

## BOARD GAMES 2008

## CORPORATE SOCIAL RESPONSIBILITY

Corporate boards that once confined their discussions to operational and financial issues are now facing pressure from all sides to embrace social responsibility as a core strategy. Sounds great... but define it, quantify it? There's the challenge

## The double-edged sword of corporate altruism



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The road to becoming a good corporate citizen can be perilous, especially when it is lined with employees and customers waiting to point out a company's inconsistencies.

Just ask Galen G. Weston, executive chairman of Loblaw Cos. Ltd., a grocery retailer intent on polishing its social credentials with environmentally friendly products, enlightened employment practices and local purchasing.

"We are far from perfect and people can poke holes in just about everything that goes on in our business," he said at a recent conference. "I can't count the number of times colleagues and customers have challenged what they perceive to be hypocrisy: 'How can you say you are green if you still sell bottled water; how can you say you care about [employees] if you still pay a minimum wage; and how can you say you believe in local [food supply] if you still buy lettuce from Mexico?'"

Still, Mr. Weston insisted, every company that wants to succeed must embrace social responsibility as part of its core business strategy, and not just make it an "altruistic add-on."

Indeed, corporate social responsibility (CSR) has become a central issue for corporate boards that once confined their discussions to operational and financial issues that are easier not only to define but also to measure.

Tough to pin down or not, CSR issues must be dealt with seriously at the board level as a basic element of risk management, says Anne McLellan, a lawyer with Bennett Jones LLP and former politician who served as deputy prime minister under Paul Martin.

As a corporate director at companies including Nexen Inc., Agrium Inc. and uranium miner Cameco Corp., she's aware of the CSR challenges facing companies whose oper-



Laurel Broten, Ontario Environment Minister, left, and Galen G. Weston, Loblaw executive chairman, fill a reusable bag. OVERSLOW COS. LTD.

ations have significant environmental impacts. What it can come down to is justifying their very existence.

"The most important licence is the social licence to do business," Ms. McLellan says.

Boards must set the tone by clarifying their company's approach toward such diverse issues as climate change, habitat disruption, aboriginal communities and pollution, Ms. McLellan said.

The problem, says Peggy Cunningham, a Queen's University professor who specializes in corporate social responsibility issues, is that CSR is such a broad concept that it can take in an enormous range of activities. This makes it hard to pin down, and harder yet to measure.

For her part, Prof. Cunningham pins down a definition of CSR like this: "A thoughtful sense of responsibility for the impacts a particular business has, and a willingness to

change operations in response to those impacts."

Managers and boards must set policy in this area, she said.

"If they don't set the standards and give it voice and prominence, then CSR becomes something that is regarded by employees and customers as window-dressing."

Employees in particular, can see through insincere CSR policies instantly, she said. "It's got to be ingrained in what the board thinks about. Everybody in the C-suite has got to really believe in this and follow it."

A key part of implementing CSR is to set measurable goals and report on the results, said Loblaw's Mr. Weston. In April his company issued its first comprehensive CSR report, where it outlined progress and set specific targets, such as diverting one billion plastic bags from landfills by 2009.

Loblaw is not alone in blowing its CSR horn in a written

report. According to a recent worldwide survey from consultants KPMG, about 60 per cent of Canada's 100 largest companies now prepare CSR reports, up from 41 per cent in 2005. Still, Canada lags behind many European countries where CSR reporting is much more widespread.

And fewer than 20 per cent of Canadian companies that issue CSR reports have their publications audited or reviewed by third parties. Worldwide about half of big companies do that.

Adine Mees, president of Canadian Business for Social Responsibility, a non-profit consulting group, said there is a significant shift toward more reporting of CSR measurements, but this has been "a slow and rather painful movement." Getting outside reviews of CSR reports adds significant expense to the whole process, she notes, and that can be hard for companies to justify

in the current economic environment.

The troubled economy has also raised concerns that companies may diminish their overall CSR efforts, as they shift into survival mode.

Others, however, say social and environmental concerns are now more important than ever, because the collapse of Wall Street firms has made it clear that short-term corporate thinking doesn't work.

"The WorldCom and Enron governance debates showed to the investment community that intangibles mattered," said Michael Jantzi, whose Jantzi Social Index ranks companies' environmental, social and governance efforts. "We're in a similar situation now where people are saying longer-term social values [are important], and part of the story is about companies integrating environmental and social issues into business decision-making over the long term."

## DIRECTORS

## New blood gets warm greeting in Canada's boardrooms

BY JANET MCFARLAND

The faces around Canada's board tables are changing as top-tier companies become more willing to add new directors to their ranks who have never held corporate board seats, new research by consultancy Spencer Stuart shows.

Spencer Stuart reviewed the profiles of all new directors who joined the boards of 100 of Canada's largest companies over the past eight years. A total of 619 new board positions were filled in the period.

One of the greatest shifts during the period was in the willingness of boards to appoint so-called "first-timers" — defined as directors who have not previously sat on the board of a significant public company.

Andrew MacDougall, who leads Spencer Stuart's board services practice in Canada, said boards continue to favour current or recently retired chief executive officers above other director profiles, but they are increasingly willing to consider other options.

He said many companies are becoming more specific about the skills they are seeking, giving search consultants detailed "specs" about the directors they want to find. Often they are willing to sacrifice prior board experience to get other needed skills.

"It's like, 'We'd like to have board experience, but what we really need is experience in this particular sector or this sort of functional experience,'" Mr. MacDougall said.

Between 2001 and 2004, 16 per cent of new directors were first-timers on a corporate board, the Spencer Stuart research shows, climbing to 21 per cent in the period from 2005 to 2008.

In 2008 alone, 23 per cent of newcomers were first-time directors.

The inclusion of more women on boards is also one of the factors driving the growing number of first-timers, the survey found.

Between 2006 and 2008, women accounted for 21 per cent of new directors added to top-100 company boards.

From 2002 to 2005, in contrast, about 14 per cent of new directors were women.

In 2008 alone, 26 per cent of newly appointed directors were women, the survey found.