is to focus on long term performance and not yield to short term performance pressures."

Values and tone at the top

Many commented that they considered the board to be the guardian of the company's values. The board needs to determine a set of defining principles and values and ensure they are embedded throughout the organization, including within assurance and compliance mechanisms. The board has to be convincing that the values really count. Boards need to set the tone on what the company stands for and how a company conducts itself internally and externally: in the absence of a core set of values, anything goes. The board needs to assess and monitor the tone. Boards that take this step will have a stronger organization, more united with a shared sense of purpose. Ultimately this is what builds the capacity for high performance.

Incorporate CSR within strategic plans, direction and scope

A significant number of respondents commented that it is a key role of the board to ensure CSR issues are fully embedded in corporate strategy and targets. It was mentioned that over the past few years CSR has moved from the edges to the centre of strategy given the potential of CSR considerations to affect the viability of plans for sustainable growth and shareholder value.

> "It's about the stewardship of the company in relation to its social and environmental responsibilities and obligations, and expectations of stakeholders."

CSR incentive structures

A number of the respondents commented that setting incentives and overall compensation structures for CSR is key. As the board is at the apex of the incentive structure in companies they have the greatest influence over how CSR is addressed in the corporation. Boards could have good intentions and appropriate CSR policies, but if they don't follow through with incentive structures – the targets set for managers, the remunerations goals they would have to achieve to trigger their bonuses, and the more intangible reward dimensions (i.e. things staff have to do to get ahead in the corporation) – then poor CSR, and often financial, performance can result.

Assess risks and opportunities

Risk management is a key purview of the board. Thought leaders commented that boards need to provide basic oversight and guidance of CSR risks and opportunities, incorporating CSR into the board's enterprise risk management program.

Stakeholder accountability

A number of respondents commented on the role of the board with respect to stakeholders, believing that in addition to shareholders, the company is also accountable to employees and society. There is a strong view among some thought leaders that looking after the interests of shareholders is akin to looking after stakeholder interests as many of them are common.

"The board should at a minimum follow the hippocratic principle: do no harm."

Accountability and oversight

A number of interviewees commented that it is the role of the board to ensure executives are accountable for CSR oversight as with financial oversight. Executives need to be held accountable to delivery on key CSR concerns. The board should have a process in place for regularly reviewing management's progress on CSR goals. One particular view held that the board is responsible for enhancing the credibility of the corporation's CSR approach by constructively challenging executive management on all relevant issues, including CSR.

"The same functions apply to CR as for regular governance – CSR is a natural extension of the role of the board."

Policies and internal systems of internal control

A few commented that boards have a role in establishing fundamental policies and systems of internal control.

Stay informed and understand CSR issues

Boards need to understand the CSR aspects of their business; they need to ask the right questions so that they can better understand the company's CSR performance. In general, they need to be informed about CSR issues and the implications for the company. There needs to be the right expertise on the board to understand CSR issues.

Why should CSR be considered an ideal role of the board?

When asked why they thought boards should consider CSR at board level, thought leaders had the following responses:

1. Long term orientation: Because they are stewards of corporate long term value creation with the duty of loyalty and the duty or care to ensure the organization is there for the long term. Such organizations should be attentive to CSR issues because CSR issues are long term by nature.

2. CSR incentive compensation: Because CSR could become purely a procedural exercise unless boards consider executive remuneration.

3. Values: Because without the right tone at the top, there are a number of CSR issues that can result in operational disruption, loss of brand value, employee and customer attrition, fines, law suits, loss of social license to operate, and other commercial challenges.

4. Strategic direction: Because CSR has evolved from a technical, operational, and brand orientation to becoming a more strategic issue which can affect the business in significant ways. If CSR is perceived as only a gesture or a reputational and communications concern, the company is likely to experience serious shortcomings that could get it into trouble. CSR is increasingly acknowledged as structural and core to a company's pursuits.

5. Stakeholder orientation: Because there are increasing demands from society for greater engagement of stakeholders in setting corporate strategic direction.

6. Risk and opportunity management: Because boards have responsibility for risk and opportunity management and increasingly social and environmental developments are creating both risks and opportunities for companies. Further, as companies have gone global, the nature of enterprise risk has changed: scale and exposure have increased. In the past companies could safely hide behind regulatory frameworks, but no longer. Global supply chains, for example, can create weak links for multinationals.

Minority Views

A few interviewees held divergent perspectives on the role of the board.

One perspective held that there are five levels of corporate governance – compliance, growth, enterprise viability, enterprise integrity and finally true sustainability. In this model, CSR becomes relevant at level three once the organization has returned its cost of capital, before which focusing the CEO too much on CSR metrics beyond basic standards could take the company off its core priorities. While level three boards focus on shareholder return only, level four boards start taking into account broader stakeholder interests, recognizing that failing to do so might result in the loss of a social license to operate. A company at the fourth level would be looking ahead 10 – 20 years, while corporate boards at the 5^{th} level will be focused on long-term sustainability and taking into account a long term view. Level 5 sustainability oriented companies will be seeding investments to create brand new investments (e.g. BP investments in renewable industry) and will be supporting brand new global institutions that will benefit the global society (e.g. Novo Nordisk funding for a diabetes institute to help society deal with diabetes-related health issues).

Another thought leader perceived CSR not to be a governance issue, but a management tool, an optional topic of the board, in which it is discussed by the board only if it is part of strategy and perceived as a critical performance issue. In companies where there is high employee participation or a different ownership structure, CSR is likelier to be at the heart of the company and actively discussed by the board. Otherwise, and typically, boards may have CSR structures and governance mechanisms but these are paper-thin for the purposes of making a company look good while malpractices continue as ever. According to this thought leader board level CSR committees are smoke screens for real performance.

2. CSR Practices and Tools

Thought leaders were asked what tools and practices were available to board members seeking to integrate CSR into their governance model. A list was provided to prompt observations, as follows:

- Board CSR committee
- Integrated into vision, principles
- Integrated into strategy development, risk management, etc.
- CSR performance tracking, monitoring and reporting
- Stakeholder engagement
- CSR reward systems
- Director recruitment, board composition
- Director CSR training
- CSR board evaluation
- Etc.

Nearly half the respondents thought generally that all of these CSR tools were candidates for CSR governance and would be worthwhile for the board to use or establish.

The following additional observations were made:

> "The board should give management the necessary tools to deal with dilemmas."

Alignment: CSR should be embedded in all governance practices and procedures and alignment is critical. Many thought leaders commented they were not advocates of add-on solutions, but in embedding CSR into the board's core functions. For example, a firm's principles, charters, mission, vision and values should be reviewed to ensure that CSR is embedded.

> "CSR is not an end unto itself but is standard hygienic discipline to be factored into normal governance operations."

Mission, vision, and values

A number of directors commented that CSR should be an element of the corporate vision. According to this view, CSR is fundamentally about stewardship, and the direction and principles a company is working toward. Boards are responsible for monitoring corporate culture and tone to identify behaviours that might deviate from the articulated tone and value of the company and ensure the company does not go off the rails. Codes of ethics, internal value expression, the way a company expresses its values externally to stakeholders – these are all board concerns and a matter of mission, vision and values.

> "I worry about the consequence of overdoing it and making people feel that they are ticking boxes rather than that this is an important risk."

Risk and opportunity management: Boards should incorporate some degree of social and environmental scanning to understand which emergent dynamics might create or destroy competitive advantage, including CSR trends, regulatory developments, and changing consumer preferences. Social and environmental risks and opportunities should be monitored and measured so that boards can be informed of the primary non-financial drivers of the business. Increasingly stakeholders are suing companies for not managing their social and environmental risks appropriately and this trend is expected to grow in future.

> "Victory should be declared when CSR issues are cooked into standard board practices rather than being dressed up as CSR. When things get done as a set aside they aren't treated as core to business operations."

CSR director training: Many respondents thought CSR training of directors would be a worthwhile approach to embedding CSR within a governance framework.

- CSR training is very important as there is a very narrow view of why companies exist and what their obligations toward society are. Directors need to understand that CSR issues are becoming more important and that companies ignore these issues at their parallel.
- In addition to board training, boards need ongoing information of key issues, through literature scans, blogs, media monitoring, etc.
- Experiential learning opportunities or field trips could be organized for the board.

- Directors should attend conferences, forums and other events to learn more about stakeholder issues and concerns.
- It is becoming increasingly common for boards to assess their own performance. They should explicitly determine if it is important to have CSR knowledge in their group. The degree and nature of dedicated training for boards should depend on this assessment and it is likely to be sector specific.
- It might be useful to have sectoral best practice information – how are other companies in their sector doing on a particular CSR dimension? Often what stops laggard companies from catching up with leaders is plain ignorance.
- It is important to take an integrated approach to board training. Board members need to deal with an increasingly complex web of factors in making strategic decisions. Boards need to have a deeper and broader understanding of how the company's adopted principles have practical impacts.

> "You see enormous penalties when things go horribly wrong. Typically footprints of the issue show up at board level several years earlier. Often boards could have averted disaster if they had taken early steps. Once board members understand the materiality of these issues through training on a day to day basis they tend to be much more vigilant."

- Boards need more than training on these topics; they need "lived experience" of these issues. Boards could be deemed incompetent if they don't keep up to date and aware of key CSR issues. Directors and boards that are personally isolated from critical information networks are not fit to do their job. If training is limited to information and data on up-coming CSR issue this will be inadequate. Basically the information world and social networks of directors needs to be adapted to incorporate new channels of information. Boards need to understand CSR at a deep level.

> "CSR training should be integrated into existing director training programs, such as director colleges."

Board CSR Committee:

Many thought leaders commented specifically on the role and value of CSR committees. Few were definitive on the need for a standing CSR committee. Most thought the need for and value of, a board CSR committee was company specific. A few thought that CSR should be tackled at the overall board level and not tackled in dedicated committees. Others thought that CSR should be incorporated into all committee functions and not have a stand-alone responsibility. Still others suggested that CSR could be incorporated into a pre-existing committee. Some of their specific comments follow:

- There should be a dedicated CSR committee because CSR doesn't fit with other committee mandates.

- For boards that perceive CSR to be important and strategic, a board committee creates an opportunity for a deep review.
- CSR committees can play an important function in the early phases of CSR strategy and oversight development.
- CSR committees should only act as a catalyst and not replace general board functions and responsibilities for CSR.
- Boards that have particular challenges in the CSR domain may benefit from a dedicated CSR committee to give these issues greater oversight.
- Sooner or later CSR committees will be abandoned, especially once CSR thinking has been well-integrated.
- Dedicated CSR committees aren't always the answer. For example, a director can be given a CSR portfolio. A lead director can head up CSR strategy development on behalf of the board with a priority to link CSR into overall business strategy.
- CSR committees or task forces are useful to companies going through some form of conscious transition, where boards are seeking to find ways of integrating CSR perspectives into broader corporate strategy. This can be reviewed and developed at committee level.
- Boards need to ensure CSR isn't ghettoized within a board committee; it might be better to integrate CSR into all committee functions, e.g. corporate governance, risk management, environment, health and safety (EHS), audit and compensation.
- Boards should not have a separate committee but the audit committee should have a mandate to sign off board level sustainability reports and have the long term mandate to integrate sustainability performance reporting into the company's annual report.
- The size and culture of the organization will determine whether or not a separate CSR committee is desired of whether it should be situated within another committee.

"A separate disjointed CSR committee could result in CSR becoming a PR exercise."

- It is more important to have the right composition on a board than to have a CSR committee.
- CSR has to be the responsibility of the entire board as it relates to corporate strategy. The board needs to own the strategic implications of CSR and if it is put into a specialist committee there is a risk the board's overall ability to deal with CSR issues will become diluted. If the corporate strategy is based on delivering very aggressive cost-reductions over a period of time, then there are risks a board's CSR committee would become marginalized and not able to influence the overall approach.
- NGOs often find that companies that have dedicated committees take a more proactive view on CSR matters.
- By establishing a CSR committee the board demonstrates it is as important to the board as compensation or audit.

> "I am ambivalent about the need for CSR committees as I think the board needs to have overall understanding and commitment to CSR direction and how it relates to corporate strategy. However, I have been reasonably impressed with the CSR committees I've seen. They seem to grapple with the critical issues."

- CSR has to be dealt with at the level of corporate philosophy and permeate through the organization. It might become isolated if left at the committee level. All board directors need to get their minds around critical CSR issues.
- CSR committees work well, especially for large corporations. Most boards will find they need a formalized structure to tackle issues on a long term basis.

Oversight

It was suggested that boards need a scorecard process or other tool in order to assess performance on CSR goals.

CSR Reporting

A few thought leaders commented specifically that boards should be involved in CSR reporting. It was mentioned that the board should "own" the reporting exercise and not simply rubber stamp management's report on social and environmental performance.

Planning and Strategy Development

Most respondents commented that CSR should definitely be incorporated into the strategic planning process. At a minimum the board should ask management to assess the importance of CSR across operations and business lines and to determine which CSR issues are most material for board consideration within business planning and strategy.

Performance Measurement and Management

Similarly, most thought leaders commented that CSR needs to be built into performance measures and metrics. According to this view, the board's compensation committee should consider CSR. It is critical to tie executive compensation to environmental and social performance outcomes. It was thought that CSR would languish as a procedural concern unless tied into remuneration. However, it was recognized that this is not common practice at present, but a promising area for CSR advancement. The right key performance indicators need to be identified to effectively link rewards to management performance on CSR issues and this will be a challenge going forward.

A divergent viewpoint was expressed regarding CSR compensation structures in which it was felt that remuneration packages should focus on *long term performance* – which is not the same as CSR incentives. The board has a responsibility to secure the long term value creation process of the company and executives should be rewarded for performance on long term objectives. CSR has financial impact, but not on a quarterly basis. If CSR is important to the financial success of the company, executives do not need to be rewarded separately for their CSR performance.

While most thought leaders agreed that CSR should be factored into executive compensation, they differed on their philosophical orientation as to whether the focus should be on short term social and environmental achievements or long term financial achievements, with embedded social and environmental outcomes.

Board Composition

Many thought leaders perceive board composition as a key driver of CSR. Many commented that boards should ensure board members align with the values of the company. Some thought boards should seek stakeholder representation on their boards. A company may be grappling with critical CSR issues and could benefit from board expertise in such matters. Boards may benefit from having directors who can understand and represent stakeholder issues.

Specific comments include:

- In the same way boards look for representative and diverse skills, experience and business acumen, they should consider how to bring outside perspectives to the board. CSR should become a natural element of board composition as with technology, strategic know-how, industry understanding and financial skills. In recruiting board candidates, nomination committees should ensure there is a range of expertise and background around the table because boards deal with so many complex issues. Where there are issues important to the corporation it is important to have the relevant expertise. In forming a board, directors want to ensure they have people at the table who can speak to all aspects of growing the corporation on a sustainable basis. The board gene pool should be broadened to include people with relevant experience on how to make the transition to sustainability.

> "There shouldn't be a formal assignment of stakeholder seats, but boards should develop recruitment processes that broaden their blinkers on these issues."

- Diversity should be an established part of the corporate governance culture.
- Shareholder activists have found that board membership is extremely important for bringing broad views to the table. Diversity of people (including women, minorities, etc.) helps advance cultural diversity and bring different perspectives to the table than is typically represented at management levels.
- Over time board member literacy on CSR issues will increase through director and general education. Bringing someone from an NGO or other stakeholder perspective can help fill an important knowledge and awareness gap. With time CSR thinking will become integral and there won't be a need for targeted recruitment.

One view held that no director should be appointed for their CSR background per se, but that there should be a conscious effort to make sure there were disruptive influences on the board, which is to say people who approach business strategy in an "out-of-the-box" manner. A new generation of director recruitment agencies could help to identify board members who can create disruptive knowledge.

Some reservations were expressed that boards should not seek out special interest group representation, but that the focus should be on recruiting well-rounded board members with a wide range of skills sets who won't become isolated and ineffective over time because of their narrow focus.

There was a definite call for greater demographic diversity in terms of age, gender and ethnicity, with a particular focus on gender and the need for more female directors.

Stakeholders

For the most part interviewees were cautious about including stakeholder engagement within scope for boards of directors. They preferred that boards have a diverse, well-balanced board that would take stakeholder interests into account through their active deliberations, and that boards could seek out independent advice on stakeholder matters if necessary. Most agreed that the board should ensure management is competently engaging with stakeholders, but not that direct stakeholder engagement would happen at board level.

> "Boards need to ensure that their decisions reflect an understanding of stakeholder issues and that mechanisms are in place for understanding stakeholder concerns. A key role and ongoing board task is to ensure the company's culture and management have a positive disposition towards engagement. The board needs to ensure engagement is understood as more than one way dialogue and that people are doing it."

However, a core group of interviewees thought that boards should have a direct stakeholder engagement remit. Having some stakeholder interface was thought to be important for boards so they could have direct exposure to, and independent input on, critical stakeholder issues. From a director liability perspective it is critical that boards make informed decisions to the best of their knowledge. Some relationship with stakeholders was thought to be critical in that regard. Devices such as stakeholder panels, outside advisory groups, external review committees, and conference and event attendance are considered useful for gaining a better understanding of stakeholder priorities. A view was expressed that smart companies need to find a way to integrate stakeholder considerations into the business model and to that end, should find a way for board members to gain some direct understanding of stakeholder matters.

There was some mention that the key stakeholders were investors, communities and employees and these should be the focus of board stakeholder engagement.

One interviewee didn't believe that stakeholder engagement would be that effective without consideration of the board's social networks. Personal transformation is necessary to bring boards along a path of deep understanding of long term performance issues; otherwise stakeholder engagement would be as constructive as "going to the zoo".

Additional comments on CSR practices and tools included:

- Chair leadership on CSR is critical to moving forward on CSR.
- Internal control and audit should incorporate CSR considerations.
- Boards need to develop CSR metrics and indicators to measure and manage CSR performance.
- Boards should design and approve a CEO scorecard that includes growth and innovation in meeting the changing needs of society, while meeting a minimum level of return on capital.
- CEO recruitment should include a CSR dimension.
- CSR should be integral to board evaluations, particularly if the firm has a high brand profile or is exposed to significant reputational CSR risks.

A minority view was expressed that governance tools and practices are unnecessary. While they might win the company some awards and accolades, this will have minimal effect on the organization. There may be ample governance controls and procedures on CSR but what will matter in the end in terms of CSR performance is adherence by mid-level management. This view held that boards have limited effect on CSR performance; CSR commitments become lost 4 – 5 levels down in management where tight cost control discipline holds sway. Typically such managers are not measured on their CSR performance but on how they make money and control costs. No amount of CSR measures at the top will affect this dynamic as long as performance incentives reward cost containment.

An additional minority view was held that boards need to define the level of innovation, growth and complexity within which they operate and develop their CSR governance scheme depending on where they are on this continuum. For firms that only need to deal with compliance, such as with oil and gas trusts, their approach to CSR governance will be minimal, consisting of "check-the-box" approaches to CSR with a traditional business board. Companies which deal with greater complexities require a broader and more diverse board. Risk management at a global level, geo-political issues and being able to evaluate investment opportunities in terms of long term risks such as climate change and energy security – all of these things need to be understood by the board, involving a greater degree of CSR strategy and oversight.

3. Barriers to CSR Governance

CSR governance thought leaders identified a number of barriers to addressing CSR issues at the board level, as follows:

Lack of awareness of the business case and that CSR is part of fiduciary duty

One barrier is the narrow view of why companies exist and their obligations toward society. Classic Friedmanism holds sway: that the business of business is business and the maximization of shareholder value; consideration of other issues is a distraction at best or a cost at worst. There is a lack of awareness that CSR issues are becoming increasingly more important and a lack of understanding of how CSR affects business performance. Boards can fail to think in CSR terms because they lack awareness of the effect of social and environmental factors on their business; they don't see the link between CSR and profitability.

> "Skepticism is a barrier: how does this relate to my business? Education can overcome this barrier so boards can see the impact of sustainability on business performance."

> "The real barrier is the law. The way in which interpretation of fiduciary is constructed limits and constrains the board."

Key to overcoming this barrier is education. Director education program and director CSR credentialing (in which directors would have to satisfy certain educational requirements to maintain their board positions) were two suggestions in this regard. Further, conducting materiality checks on key CSR issues could help understand the impact of CSR on firm performance. To what degree do various CSR dimensions affect value creation, competitive advantage, business opportunities and risks, etc.? Efforts to really understand these issues will help unearth the business case for skeptical boards.

Conflict between short term and long term

Related to the matter of awareness and understanding of the business case is the inherent conflict between short and long term performance. A number of interviewees mentioned that there are often quite significant conflicts between CSR and short term shareholder value maximization. Often boards and CEOs are under huge pressure from shareholders to deliver shareholder value through cost cutting. Under these conditions it is very tempting to turn a blind eye to CSR or the full implications of their choices and to initiate courses of action that lead to irresponsibility. (The BP Texas oil refinery deadly explosion was cited often as an example of this in which while BP is perceived to have strong CSR values at the top, yet management level short term cost pressures resulted in serious safety violations.)

> "Institutional shareholders are a big barrier to board level CSR. There is a tendency for both mutual and pension funds to push for short as opposed to long term results. Institutional shareholders take a box-ticking approach to CSR in which they look at CSR primarily as a risk management exercise at best, satisfied when the most obvious risks are being looked after. This does not encourage long term thinking."

To overcome this hurdle boards will need to create longer term incentives for managers and to focus on creating long term value for shareholders. Boards should have discussions about the long term relationship between sustainability and long term value creation. Efforts to work with the investment industry to acknowledge the benefits of longer term performance will help in this regard. Specific measures would be to seek transparency in how institutional shareholders vote on shareholder resolutions and transparency on their "behind the scene" pressure they are bringing to bear on corporations. Such transparency would engender public debate on these issues, helping to advance sustainability progress overall.

Group think

A few interviewees commented on board anthropology which results in a strong tendency toward group behaviour. New board members typically spend some time assessing group norms and their compliance with or deviation from them. It takes unusually strong individuals not be intimidated by board norms and group think. A board culture that encourages questions on why certain behaviours are tolerated, why the board only discusses financial performance, and why management is incentivized on short term time horizons will be more open to considering CSR issues. However, it is hard for people to challenge old board patterns and to sacrifice the group's esprit de corps. In practice boards know where the CSR tensions exist but individuals find it difficult to talk about them for fear they will be perceived as troublemakers or challenging the chair unnecessarily. It is very difficult to have and maintain an independent point of view and yet that is what is required to advance on CSR matters. Weak or inexperienced lead independent directors unable to engage the chair become part of a vicious circle that can leave CSR matters at the mercy of personality cultures.

Overcoming group think is not always easy. Interviewees suggest director CSR education and individual initiative as important conditions to hurdle this obstacle. Nomination committees play a role, too, in terms of new director recruitment and director diversity. Board appointments of high quality people and the nurture and development of high quality board talent is critical. Lead independent directors are also very useful allies in these matters. It is not worth going down the road of creating more CSR controls and mechanisms, rather it is essential to create a culture of openness on these questions.

CSR as a separate concept

One view was expressed that treating CSR as a stand-alone issue is itself an obstacle to board consideration of social and environmental dimensions. There is danger in developing CSR as a separate discipline. Companies don't need "CSR" values; they need organizational values. Boards that treat CSR as a silo can fall victim to CSR departments and overlook key issues of value creation.

To overcome this tendency to treat CSR as a bolt on, boards need to define their role as being a steward of the organization and its long term survival. Boards that see their roles this way need their processes, habits and agendas to reflect this point of view. In these environments, board chairs will set agendas that priorize long term issues, in which, say, 40% of their time concentrates upon the drivers or threats of the company's future success. This could result in at minimum once a year sessions in which board meetings focus on how leadership and governance of the company follows its corporate values: "do we reward behaviours that nurture our values or are we talking one game and rewarding another?" In such an environment leadership and governance reviews are conducted on the degree to which the values are upheld. Stakeholder relationships are considered and board level indicators are developed to assess progress in supply chain relationships, customers, community relationships, etc. In this fashion, CSR becomes a formal part of board processes and procedures and sufficient time is allocated to these matters.

"Look at the board's agenda to determine its priorities."

Leadership gap

A few thought leaders commented that a lack of leadership from the Chair on these issues can be a barrier as can a general board culture that limits challenge and debate. Chairs play an important role in setting board tone and need to encourage a culture of dialogue and discussion rather than box-ticking governance programs. In many respects, thought leaders commented, these are issues of general corporate governance, not limited to CSR per se.

Some interviewees commented that a key hurdle was management, particularly CEOs, who don't wish their board to play strong roles. Advisors brought to the board table in these instances can be very conservative, with a legalistic and limited view of CSR.

To overcome this leadership challenge thought leaders recommended that the CSR business case be developed on the materiality of social and environmental considerations to shareholder value.

Time constraints

Another constraint identified by thought leaders is the lack of time available to boards to dig deeply into these issues. Boards spend about 70 – 80% of their time looking at current compliance or in the mirror in terms of the audit. This doesn't leave much time for forward looking activity related to people issues and strategy where CSR plays a key role.

To overcome this challenge, it was recommended to keep corporate strategy at the top of the board agenda.

Busy directors

In some instances, it was commented, busy directors can be a barrier. Many non-executive directors have a number of directorships and are not able to invest enough time in their work, in adequately understanding the business. They tend to be far more risk adverse, unwilling to challenge management.

To overcome this issue, it was suggested that there should be limits on the number of boards directors can be on, as well as greater clarification on the inter-relationships board members have with other boards. Greater diversity can improve this situation.

"Boards have great difficulty creating corporate strategy. The problem could be here. They may not know what affects the long term and this could be the barrier."

Lack of knowledge/ culture gap

For some boards CSR has an overzealous element to it that can marginalize it from the mainstream, polarizing and politicizing social and environmental issues relevant to firm performance. Often it can be an awareness issue – there is great disparity in people's interpretations of what CSR means to a company. Indeed, boards are not historically trained, oriented and thus attentive to CSR issues. There is a language barrier operating in some instances while in others there are assumptions at play where CSR is seen as a waste of time or source of costs. Some of the lack of CSR activity may stem from a simple lack of awareness of the issues. When people don't understand issues they don't contemplate them.

One thought leader commented that most companies operate within a global supply chain and network, the impact of which is little understood by most companies and therefore not reflected in their governance model. Boards need an open-minded perspective which looks at these issues with a fresh mind without the baggage of a traditional governance structure. Now that corporations are connected to emerging economies, CSR issues are becoming more material to long-term performance; existing structures do not provide for this.

Thought leaders agree that **to overcome** this barrier it is important to quantify the business case and communicate the business opportunity: what does CSR mean and how can it impact your business? Risk management and financial performance can be used to talk about CSR issues. The issues need to be defined in a language familiar to the board: if risk management resonates with the board, then CSR could be linked to risk management. Boards need clarification of the CSR framework and identification of the key issues. Conferences, CSR governance tools and director college training would help hurdles these challenges. Boards could educate their shareholders on this approach, deliberately targeting their analysts to inform them they perceive CSR as a competitive advantage.

Greater diversity on the board can also free up discussion on CSR issues. Board members with different core competencies can help open the debate and discussion.

A perhaps cynical view was offered that boards should consider the trend towards more lawsuits in this area and the likelihood that in future more and more companies will be faced with legal challenges on environmental and social issues, such as discrimination.

Interviewees offered some general suggestions for greater board consideration of CSR issues, including:

- Build CSR in as a standing item for board committees; build it systematically into committee work and board agendas
- Work towards greater board diversity to overcome entrenched approaches
- Separate role of Chair and CEO where this exists or designate an independent director as CSR lead

In short, a number of barriers confront boards or individual directors who may wish to more fulsomely take CSR considerations into account in their deliberations. According to thought leaders, the most commonly mentioned constraints can be summed up under: 1) business case issues; 3) lack of a long term orientation; and 2) culture and knowledge gap.

According to thought leaders' views on trends and future best practice in board CSR performance, these barriers will be largely hurdled in the years ahead, as enumerated below.

4. Trends, Future Best Practice and Drivers

Directors were asked their views on 10 year trends in CSR governance, best practice a decade from now and drivers of these trends.

Trends

> "In 10 years time there will be an explicit financial premium to performance in this area and it will find its way to the board table. Even if it is small it will be significant and will translate into board structures. I have no doubt about this."

1. CSR Governance Goes Mainstream

Most thought leaders believe that CSR governance will become mainstream over the decade. There will be universal adoption of CSR bolt-ons, like CSR reports, CSR committees and CSR policies. According to one commentator, the UK is at the point where 20% of the top 100 companies currently have board committees looking at these issues and another 10 – 15% have a regular board agenda item considering CSR; another 30 – 40% will have ad hoc conversations at least on an annual basis. Over the next 10 years this is expected to become universal.

> "There will be incremental if not step-change improvement in all the CSR practices of the board."

It was commented that quite likely these issues will not be flagged as CSR, but as simply business issues, such that in 10 years time they will become more integrated into traditional business operations. The common sentiment is that these changes will be evolutionary and gradual, reflecting a growing consciousness that boards need to take non-financial considerations into account.

> "My gut feel is that we will see a steady progression towards this integrative thinking, at least in the industrialized world, because there is growing awareness and concern about issues related to CSR."

Some felt that while progress would be steady, it would be slow, perhaps becoming special interest oriented, as with climate change.

2. Slow progression into strategy and performance management systems

A few noted specifically that there will be slow progression of CSR into board strategic planning and executive performance management systems. It was thought this progression would be slower because such integration forces boards to deal with difficult conflicts which many are not prepared to deal with. It will be harder for boards to deal with incentive problems and incentive alignment.

3. CSR Reporting

Non-financial disclosure is expected to become more robust over this period, with more boards becoming engaged in the CSR reporting process. Boards will be reporting increasingly on CSR performance and there will be greater disclosure of social and environmental practices overall. Some thought leaders expect that there will be mandatory independent triple bottom line reporting within this period.

4. Board CSR Committees

Thought leaders believe that more boards will establish CSR committees in the early days to facilitate greater focus on CSR and understand it better. There is a view that once an integrated approach has been achieved, CSR will become integrated with other committees, such as governance or risk management. After this period of experimenting with CSR committees, one view goes, there won't be separate committees in a decade: different issues stemming from CSR are allocated to existing committees whether governance, risk management, public affairs, etc.

5. CEO compensation

A few thought leaders commented specifically that CSR is likely to be increasingly reflected in CEO compensation, though no dramatic shifts are expected on this front over the decade.

6. Risk Management

Ten years out directors will have a better sense of CSR oriented risks and opportunities and will be working to minimize the former and maximize the latter.

7. Diversity

Increasingly boards of directors will become more diverse. People with hybrid backgrounds – such as those with both NGO and business experience – are expected to be valuable directors, more valuable than those with a single-minded focus.

"I think when you walk into a board room in the future you will notice a greater diversity."

8. Role of Emerging Economies

A few thought leaders commented on the upcoming influence emerging economy governance will have on practice in this area. There is a view that new creative thinking will increasingly come from the south and imaginative developments and partnerships where so many CSR issues are being faced. Future solutions may well come out of these contexts and not from Europe and the northern hemisphere.

Minority views

A small number of interviewees were less certain CSR governance would become mainstream any time soon, as noted in the strong comments expressed in the text box below. Further, as expressed by a few, some industries may move on these issues, while others may not. For companies whose footprint on society is most complex, such as oil and gas, chemicals and mining, they will find themselves, whether willingly or unwillingly, embedding CSR in governance. Heavy footprint sectors, according to this view, are likelier to be comprehensively integrating CSR into their governance structure, more so than others.

"I haven't seen any move on the part of boards to become truly independent of management. This is a very hidebound road to change, founded and rested on a great deal of privilege and tradition that incumbents are unlikely to change without outside pressure. I am not that optimistic."

Best Practice:

Asked to comment about what they thought would be best practice in CSR governance a decade from now, thought leaders rallied around the ideas generated earlier in regard to the tools and practices available to boards to advance sustainability.

Embedment

At a general level a number of respondents predict that over the coming decade we will see CSR being taken into account in the governance process and that CSR as known today will dissolve. There will be no separating CSR from governance; it will be part and parcel of board duty to look at long term resource constraints and other risks and factor these considerations into corporate strategy and oversight.

Indeed, many thought leaders believe the real question centers around how CSR becomes part of a board's approach to good governance. In such a model, there won't be a distinct CSR group, director, committee, remuneration bonus, or stand-alone CSR report. This would be the ultimate approach to best practice CSR governance and good corporate governance overall.

"CSR as we know it today will dissolve, not in terms of disappearing, but it will be infused and embedded in corporate governance and all its aspects."

Corporate Charter

One over-riding best practice identified was that at the highest levels, CSR – expressed as universal principles – will be incorporated in the corporate charter, at the constitutional level. This will be the foundational framework from which CSR governance will flow.

CEO Compensation

This was one of the more commonly identified elements predicted to be best practice a decade from now. Best practice boards of the future are expected to be integrating CSR into their performance management systems. Executive compensation will be tied to environmental goals and social objectives.

Structured Time for CSR; CSR Committee

Best practice boards in the future will have built-in opportunities to discuss CSR whether on the main agenda or, likely, a separate board committee that can take time to delve into the issues.

CSR in Strategy and Decision-making

A number of thought leaders commented that CSR will become embedded in corporate strategy in the future best practice board. All corporate decisions will consider social and environmental perspectives and more and more business models will become more synergistic with the eco-system.

"CSR governance will not be a box-ticking process. What was best practice yesterday will be routine tomorrow – the practice is evolving."

CSR in Risk Management

Some thought leaders believe that in 10 years time boards will recognize CSR as a financial risk that needs to be taken into account. However, it was argued that while the vast majority of companies will be aware of CSR as a risk management issue, it will be managed as an overall part of their normal business, i.e. embedded. It will be an integral part of successful corporate governance and management.

The following best practices were also mentioned:

- **CSR policies** and CSR embedment in codes of practice
- **CSR reporting** on social and environmental performance against goals and targets
- **Audit** consideration of CSR practices and performance and oversight of internal control systems to monitor conformance with CSR policies
- **Capital investments** over a certain amount will be partly determined by the social and environmental effects of a particular capital investment
- **Director CSR training and accreditation:** There will be some form of accreditation on the board's social and environmental approach

Stakeholder Engagement

Finally, a number of thought leaders commented on stakeholder engagement as a future board practice. While currently best practice in stakeholder relations involves a two-way dialogue between stakeholders and a company, in future some predict an evolution towards stakeholder governance, beyond stakeholder management and engagement. This could include stakeholder board members, stakeholder advisory panels to the board, or some other approach. Those who predict this best practice trend believe boards will be driven by their need to gain outside views and will be setting up mechanisms by which stakeholders have access to the board.

> "For a North American company to set up its own stakeholder platform would be very progressive. However, looking ahead I can see that happening."

Drivers of CSR Governance:

Chief of all the drivers of CSR governance mentioned independently by thought leaders is that of investors, particularly institutional investors.

1. Investors

Thought leaders perceive movement in the mainstream institutional shareholder community towards asking companies for greater consideration of social and environmental concerns. Specifically, institutional investment drivers mentioned by respondents include: the development of the UN Principles for Responsible Investment (in which signatory companies sign on to embed environmental, social and governance (ESG) aspects in their assessment of companies and to engage actively with companies on these matters); shareholder resolutions; the socially responsible investment community; long-term institutional investors; and requests for greater corporate disclosure of ESG factors. As one thought leader put it: "Having investors feeling happy about you doesn't help raise stock price, but if they are in a 'pissy mood', the ones they are going to short the most are the ones they like the least."

One interviewee held very strong views on this, from his perspective that several long term investors are collaborating on an effort to drive corporate social and environmental performance at the industry sector level. He perceives it as a significant initiative, in which investors will soon begin to pay a premium for responsibility and engagement on these issues, thus becoming a significant driver for performance in this area. There is an awakening amongst institutional investors that responsibility and engagement are necessary conditions for market leadership.

"Board directors accept they are there to serve the interests of shareholders."

"Increasingly public pension funds and big institutional public investors, because they represent stakeholder groups, will tell boards they haven't done their jobs effectively unless they define CSR metrics and CSR accountability of the CEO."

Institutional investors will thus be driving a more serious consideration of CSR issues by board directors. The financial sector generally is perceived as becoming increasingly sensitive to these issues, including insurance companies and commercial banks, and will be playing a role alongside institutional investors in driving these trends.

Additional financial drivers of the trend toward greater convergence of CSR and governance include:

- **Director liability:** Directors are becoming increasingly anxious and increasingly liable for performance of a company over issues they never dreamed about a few years ago.
- **Financial and reputation risk.**
- **Financial institution requirements (Basel 2)** will require banks to have a better understanding of how risks are affecting their outstanding credits.
- **Rating systems:** Rating agencies, such as FTSE 4Good, DJSI, etc., are already driving CSR performance. It is predicted that in the near term future they will have developed standards for CSR governance against which they will be evaluating company boards.
- **Regulation:** Boards have to prepare for future regulation.
- **Employee attraction and retention:** Boards are coming to understand that the future of attracting and retaining people will depend on CSR alignment.

One cautionary note was expressed which pointed to countervailing financial trends on the part of hedge and private equity funds pushing for short term performance. For the foreseeable future, this may continue to drive performance trends in the other direction.

2. Structural Conditions

Thought leaders pointed to a number of structural conditions that will affect CSR governance over the coming decade, including:

- Climate change
- Water scarcity
- Impact of globalization resulting in a focus on labour issues
- Education and generational change: those graduating from high school today will bring a different perspective on these matters
- New world consumers (e.g. China) will drive a concern for social and environmental issues that flow from their increased consuming power

There will be increasing scientific research and awareness into climate change, human capital and social unrest and how this will affect the firm's value proposition.

3. Stakeholder Pressures

Next to financial and investor pressures for CSR governance, thought leaders named a number of additional stakeholder pressures that will influence the role of boards in CSR in the years ahead, including:

- **Consumer and public expectations:** Consumers and the general public will want corporations to be more responsible.
- **Civil society:** Civil society is forcing business to internalize costs previously externalized, such that even traditional boards will be pushed into taking these issues into account.
- **Alliances:** Coordinated efforts between international activist NGOs, unions and their pension funds, and other progressive forces within the financial sector are predicted to have an impact on CSR governance.
- **Social license to operate:** Most publicly traded corporations need a social license to operate to avoid regulatory trouble and make it easier to recruit the best people. Having a social good will is helpful for stock price and company boards will come around to understanding this.
- **Media driving accountability:** Over the coming period the media will be driving questions of transparency and disclosure. As companies become more global, robust and successful, in stark contrast with a growing domestic and global poverty gap, questions will come from the press, the media and civil society in general on accountabilities of the private sector to address these issues and improve their performance in this area.

4. International and Industry Standards

It was also commented that the development of international standards for CSR – e.g. the ISO 26000 – will result in slow progression of community leadership and board governance of these issues. The Global Reporting Initiative (GRI), which is setting the international benchmark for sustainability reporting, is expected to be driving CSR governance as it moves in on CSR governance standards. Industry groups, too, will drive KPI (key performance indicator) development for sustainability performance and this is expected to have an influence on board level interest and oversight of CSR.

5. CSR Reporting

A few thought leaders commented that CSR reporting, particularly as it relates to reporting on corporate governance practices, will be a driver of CSR governance. More disclosure on board level approaches to CSR will advance performance in this area.

6. Sector Specific Issues

It was also predicted that sector specific issues will drive greater board oversight of CSR going forward. The extraction sector was identified as particularly having CSR related challenges which will not be confronted by all corporates. Bribery and corruption and human rights were named as issues that will be on some board agendas but not all.

7. Director Trends

Many thought leaders pointed to director trends that will themselves drive CSR governance. For example, it was perceived that directors are becoming more engaged in strategy development and this is likely to be an influence. Additionally over the next period more directors will become trained on CSR matters and this will raise their awareness of, and interest in, these issues.

Increasing director diversity is expected to play a considerable influence as well. Over the next 10 years more women are predicted to become board directors, though this is not expected to be the case for ethnic diversity. Younger directors will themselves have an impact. In Canada 50% of 1,800 TSX listed directors are expected to retire over the next five years, resulting in significant board turn-over and the rise of a new generation of directors, many of whom will have gone through formal director education which will cover off CSR matters.

8. Regulation

It is predicted that regulation will be a driver of CSR governance as governments require firms to internalize environmental costs into their operations.

9. Stumbles

It was also thought that some companies will find themselves on a CSR governance path as a result of a stumble in the social arena, such that these boards will recognize it is strategic to become organized on this front.

Minority View

A handful of thought leaders believe that CSR governance has reached a plateau and that it will not evolve much over the decade. It was felt that a regulatory framework obliging boards to take social and environmental issues into account would be necessary to fully compel CSR governance forward. Without legal compliance, it will be business as usual.

5. Top CSR Issues

A core group of thought leaders, when asked what they thought might be some key CSR issues for boards over the coming period, deferred. Their view is that CSR issues are primarily sector, and secondarily company, specific. However, it was commented that structurally the environment is going to be a more important issue over the decade ahead compared to the past.

In terms of sector issues, one thought leader ventured the following:

CSR issues in the ICT sector include knowledge and property rights and the implications of the knowledge economy on human rights; in the financial sector the CSR issue would be determining the boundaries of their responsibility; for car manufacturers – climate change and energy; and for agriculture, access to land and water and the degree to which food will be competing with energy for a land base in the future (for the production of bio-fuels).

Other CSR issues that will be on the radar of company boards over the decade, identified by the thought leaders include:

Long term view

Boards will be looking beyond the immediate short term, quarterly results and will be lining up long term thinking with the interests of their institutional investors.

Nation building and nationalism

A few thought leaders commented that boards of international companies will be taking nation building into consideration, investigating their role and responsibility in helping countries in emerging and poor economies to function more predictably in ways that apply the rule of law in decision-making, and that reduces corruption overall. Companies seek the predictability and stability that come from regular application of the rule of law; they have a vested interest in avoiding failed states and working in predictable operating environments.

Related to this issue, but seen from a different lens, will be how the national loyalty of global corporations evolves over time. For example, to what degree does a Canadian firm, with significant global operations, identify with its country of origin?

It was commented that the transition from national to global operations is little understood by corporations, and has not been translated into their governance, corporate culture and public policy efforts regarding interventions to affect rule making in different markets.

Internal issues

A number of interviewees spoke to key internal, operating issues likely to be on board agendas going forward:

- Values framework
- Board diversity
- Business ethics
- Executive compensation
- Staff retention, pay structures and incentivization
- Workplace discrimination
- Workforce training as a competitiveness issue
- Human capital investment
- Labour issues due to anticipated labour shortages; future skill base; skill shortages in emerging markets
- Workforce diversity and harnessing it for value-added
- Hiring practices of the disadvantaged, disabled, aged
- Aging demographics and the impact on the business model
- Living wage policies and the ability to provide a living wage to employees

Environmental issues

The interviewees had much to say about environmental issues being important for board consideration going forward, particularly climate change which was top on everyone's mind.

A number of them spoke to general environmental issues particularly for those industries that involve direct impact on the planet's resource base and ecosystems. Additionally it was predicted that in 10 years time, there is likelier to be a higher level approach to environmental considerations, where companies find ways to carry on business more in harmony with natural systems, where environmental factors are designed in from the start.

Climate change and energy trumped all issues, not surprisingly. Thought leaders pointed to not only the myriad business risks, particularly for some industries, but also to the opportunities for the first movers who find ways to reduce carbon in their business model. Renewable energy, energy efficiency, new energy technology and energy security are expected to be on board agendas over the coming period. Virtually all aspects of value creation are expected to be affected by climate change – a radical inescapable discontinuity lies ahead that will have implications for business strategy and models.

"Every board should think of climate change – period. End of report."

Other environmental issues that were deemed in scope for director consideration include:

- Water, drinkable water
- Toxins
- Product stewardship and producer responsibility
- Land use
- Carrying capacity of the earth

Social issues

The social issues raised by thought leaders were more diverse than the environmental issues, however, equal attention was focused here overall. Chief among the social issues raised by thought leaders is the whole matter of poverty and poverty alleviation, much of it over the disconnect the public is expected to perceive over rising corporate profits juxtaposed over intractable poverty in many world regions. This overarching trend is expected be socially unpalatable thereby driving board attention to these issues. The gap between rich and poor and closing the inequality gap were other ways the thought leaders expressed this issue.

"Boards will come to realize the big divide between the rich and poor will affect the firm's long term economic prospects."

Additional social issues raised by the thought leaders as likely to be on board agendas include:

- Health care generally and infectious diseases such as HIV AIDS, malaria, and TB specifically
- Human rights
- Political influence – boards should be looking at their political contributions and influence and the general use of their political capital; it is on the shareholder advocacy radar
- Community relations, including sharing community benefits and how the company's assets can support the community
- Privacy, including the conflict between privacy and security
- Obesity
- Advertising responsibility
- Customer relations
- Safety
- Base of the pyramid opportunities (i.e. business opportunities to develop low income domestic or global markets)

"We are moving to a more traveling, connecting, intercommunicating world with all sorts of massive potential for infectious diseases and viruses and things – massive migration, drugs and public health – all these factors will make it tough for a company to navigate the marketplace – boards will need directors that understand these issues."

Much as thought leaders commented upon product stewardship from an environmental perspective, it was also suggested that there will be socially oriented product stewardship issues for boards to tackle, such as local sourcing, fair trade, ethical issues in the supply chain, etc.

Finally, a much commented area includes corruption, ethics, bribery and terrorism in emerging markets.

Many thought leaders were of the sentiment that boards will come to look at these issues in new ways, finding business routes to discover new forms to create value, through innovative alliances and partnerships with stakeholders to deliver services to consumers in targeted markets.

6. CSR Governance Leadership

Leading Companies:

Thought leaders were asked to identify leading companies that they believe exemplified best practice in CSR governance. For the most part they found this exercise difficult as it required an insider's view which they didn't have. However, Nike warranted a number of mentions, and was the only company that stood out in this list as ranking more than 2 or 3 times.

Of significance, however, thought leaders were asked to comment upon their rationale for identifying one or another company as a best practice leader in CSR Governance. They identified the following:

- Stakeholder orientation:
  - They have a stakeholder model at the board
  - They embed stakeholder interests in their governance structure whether through advisory panels or board composition
  - They understand that to be prosperous in the future they have to be attentive to a whole range of interests, not just shareholders – employees, environment, human rights, future generations
  - They get the notion of stakeholder governance
  - They are employee owned companies so they are naturally moving on this pathway
  - They are consumer focused, concerned about the individual on the street
- Directors:
  - They recruit board members to be independent
  - They build board competencies in CSR
- Accountability and transparency:
  - Candid disclosure of their social and environmental performance

- Compensation:
  - Their CEO scorecard includes a 20% kicker on environmental issues
  - The CEO is paid on management's ability to innovate on renewable energy and energy efficiency
- Strategy:
  - The board considers CSR from a strategic point of view
- Systems:
  - They have board systems in place to monitor progress toward CSR goals
- Values:
  - They have a tone at the top
- Leadership:
  - Signed up to the Global Compact and other broader agreements

Leading Regions:

Thought leaders were asked to identify particular regions in the world where they observed best practice in CSR governance. Europe was recommended most often, and within that the Scandinavian countries, UK, Germany and France.

> "Europeans are way ahead."

Reasons for this varied, but included prevalence of collaborative forms of governance, regulated environments that provide for stable and constructive relationships between stakeholders, incorporation of CSR dimensions into corporate governance codes of practice, smaller wage gap between highest and lowest page, greater gender diversity, etc. It was noted that in the UK, for example, there is an active NGO sector that seeks out business engagement and this is having an effect, not to mention a government administration that is supporting these developments.

Other regions that received honourable mentions include the following:

Brazil
Brazil was identified by a number of thought leaders as a potential leader in this area, with a very active governance community, a stock exchange that rewards high performing governance companies including a sustainability rating index, and a strong stakeholder movement. There is a strong ethic among Brazilian companies to consider the issues of the underprivileged.

India
Some Indian firms have good examples of values-led governance.

> "We think that significant innovation and constructive destruction will happen in emerging economies. Because of their quest for new markets, multinationals will be advised to observe what is happening there."

South Africa

The South African King Code has introduced social responsibility matters into governance as one of the five components of the governance framework. The focus on black economic empowerment is affecting governance innovation, resulting in greater recruitment of black board members in South Africa.

Leading Sectors:

When asked whether there were any leading industry sectors, a number of thought leaders commented generally that there are no leading sectors, but a range of performance within a sector, with leading and lagging companies.

Some commented overall that regulated sectors or sectors with serious reputational risks are likely to have best practice in this area. Sectors that need a social license to operate can typically lead on CSR generally and CSR governance by extension, for example, retailers, real estate development, extractive industries, etc.

> "More innovation happens in sectors under pressure, e.g. mining, energy, pharmaceuticals, banking, textiles. You will find the most innovation within sectors under pressure."

Other comments include leadership within the apparel industry, where disclosure is becoming more common; consumer-interfacing sectors and chemical products.

Generally it was felt that boards of such companies are dealing with CSR more strategically than other sectors that might think of CSR as simple PR.

Affect on Firm Performance

Thought leaders were asked their views of how CSR governance might affect firm performance. Many respondents tied their response to this question to their view of CSR generally, which is that companies managed well from a CSR perspective are likely to benefit from improved shareholder value.

Indeed, views were very positive overall on the benefit of effective CSR governance on shareholder value. Thought leaders readily agreed that a focus on procedural issues, however, will not be helpful in identifying potential opportunities, threats or risks. Those companies that stop at risk management and legal compliance and do not think of the innovation and opportunity side of CSR are less likely to generate positive long term value.

> "I think CSR governance will make companies much better at managing shocks and realizing shifts in the marketplace – both in a negative and a positive sense, as their social and environmental priorities begin to overlap with their business priorities."

Some specific benefits of effective CSR governance:

- **Stakeholder Views:** When boards bring voices of stakeholders into the governance structure, they are exposed to new ideas and made to consider information that would otherwise not reach them. This forces boards to have broader conversations around these areas with positive implications on strategy and returns.
- **Broader interpretation of fiduciary duty:** The bulk of board work is concerned with financial reporting, auditing and compensation – a very narrow interpretation of fiduciary duty. CSR governance expands the mind and vision of board members which can only be beneficial to the company in the long term.
- **Risk and opportunity management:** Common sense would tell boards that looking carefully at risks and avoiding them and looking carefully at opportunities and capturing them would advance returns. Firms with effective CSR governance will perform better because they anticipate issues earlier and embed them into their plans, thus making their business models and strategies more robust with higher levels of innovation.
- **Competitive advantage:** For boards looking to differentiate their firms from their competitors and establish themselves in the marketplace, CSR can help establish competitive advantage. Company boards that are following CSR related issues and monitoring their external environment properly should be able to capitalize on opportunities; attract, motivate and retain talent; develop new products or technologies to generate cost savings; or establish new markets. There is a significant opportunity for creating out-performance with attention to CSR and CSR governance. One area for potential competitive advantage for CSR oriented firms and boards is that those firms monitoring and managing performance in this area will benefit from robust performance databases that will position them to determine competitive advantages from strategic CSR investments, more so than their less CSR oriented counterparts.
- **Long term orientation:** There is a basic congruence between behaving responsibly and long term corporate success. If the board fails to govern the company in a way that is congruent with CSR the company will fail sooner or later – eventually it will be tripped up by CSR. It is hard to think how a culture could be productive if there isn't basic CSR set by boards at the top. Baseline CSR performance is essential to deliver success in the long term.

> "If CSR governance is more than baroque architecture, then it is likelier to have a positive affect on long term shareholder value."

A further claim was made that while there will be a positive correlation between CSR governance and shareholder value, shareholders are unlikely to be rewarding companies who are "good" in this area, but rather penalizing companies that have bad CSR performance.

A few of the thought leaders had still more muted opinions:

- CSR and CSR governance could be necessary for good performance but not sufficient; there is no automatic dividend for employing good CSR. A company

that performs well on CSR terms might have technological weaknesses, poor cost structures or strategies, for which no amount of CSR can compensate.
- Strong CSR governance won't guarantee profitability, but can help ensure the company finds a way to stay in business over the long term; companies that don't have a sustainable business model won't survive over the long term.
- CSR and CSR governance is a prerequisite for corporate success, but not a genuine source of competitive advantage.
- CSR governance doesn't necessarily affect corporate performance, but it is a way to reinforce mutual confidence between key parties, reduce transaction costs between those parties including management, workers and shareholders, and ultimately advance the trust of citizens and working families in the wealth creating mission of private corporations.

Conclusion

CSR governance will become a mainstream board practice over the coming decade, according to the thought leaders interviewed for this study, with investors and other stakeholders driving this trend. It is important for chairs and CEOs to set the tone at the top and for directors to be educated on emerging CSR issues to broaden their perspective. Understanding the business case for CSR is key. CSR needs to be incorporated into the firm's business strategy and into the CEO's compensation program in order to realize the full benefits of CSR to firm performance. Boards that adopt a long term view which takes social and environmental factors into account are likelier to perceive the range of opportunities and risks that can reward or deplete sustainable value creation.

APPENDIX A

Subject Matter Experts

NAME	TITLE	ORGANIZATION	COUNTRY
Phillip Armstrong	Head	Global Corporate Governance Forum, World Bank	United States
David Beatty	Chief Executive Officer	Canadian Coalition for Good Governance	Canada
Gary Brouse	Director, Corporate Governance	Interfaith Centre for Corporate Responsibility	United States
Valerie Chort	Partner	Deloitte & Touche Canada	Canada
Sean de Cleene	Director of Strategy	African Institute for Corporate Citizenship	United Kingdom
Mark van Clieaf	Managing Director	MVC Associates International	United States
George Dallas	Managing Director and Global Practice Leader	Standard & Poor's	United States
Bill Dimma	Director	Home Capital Group Inc.	Canada
Tim Gardener	Global Head	Mercer Investment Consulting	United Kingdom
Sean Gilbert	Director	Global Reporting Initiative	United States
Julie Fox Gorte (Dr.)	VP and Chief Social Investment Strategist	Calvert Group	United States
Mark Goyder	Director	Tomorrow's Company	United Kingdom
Pierre Habbard	Senior Policy Advisor	TUAC	France
Jayn Harding	Head of CSR	FTSE4 Good	United Kingdom
Dr. Andrew Kakabadse	Professor, International Management Development	Cranfield School of Management	United Kingdom
Georg Kell	Director General	United Nations Global Compact	United States
Anne Kelly	Director, Governance Programs	Ceres	United States
Mervyn E. King	Senior Counsel	Supreme Court of South Africa	South Africa
Mindy Lubber	Chief Executive Officer	Ceres	United States
Dr. Craig McKenzie	Professor	University of Glasgow	United Kingdom
David Stewart-Patterson	Executive Vice-President	Canadian Council of Chief Executives	Canada
Doug Pearce	Chief Executive Officer	British Columbia Investment	Canada

	Chair	Management Corporation Canadian Coalition for Good Governance	
Nick Robins	Head of SRI Funds	Henderson Global Investors	United Kingdom
Marion Swoboda	Senior Equity Analyst	Sustainable Asset Management	Switzerland
Beverly Topping	Chief Executive Officer	Institute of Corporate Directors	Canada
Allen White	Senior Advisor	Business for Social Responsibility	United States
Simon Zadek	Chief Executive Officer	AccountAbility	United Kingdom
Peter Zollinger	Director	SustainAbility	United Kingdom

APPENDIX B

The Role of the Board of Directors in Corporate Social Responsibility

Interview Guide for Subject-Matter Experts

Context:

The Conference Board of Canada and Strandberg Consulting are conducting a study on the role of the Board of Directors in corporate social responsibility. The goal of the study is to identify current approaches and trends in the emerging practice of CSR Governance in order to develop a benchmark and framework for CSR Governance in Canada and globally.

We invite your participation in this thought leader study. You have been identified as a subject-matter expert on the role of the board of directors in CSR by your peers. We are wishing to study current best practice and trends in CSR governance. In addition to thought leader interviews we will be interviewing Canadian and international company directors for their insights on trends and best practices. As well, we are conducting a literature review of the subject and studying Board CSR Committee mandates to better understand developments in this field. Study findings will be presented in the Conference Board of Canada's 2nd National CSR Report and circulated broadly to Governance and CSR communities. Study participants will receive copies of the report.

We would like to schedule an occasion to speak with you. Interviews are expected to last no more than one hour, will be conducted by telephone, and will follow the questions as outlined below.

Interview Questions:

1. *Role of the Board in CSR*

- What is the ideal role of the board in CSR?
- Why?

2. *CSR Practices and Tools:*

- What tools and practices could boards use to integrate CSR into their operations, e.g.:

    - Board CSR committee
    - Integration of CSR into strategy development, risk management, etc.
    - CSR performance tracking, monitoring and reporting
    - Engagement with stakeholders
    - CSR reward systems (board and management)
    - Director recruitment; composition of the board
    - CSR training for directors

- CSR board evaluation
- Etc.

3. *Barriers to CSR Governance*

- What are barriers to addressing CSR issues at board level?
- How to overcome them?

4. Trends and Future Best Practice

- What are the 10-year trends in the convergence between CSR and Governance?
- What will be best practice CSR Governance in 10 years?
- What are the drivers for these trends?

5. *Top CSR Issues for Boards of Directors*

- What are the top CSR issues that Boards of Directors should address, today and in the future, e.g. climate change?
- Why?

6. *CSR Governance Leadership*

- Who are the leading companies with best practice CSR Governance frameworks? Why?
- Which are the leading industry sectors? Why?
- Which are the leading regions? Why?

7. *Affect of CSR Governance on Performance*

- How will effective CSR Governance affect the social, environmental and financial performance of firms?

Thank you for participating in this study.
Your perspectives are greatly appreciated!