

CSR Governance Guidelines

Andrea Baldwin, Canadian Business for Social Responsibility
Coro Strandberg, Strandberg Consulting

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Implications for Business

Corporate Social Responsibility (CSR) issues can represent significant risks and opportunities to company performance and need to be incorporated into board governance to protect long term shareholder and stakeholder interests.

Boards will want to understand how and when CSR issues can:

- Impact or enhance a company's *strategy and vision*
- Necessitate board level *oversight and accountability*
- Influence *risk identification and management*
- Require changes to *board composition and expertise*, and
- Improve *external disclosure*.

These guidelines, developed in coordination with Canadian corporate board directors, provide direction to ensure that CSR issues and opportunities are well-managed at the board level.



CBSR

Canadian Business for Social Responsibility

CSR Governance Guidelines

Boards of directors recognize that effective management of social and environmental risks can improve business performance. This realization has led to increased oversight by boards over how the company is managing its social and environmental performance as part of their fiduciary responsibility. This oversight is referred to as Corporate Social Responsibility (CSR) Governance.

These Guidelines provide guidance to board directors and senior management on a best practice approach for CSR Governance. The Guidelines are informed by CCSR's experience with member companies, consultations with board directors and senior management representatives, and international research into global trends and best practices¹.

The CSR Governance Guidelines have four components:

1. An 'Assessment Tool' or checklist to help boards identify current practices and gaps
2. A 'Phased Approach' or roadmap to help boards of directors develop a CSR Governance framework or methodology, including suggested Terms of Reference for a CSR committee
3. 'CSR Questions for Senior Management' for directors to understand the firm's approach to CSR management.
4. Canadian example of 'Leading Practice' in CSR Governance

Definition of CSR

Corporate Social Responsibility is defined as a company's environmental, social and economic performance and the impacts of the company on its internal and external stakeholders². Some companies use other terms for CSR such as corporate responsibility, corporate sustainability and "triple bottom line". Other companies prefer to treat each CSR item separately, such as environmental management and community or employee relations, etc.

Implications of CSR for Boards

CSR issues can represent significant risks and opportunities to company performance. Oversight of social and environmental risk management and CSR performance therefore need to be incorporated into board governance to ensure that long term shareholder and stakeholder interests are protected and promoted.

Boards will want to understand how and when CSR issues can:

- Impact or enhance a company's *strategy and vision*
- Necessitate board level *oversight and accountability*
- Influence *risk identification and management*
- Require changes to *board composition and expertise*, and
- Improve *external disclosure*.

CSR Governance can be particularly challenging because CSR performance is often reported through different business lines, making it difficult for boards to have an overall picture of CSR. The development of an effective CSR Governance framework can help boards to ensure that CSR issues and opportunities are well-managed and maximized.

The authors

Andrea Baldwin is a director in the Toronto office of CCSR (Canadian Business for Social Responsibility). Coro Strandberg is the principal of Strandberg Consulting, a CCSR Associate, and author of a 2008 Conference Board of Canada report on CSR Governance. Industry Canada and Environment Canada provided funding for development of the CSR Governance Guidelines. For more information on the Guidelines, please contact CCSR at 416-703-7435.

¹ "The Role of the Board of Directors in CSR", Conference Board of Canada report authored by Coro Strandberg, Strandberg Consulting, 2008.

² A stakeholder is a person, group, organization or system who affects or can be affected by an organization's actions. Stakeholders include customers, employees, communities, government, civil society, investors and suppliers. The environment and future generations are also considered as stakeholders.

I. ASSESSMENT TOOL

Boards seeking to develop or evaluate their CSR Governance framework can benchmark their current practices to those identified in the checklist below.

Notes for using the tool:

- CSR definition: CSR is defined as a company’s environment, social and economic performance and the impacts of the company on its internal and external stakeholders. Please tailor the checklist to your company’s chosen CSR terminology.
- CSR approach: Some boards take an ‘embedded’ approach and integrate CSR throughout their governance mandate; other boards prefer a ‘focused’ model in which they organize their CSR responsibilities into one committee. These Guidelines support either approach, recognizing that ultimately it is important that boards perceive CSR as part of business strategy and risk management.

ELEMENTS	GUIDANCE	ASSESSMENT					COMMENTS	
		YES	NO	PARTIAL	IN PROGRESS	DON'T KNOW	RELEVANT?	NOTES
I. VISION AND STRATEGY Leading boards demonstrate their commitment to CSR and ensure it is incorporated into the firm's vision and strategy.	1.1 Have board and management agreed on and communicated an explicit commitment to CSR?							

ELEMENTS	GUIDANCE	ASSESSMENT					COMMENTS	
		YES	NO	PARTIAL	IN PROGRESS	DON'T KNOW	RELEVANT?	NOTES
	1.2 Do board and management share a common definition of CSR as it relates to their company, their sector and broader societal trends?							
	1.3 Has the board developed a common understanding of the company's business case for CSR?							
	1.4 Have board and management developed a CSR vision for the company?							
	1.5 Is CSR incorporated into the company's mission, vision and values?							
	1.6 Does the company Code of Conduct / Ethics incorporate CSR?							

ELEMENTS	GUIDANCE	ASSESSMENT					COMMENTS	
		YES	NO	PARTIAL	IN PROGRESS	DON'T KNOW	RELEVANT?	NOTES
	1.7 Is the board aware of CSR issues specific to the industry?							
	1.8 Are material CSR issues considered in the development of the company's business strategy?							
	1.9 Are CSR goals incorporated into the company's business plan / strategy?							
2. OVERSIGHT AND ACCOUNTABILITY Leading boards have accountability for CSR.	2.1 Is there a committee(s) with responsibility for CSR (e.g. CSR, audit or governance committee)?							
	2.2 Is there a designated CSR officer with a reporting relationship to the board?							
	2.3 Does the company have a							

ELEMENTS	GUIDANCE	ASSESSMENT					COMMENTS	
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	board-approved CSR policy (either stand-alone policy or incorporated into other policies)?							
	2.4 Does the board regularly review progress on the company's performance against CSR goals, objectives and targets?							
	2.5 Is management's compensation linked to performance on CSR goals and targets?							
	2.6 Is CSR included as a factor in CEO recruitment?							
3.	3.1 Does the company's enterprise risk management program consider material CSR risks?							

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RISK IDENTIFICATION AND MANAGEMENT Leading boards integrate CSR risks into their management of enterprise risk.	3.2 Are CSR impacts, issues and opportunities considered when approving major decisions, including mergers and divestitures?							
	3.3 Does the board have a means to identify the CSR impacts of its decisions?							
	3.4 Does the board review its own practices to reduce the social and environmental impacts of board meetings?							
	3.5 Does the board receive unfiltered information on stakeholder issues and concerns related to CSR to inform risk management?							

ELEMENTS	GUIDANCE	ASSESSMENT					COMMENTS	
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	3.6 Are measures in place for the board to assess the extent to which the company's CSR commitments are adhered to across the company, and within its supply chain?							
	3.7 Does the internal audit process include cross-company compliance with CSR commitments?							
4. BOARD COMPOSITION AND EXPERTISE Leading boards are equipped to provide oversight on material CSR issues.	4.1 Does board composition reflect the cultural and gender diversity of the marketplace?							
	4.2 Does the nominating committee include CSR skills, knowledge and experience as a factor in director recruitment?							

ELEMENTS	GUIDANCE	ASSESSMENT					COMMENTS	
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	4.3 Does the nominating committee consider the alignment of company and individual CSR values in director recruitment?							
	4.4 Does the new director orientation process include a review of the company's CSR commitments and goals?							
	4.5 Is CSR education provided to directors as part of their ongoing development?							
	4.6 Is CSR competency included in the board evaluation process?							
5.	5.1 Does the board provide input into management's							

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EXTERNAL DISCLOSURE Leading boards regularly disclose information about the company's CSR performance.	assessment of material CSR issues to include in the company's external reporting?							
	5.2 Does the board review and approve external reporting of CSR issues in compliance with mandatory disclosure requirements (i.e. MD&A, securities reporting, government filings)?							
	5.3 Does the board approve the CSR report as a record of the company's CSR performance for disclosure to stakeholders?							
	5.4 Does the CSR report to stakeholders include a message from the Chair?							

2. ROADMAP TOWARDS GOOD CSR GOVERNANCE

Boards seeking to enhance or expand their CSR Governance mandate should begin by understanding how their current CSR governance approach compares to best practice. The foregoing CSR Governance Assessment Tool (p. 2-9) is designed to guide boards and management through this benchmarking exercise.

The following is a roadmap of initiatives or steps to inform that process. The sequence will vary based on assessment results and board priorities, but the actions generally fall into two phases:

- Phase one: typical steps that boards pursue in the early days of formalizing their CSR Governance mandate, and
- Phase two: the ‘next level opportunities’ that leading boards adopt to further integrate CSR into their governance role.

GETTING STARTED

Assess current CSR Governance

Benchmark CSR Governance practices following the assessment tool. Identify relevant gaps and priorities for action. Develop a CSR Governance “action plan”.

PHASE ONE – FIRST STEPS

Confirm desired CSR approach and integrate into the company’s mission and values

Conduct a CSR Commitment Statement session with Board and Senior Management to secure agreement on CSR definition, business value of CSR, and CSR vision and commitment. Integrate the output of the session into a board level CSR policy.

Mandate a committee with CSR responsibility

Include a CSR mandate either within a pre-existing committee, or within a new, stand-alone committee. For suggested CSR committee terms of reference, see p.13 below.

Educate board on CSR risks and opportunities

Include CSR in new director orientation and ongoing board education. Ensure that the board has adequate CSR expertise and knowledge to make informed decisions. Involve the board in regular review of material CSR risks and opportunities.

Provide oversight for CSR strategy and enterprise risk management

Ensure that CSR goals, objectives and targets are incorporated into the business plan and strategy. Include social and environmental considerations in risk identification, management and monitoring.

Consider CSR when approving major business decisions

Include consideration of CSR risk, opportunities, and impacts in major decisions, including acquisitions, mergers, business partnerships and divestitures.

Review disclosure of CSR performance to stakeholders

Communicate CSR commitments to internal and external stakeholders. Review and approve CSR reports, ensuring that CSR disclosure covers material risks and complies with CSR reporting standards.

PHASE TWO – NEXT LEVEL OPPORTUNITIES**Ensure effective CSR management systems**

Ensure that policies, processes and data systems exist to support CSR and that CSR guides decisions across business units and geographies. Incorporate CSR into the company Code of Conduct / Ethics to provide overarching guidance on the significance and role of CSR as a factor in decision-making.

Provide formal mechanisms for stakeholder input

Ensure that mechanisms are in place for board consideration of unfiltered input from stakeholders.

Incorporate CSR factors into director and CEO recruitment

Explicitly include CSR in director recruitment, e.g., director diversity, values alignment and knowledge of or expertise in CSR issues/management. When recruiting a new CEO, ensure candidates are assessed for CSR competency and values alignment.

Reward executives for CSR performance

Incorporate non-financial objectives into executive compensation. Ensure that the company's performance management systems reward CSR performance.

Implement “walk the talk” initiatives

Review the board’s own operations to identify and implement measures to align board operations with CSR, e.g. emissions from board travel, green meeting procedures, green accommodations, sustainable food services, etc.

Ensure continuous improvement of CSR Governance practices

Incorporate CSR questions into the annual board evaluation. Conduct a peer review to identify emergent CSR governance considerations and keep abreast of best practice.

TERMS OF REFERENCE FOR A CSR COMMITTEE

The sample Terms of Reference below are a complement to the CSR Governance Assessment Tool and Phased Approach Towards Good CSR Governance. They include some potential roles and responsibilities for board level CSR committees and can be incorporated into a stand-alone or 'focused' CSR committee or 'embedded' into pre-existing committee mandates.

CSR Committee Terms of Reference

Policies: Review and recommend CSR policies (including Codes of Conduct) and management systems; monitor compliance with policies, commitments and regulations.

Strategy: Review / recommend CSR strategies and plans; provide guidance to management on objectives and targets; provide oversight and guidance on CSR performance / progress.

Trends: Monitor and provide recommendations on public policy, consumer, supply chain, stakeholder, environmental, corporate and general public trends, issues and developments that could impact the company.

Risk Management: Monitor and oversee CSR risk and opportunity management plans; review effectiveness of CSR issue identification and management.

Stakeholder Engagement: Review and monitor stakeholder relations; consider opportunities for direct stakeholder input into committee deliberations.

CSR Report: Determine overall scope of, provide input on, and recommend board adoption of CSR report.

CSR Assessment: Review and make recommendations on CSR impacts of major business decisions.

3. CSR QUESTIONS FOR SENIOR MANAGEMENT

The following are suggested questions that directors can ask senior management to understand the degree to which CSR is being integrated into the firm's management, operations and decisions. They may be helpful for directors wishing to raise CSR in the context of routine agenda business items and are complementary to the CSR Governance Assessment Tool. They are in no particular order.

1. **Enterprise Risk Management:** To what degree are social and environmental risks and opportunities identified, quantified and managed in our operations? In our supply chain?
2. **CSR Trends:** What are the key social and environmental issues that could affect our long term success? What are our competitors doing on CSR and how are they benefiting from this approach?
3. **Stakeholder Perception:** What are stakeholder expectations for a company in our industry? Are we perceived to be meeting those expectations? What are the risks if we are not?
4. **Decision Impacts:** Have we considered the social or environmental impacts of this decision? Does this decision align with our CSR commitments?
5. **Financial Investments:** Does our investment / asset management policy incorporate environmental, social and governance factors?
6. **Operations:** Have we taken advantage of opportunities to reduce our environmental footprint in order to generate operational efficiencies and cost-savings?
7. **Products and Services:** Do our products and services advance social or environmental benefits? Are there social or environmental risks associated with the life cycle of our products that need to be managed, from design and production to use and disposal?
8. **Human Resources:** Does our Human Resource Strategy reflect CSR? For example, is CSR incorporated into staff training and compensation?
9. **Impact Measurement:** How are we measuring the social / environmental impacts of this area of our business?
10. **Integration:** How is the management of social and environmental matters integrated into our core business processes, such as performance management, internal assurance and business planning?
11. **Brand and Market Development:** Does our company and product brand include sustainability features aligned to our customers' values? How can this help us advance market share?

4. EXAMPLES OF LEADING PRACTICE

The following four Canadian companies demonstrate leading practices in different areas of CSR Governance and are meant to demonstrate how CSR Governance can be applied in a public company context. Other examples of leading practice can be drawn from the co-operative and public sectors.

CAMECO

www.cameco.com

www.cameco.com/responsibility

Cameco Corporation, based in Saskatoon, Saskatchewan, is one of the world's largest uranium producers accounting for about 15% of world production from its mines in Canada and the US. Cameco also provides processing services required to produce fuel for nuclear power plants. In 2009, Cameco had revenues of CAD\$2.3 billion and net earnings of CAD\$1.1 billion.

In defining its approach to CSR, Cameco uses the term sustainable development, which it interprets as “meeting the needs of our stakeholders today, while preserving choices for future generations to meet their needs”.

Cameco's goal is to be the supplier, partner, investment and employer of choice in the nuclear industry. In order to achieve this goal, Cameco has established four measures of success:

- A safe, healthy and rewarding workplace
- A clean environment
- Supportive communities
- Outstanding financial performance

These measures of success are the drivers for Cameco's strategic planning and annual objective setting processes. The company has also incorporated CSR into its corporate value statements. Cameco's decisions and actions are guided by the following values:

- Safety and environment
- People
- Integrity
- Excellence

Cameco's board of directors has provided these values to form the foundation of Cameco's culture.

PARTICULAR AREAS OF STRENGTH

Oversight and accountability: Responsibility for Board oversight of CSR rests with Cameco's board itself with the Safety, Health and Environment Committee playing an important role. Through this committee, the board establishes and monitors the effect of safety, health and environmental performance and reviews the company's Sustainable Development report. The board at each of its quarterly meetings receives written reports on performance across corporate CSR objectives.

In 2009 the Safety, Health and Environment Committee:

- received reports and updates from management on priority CSR issues respecting safety, health and environmental and the duty to consult,

- set up a mechanism to meet with the Director of Risk in the Internal Audit Department to understand potential safety, health and environmental issues, and,
- considered the impact of safety, health and environmental performance on executive compensation.

Responsibility for specific CSR issues is also embedded with other board committees:

- The HR and Compensation Committee oversees human rights issues and annually reviews performance across corporate CSR objectives for compensation purposes,
- The Nominating, Corporate Governance and Risk Committee incorporates CSR consideration into board selection and education and provides oversight over how the company integrates material CSR risks into its enterprise risk management system, and
- The Audit Committee receives reports from the internal auditor on potential CSR issues.

Board compensation and expertise: Through its Nominating, Corporate Governance and Risk Committee, Cameco has developed a matrix review process to ensure board diversity and a mix of CSR skills, including the following elements in bold italics below:

- Operational excellence: Experience in a complex chemical or nuclear operating environment creating and ***maintaining a culture focused on safety, the environment*** and operational excellence
- Industry knowledge: Knowledge of the uranium/nuclear industries, market and business imperatives, international regulatory environment and ***stakeholder management***
- Board experience: Prior or current experience as a board member for a major organization with a current governance mindset, including a focus on ***Corporate Social Responsibility***

As part of their mandate to ensure an effective board, the committee recently recognized the importance of board diversity by ensuring representation by gender, aboriginal heritage, age and geographic representation such as Canada, the US, Europe and Asia.

Board directors also have education sessions on CSR issues, such as the duty to consult and treaty land entitlement and nuclear safety in 2009.

GILDAN

www.gildan.com/corporate

<http://gildan.com/corporate/corporateCitizenship/overview.cfm>

Gildan is a vertically-integrated marketer and manufacturer of quality branded basic apparel with a focus on undecorated activewear such as T-shirts, sport shirts, fleece and socks. Based in Montréal, Québec, Gildan has 20,000 employees around the world. In 2009, its revenues were USD\$1.1 billion resulting in USD\$95 million in net earnings.

Gildan includes the areas of environmental sustainability, employee and labour relations, community relations and corporate governance in its definition of CSR, which it refers to as corporate citizenship. Its 2009 CSR strategic priorities include commitments to:

- Optimize our use of resources
- Adopt a life cycle approach to social and environmental initiatives
- Enhance participation in community development, and
- Maximize employee satisfaction.

PARTICULAR AREAS OF STRENGTH

Oversight and accountability: The board's Corporate Governance Committee includes a mandate for CSR oversight:

“Oversight of the Corporations’ policies and practices with respect to CSR matters, including environmental, labour, health and safety and sustainability issues, as well as community and other stakeholder relations, and monitoring the Corporation’s management of significant CSR issues; and overseeing the Corporation’s public report on its policies and practices with respect to CSR matters.”

As part of their oversight role, all directors visit Gildan’s principal manufacturing hubs in Honduras and the Dominican Republic to better understand the context for social and environmental performance.

Risk management: Gildan’s board receives quarterly updates from management on the company’s environmental and social performance including implementation of its CSR policies, procedures and practices. CSR risks considered and included in the corporation’s Management Discussion & Analysis include:

- Compliance with environmental, health and safety regulations,
- Negative publicity as a result of violation in labour laws or unethical labour and other business practices,
- Dependence on key management and the ability to attract and/or retain key personnel, and
- Changes to and failure to comply with consumer product safety laws.

The chair of the Corporate Governance Committee participates in Audit and Finance Committee meetings in part to keep abreast of risk management discussions related to CSR and other corporate governance issues.

LOBLAW COMPANIES LIMITED

www.loblaw.com

www.loblaw.com/en/comm_csr.html

Loblaw Companies Limited is Canada's largest food distributor and a leading provider of general merchandise products, drugstore and financial products and services. Headquartered in Brampton, Ontario, Loblaw has over 139,000 full-time and part-time employees in more than 1,000 corporate and franchised stores across Canada. In 2009, Loblaw had sales of over CAD\$30 billion and operating income of CAD\$1.2 billion for an operating margin of 3.9%.

Loblaw defines CSR as "Doing the right things for the future of our communities, our country and our planet is also the right thing for the future of our business."

Its CSR vision focuses on five key themes:

- Respect the Environment
- Source with Integrity
- Make a Positive Difference in Our Community
- Reflect Our Nation's Diversity
- Be a Great Place to Work

PARTICULAR AREAS OF STRENGTH

Vision and Strategy: The board and management at Loblaws have used their five pillar approach to effectively communicate a shared vision and commitment to CSR. The CSR vision complements Loblaw's mission to be Canada's best food, health and home retailer by exceeding customer expectations through innovative products at great prices.

The board reviews the organization's Code of Ethical Business Conduct annually to ensure that it is current and reflects best practice. The Code incorporates CSR through a Vendor Code of Conduct that sets out the organizations' expectations of its vendor community with respect to ethical conduct and social responsibilities, including labour practices, respect for the environment and compliance with various laws.

The board regularly considers industry specific CSR trends and issues. In 2009 this included food safety, health of Canadians, population growth and climate change. With this background, the board and management ensure material CSR issues are considered in the development of the organization's CSR strategy in which the board plays an active role. The launch of environmental and healthy product lines, alliances with leading NGOs (non-governmental organizations) and engagement with policy-makers have come about as a result of the CSR strategy which is incorporated into the company's overall business strategy.

Oversight and Accountability: One of the responsibilities of the board is to monitor CSR through receipt of regular reports on CSR policies, practices and performance. The Vice President of Corporate Affairs provides the board with updates on performance against CSR priorities and metrics twice per year.

The board has delegated CSR responsibility to its Environment, Health and Safety Committee which has a mandate to assist the board in fulfilling its oversight responsibilities in relation to environmental, food safety and workplace health and safety policies, procedures, practices and compliance.

POTASHCORP

www.potash.com

www.potashcorp.com/about/sustainability

Potash Corporation is the world's largest fertilizer company by capacity producing three primary crop nutrients (potash, phosphate and nitrogen). PotashCorp is based in Saskatoon, Saskatchewan, operates in seven countries and has over 5,000 employees. In 2009, Potash Corp had \$4.2 billion in sales and \$1.0 billion in net income.

CSR is integrated in PotashCorp's operational vision to "Play a key role in the global food solution *while building long-term value for all our stakeholders*".

PARTICULAR AREAS OF STRENGTH

Strategy and Vision: PotashCorp also embeds CSR in its organizational goals, core values and business code of conduct, including the following elements in bold italics:

Organizational goals:

- Maximize long-term shareholder value
- Be the supplier of choice to the markets we serve
- ***Build strong relationships with and improve the socioeconomic well-being of our communities***
- ***Attract and retain talented, motivated and productive employees who are committed to our long-term goals***
- ***Achieve no harm to people and no damage to the environment***

Core values:

- ***We operate with integrity***
- ***Our overriding concern is the safety of people and the environment***
- ***We listen to all PotashCorp stakeholders***
- We seek continuous improvement
- We share what we learn
- ***We are accessible, accountable and transparent***

Business code of conduct:

- ***We are committed to respect for the rule of law, conducting our business with integrity and showing respect for human dignity and the rights of the individual wherever we do business***
- ***We demonstrate our respect for the natural environment through our goals of no harm to people, no accidents and no damage to the environment***
- We will work to create mutual advantage in all our relationships so that people will trust us and want to do business with us
- The PotashCorp Code of Business Conduct was developed to commit to the public and our stakeholders our ***uncompromising integrity in every aspect of our efforts. We look for these same qualities in all our business partners.***

PotashCorp's interpretation of the CSR business case is evident in their organizational goals, given the emphasis on all stakeholders, including customers, communities, employees, the environment and shareholders.

The board uses the Dow Jones Sustainability Index (DJSI) as an important indicator of CSR performance as well as the primary reference for industry sustainability trends. The DJSI ranks leading sustainability-driven companies on their social, environmental and economic performance and tracks their financial performance in a global index.

Oversight and accountability: Potash incorporates sustainability mandates within four board committees.

The Corporate Governance and Nominating Committee reviews the corporate sustainability program and certain elements as part of its oversight responsibilities. The committee establishes the company's governance principles and practices, including in the area of corporate social responsibility. It also reviews sustainability issues not addressed by other committees, including social issues such as philanthropy, human rights and policies and economic issues that involve stakeholder relationships with customers and investors.

The Compensation committee reviews the Chief Executive Officer's performance against established goals and objectives, which relate to sustainability performance (including improvements in safety, environmental stewardship, employee development, product quality, customer service, investor relations and improving the socio-economic well-being of the communities where it operates). The committee has responsibility for overseeing CEO recruitment; the senior executive is required to "foster a corporate culture that promotes ethical practices, encourages individual integrity and fulfils social responsibility".

The company's Safety, Health and Environment (SHE) Committee oversees the company's safety, health, environmental and security performance against (SHE) policies and procedures, and monitors progress against safety and environmental goals and targets.

Risk Management: The Audit Committee, which has oversight responsibility for the company's risk management, has considered a number of CSR risks in recent years, including, for example, safety, climate change, labour relations, and demographic trends.

As part of its risk management framework, the Audit Committee conducts an annual review of stakeholder relations and has a mandate to ensure that appropriate strategies and processes are in place to promote a culture that prioritizes safety and environmental responsibility.

Canadian Business for
Social Responsibility
info@cbsr.ca
www.cbsr.ca

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