The Role of the Board of Directors in Corporate Social Responsibility

GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY
Preface

Our publication National Corporate Social Responsibility Report (2004) provided valuable information for Canadian corporations looking to achieve the appropriate balance between corporate and community interests. The Conference Board of Canada and Strandberg Consulting recently completed a study on the role of the board of directors in corporate social responsibility (CSR). The goal of this study was to identify current CSR approaches and trends as they relate to the role of the board of directors. The study considered CSR issues in order to provide guidance to boards as they deal with CSR matters.

This report demonstrates that Canada’s corporations are focusing more on CSR operations than on CSR governance. Furthermore, current good practices in CSR governance reveal a “CSR road map” for boards seeking to improve their performance in this area. Finally, the report provides information about the different board approaches to oversight and review of CSR activities.

About the Author

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Corporate governance is on the radar of corporations, regulators, and stakeholders as never before. With the media dominated in recent years by such issues as the sub-prime mortgage lending crisis, unregulated greenhouse gas emissions, and the ethical failures of Enron, Worldcom, and others, the role of the firm in society is coming under greater scrutiny. Global companies are subject to increasing demands—from activists, employees, and investors—for responsible social and environmental behaviours. As the first decade of the 21st century enters its final years, we see that the trajectory of corporate governance and corporate social responsibility (CSR) trends are meeting head-on.

**CORPORATE GOVERNANCE MEETS CSR**

This report examines these two trends to determine how they might play out in the years ahead and to give guidance to Canadian and other companies as they seek to improve shareholder value and to sustain their fortunes over time. The study looks into the trends and drivers of CSR governance, wherein CSR moves beyond operations and into the boardroom.

In Canada and elsewhere, a gap exists in board oversight and the strategic direction setting of corporate environmental, social, and ethical performance—with more firms focused at present on CSR operations than...
on governance. In 2007, fewer than 10 Canadian firms reported having CSR or sustainability explicitly in their governance mandates. This is disquieting given that firms in the Western world are paying greater attention to their licence to operate, the impact of their operations on the environment, and the health of their employees. It has been clearly established that companies that consider their social and environmental performance are more successful over the long term. Boards, with their responsibility to protect and enhance shareholder value, must consider all aspects of their firms’ performance—non-financial as well as financial.

What are the reasons for this gap? Corporate governance is characterized by a lack of common rules and standards, and corporate legislation speaks to fiduciary requirements of directors. In this vacuum, directors have not had the guidance required to understand their role in considering a firm’s social and environmental risks and opportunities. Increasingly, however, voluntary standards—such as the Organisation for Economic Co-operation and Development (OECD) principles referred to in this report—are laying out a CSR mandate for boards that suggests boards should take stakeholder views into account in their decision making and strategy setting. These standards, along with the actions of leading CSR firms, are paving the way for the evolution of CSR governance in the years ahead. Indeed, according to those interviewed for this report, there will be a slow but inexorable move toward boardroom CSR over the coming decade.

This trend is driven increasingly by the CSR business case and by institutional shareholders with long-term time horizons. The result is predicted to be the “mainstreaming” of CSR as a governance concern. While limited in Canada, firms in the United States and Europe are establishing CSR committees, a clear indicator of these board priorities.

Research conducted for this study of 18 Canadian and international directors of boards with CSR committees reveals that there are three different board orientations to CSR:

- an integrated approach, in which boards speak to integrating social and environmental factors throughout the firm; and
- a systemic approach, in which CSR is perceived as a key driver of firm innovation and performance, wherein firm purpose is informed by a strategic social change agenda.

These same interviewees also pointed to a number of barriers to CSR governance—in particular, an unarticulated CSR business case, group think, and the mindset of the board chairperson. Success, on the other hand, is attributed to a strong internal culture and leadership for CSR and a strong CSR business case. To overcome barriers and reinforce conditions of success, the research reveals that it is essential to develop the firm’s CSR business case, establish a values framework for the firm, and build director knowledge of CSR trends, risks, and opportunities.

According to those interviewed for this report, there will be a slow but inexorable move toward boardroom CSR over the coming decade.

In order to understand the underlying factors of CSR governance, this study builds upon interviews with directors of leading CSR firms and global CSR governance thought leaders (see Appendix C for a list) and a literature review of publications on this topic between 2000 and 2006. This review revealed a few interesting disconnections between CSR governance theory and how it is practiced by leading firms today. Particularly, it showed that there is not a strong orientation among boards toward incorporating CSR into firm strategy, nor are boards reviewing and approving CSR reports, as recommended in the literature and by thought leaders. While there is a literature stream that argues for direct board engagement with stakeholders, this is neither borne out in current practice nor strongly advised by CSR thought leaders. These differences highlight the front on which CSR governance will likely evolve in the years ahead.

Although there were differences in how boards approached their CSR role and in how informed observers believe they should consider CSR, there were also sufficient
commonalities to make it possible to define a “CSR road map” for boards seeking to improve their performance in this area. Six key steps are necessary to start along this path, followed by an additional six steps to deepen board CSR practice. (These are found in the exhibit on page 26.)

Another area of debate arose between those who believe that CSR should be managed as a distinct firm and board activity (a “focused” approach) and others who are strong in their view that CSR should be integrated into all firm deliberations (an “embedded” approach) and not treated as an independent silo. It is likely true that there is no one right answer to the question of what particular style a board should adopt; but it is worthwhile noting that different paths can still reach similar ends.

In summary, this report maintains that good corporate governance will be redefined over this decade to include ways in which a board provides oversight and strategic direction on the firm’s social and environmental performance. Key issues to be studied so as to better understand how this trend will evolve include the critical role of the firm’s CEO and chair and their influence on the board’s uptake of CSR. As well, the integration of CSR into the firm’s performance management system and strategic planning (both of which come under the influence of the board of directors) will have a profound effect on CSR performance in the years ahead.
Company boards are under the spotlight as never before. The focus has been on their oversight role ever since the great unravelling of Enron, WorldCom, and other large corporations earlier this decade. In an attempt to rebuild public trust and reassure nervous investors, the corporate community and state regulators rushed to modernize corporate governance regimes. Parallel to these developments, momentum continued to build within best practice corporations to develop and integrate a corporate social responsibility (CSR) ethic. Somewhere along the way, these trends converged in a discussion among CSR and corporate governance thought leaders, shareholder activists, campaigning non-governmental organizations (NGOs), rating agencies, and leading corporate practitioners. What, they asked, is the board’s role in the oversight, strategy, and disclosure of the firm’s social, ethical, and environmental performance?

This report explores the basic premise that there is a relationship between corporate social responsibility and corporate governance; this recognition places new demands on corporate boards and directors.

This report addresses this question and provides a road map for directors seeking to fulfill their fiduciary responsibilities and for investors looking for indicators of corporate strength and integrity. It explores the basic premise that there is a relationship between corporate social responsibility\(^1\) and corporate governance,\(^2\) and that this

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2. The Conference Board of Canada uses the Cadbury definition of corporate governance: “The system by which companies are directed and controlled.”
recognition places new demands on corporate boards and directors. Our starting point is the generally accepted view that directors’ discharge of their fiduciary responsibilities entails providing oversight of corporate compliance with values, norms, rules, and regulations, while also playing an important role in helping to shape the strategic direction of the firm.3

Shaping strategy requires directors to assist the organization in identifying and evaluating principal business risks and in integrating systematic and structured company-wide responses. A recent McKinsey survey4 suggests that C-suite executives (chief officers) increasingly realize the strategic significance of social and environmental issues. As the McKinsey study suggests, two key challenges facing senior executives and directors are the need to:

- incorporate understanding of socio-political issues more systematically into core decision-making processes; and
- ensure that governance structures and management systems are operating effectively.

Realization of the significance of social, ethical, and environmental issues to business performance has led to the general acceptance (both in Canadian law5 and by corporations themselves) that a director’s duty to act in the “best interests” of the corporation allows for, among other things, the consideration of a broad range of interests. These include the interests of shareholders but also employees, suppliers, creditors, local communities, governments, and the physical environment.

These and other factors suggest that, whether a board of directors perceives corporate social responsibility as fundamental to their duty of oversight or as a strategic risk management issue that must be managed for effective decision making, pressure will continue to be put on corporate directors to ensure that their company is effectively addressing social, ethical, and environmental issues.

The core purpose of this report is to contribute to the development of CSR governance practice by providing directors (and senior executives who have the responsibility for managing the accountability relationship with the board) with guidance on the rationale for bringing CSR into the boardroom and on effective approaches for doing so.

**METHODOLOGY**

In developing this guidance, we conducted research into the international and national trends and drivers for CSR governance, the theory and practice of director responsibility for CSR, barriers and success factors for creating a culture for CSR governance, and a road map for advancing CSR in the boardroom. The study was initiated by The Conference Board of Canada in collaboration with Strandberg Consulting during 2006–07. The overall objective of the project (guided by an advisory committee of Canadian and international leaders in CSR and governance)6 is to understand the context, drivers, and practices for furthering the consideration of social, ethical, and environmental performance within firms. The project set out to determine key trends and concepts in the literature, the views of Canadian and international thought leaders in CSR governance, and the current practices of Canadian and international firms whose boards play an active role in corporate social responsibility. Through this background research, it sought to identify leading practices and to develop a rationale and a framework for boards wishing to bring CSR perspectives into the boardroom.

The methodology included:

- a comprehensive literature review of 36 documents dated between 2000 and 2006 to identify trends and drivers, analyze current perspectives, and document best practices and systems for a board-level approach to CSR;

3 National Policy 58-201 Corporate Governance Guidelines outlines the strategic responsibilities of executives and directors in the Canadian context.


5 Two key Canadian court judgments that support the notion that the “best interests of the corporation” (as entrenched in the Canadian Business Corporations Act) allow for directors’ accounting of a range of stakeholder interests are: (i) Teck Corporation v. Millar, [1973] 2 W.W.R. 385 (B.C.S.C.); and (ii) Peoples Department Stores v. Wise, [2004] 3 S.C.R. 461, 244 D.L.R. (4th) 564.

6 See Appendix B for a list of advisory committee members.
a survey of 28 Canadian and international thought leaders in CSR and governance to determine views on the CSR role of the board, tools and practices to integrate CSR into governance, barriers and trends in CSR governance, and key CSR issues for boards;
a survey of 11 Canadian and 7 international directors of firms that have board CSR committees so as to understand how boards integrate CSR into their deliberations, drivers and trends, approaches to stakeholder engagement, barriers and success factors, and top CSR issues; and
an analysis of the 18 CSR committee “terms of reference” that were used to determine common roles and approaches among the CSR committees of the interviewed firms.

It is hoped that this contextual information will:
provide a baseline understanding of how boards of Canadian and global corporations are implementing CSR mandates in order to help elevate the state of Canadian (and global) CSR directorship practice toward current best practice; and
provide Canadian (and global) directors with insight to potential future directions in the CSR role of company boards—and in doing so, create a learning platform from which firms can potentially become global leaders in both CSR and corporate governance.

The report explores how CSR is a business driver and material to the success of the firm, therefore warranting director engagement. It reveals that a gap exists in board oversight of, and strategic direction on, social, ethical, and environmental performance, with most CSR-oriented firms focused on internal CSR operations rather than CSR governance. It points out that good practice does exist—which can be helpful in guiding boards on their CSR role. Finally, this report documents the global trends toward greater board oversight of material CSR issues that affect corporate performance. With this information, directors will be better positioned to consider the importance of CSR and their oversight role.

In order to better understand current practices and consider how to advance CSR in the boardroom, it is important to assess the CSR role of the board within the current global context, including trends and drivers.7

Caveat Emptor
Jurisdictions have different social norms and legal frameworks governing the role of business in the community and the role of stakeholders in the governance of for-profit corporations. For example, in contrast to the U.S./U.K. Anglo-Saxon model, Continental Europe has a stakeholder governance model. This report does not distinguish between the differing jurisdictional approaches but acknowledges that this can have a bearing on the board's role in CSR. (See box “Legal Context: Canada, U.K., and U.S.”)

A Few Disclaimers
The background research conducted for this report did not distinguish between jurisdictional approaches to governance and the impact these approaches might have on the relationship between management and the board or on the role of employee representatives, nor did the research consider the role of independent directors. The primary aim was to have an over-representation of Canadian directors in the study. Beyond this, no effort was made to secure regional, sectoral, or positional balance. The Canadian resource sector’s use of standing environmental, health, and safety committees was used as a proxy for CSR committees. This was found to be a valid approach as these director interviewees were very conversant with their broad CSR mandates.

CSR Governance Definitions and Terms
For the purposes of this report, corporate social responsibility (CSR) governance is generally assumed to mean the integration of social, environmental, and ethical considerations in board affairs.

7 This section is informed by the literature review and interviews with global thought leaders and Canadian and international directors of CSR-oriented firms.
Legal Context: Canada, U.K., and U.S.

**CANADA BUSINESS CORPORATIONS ACT: DUTY OF CARE OF DIRECTORS AND OFFICERS**

122. (1) Every director and officer of a corporation in exercising their powers and discharging their duties shall:
   a. act honestly and in good faith with a view to the best interests of the corporation; and
   b. exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

[*This clarifies that the board has a duty to look beyond just the interests of the shareholders.]*

**U.K. COMPANIES ACT 2006: 172. DUTY TO PROMOTE THE SUCCESS OF THE COMPANY**

(1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to—
   a. the likely consequences of any decision in the long term,
   b. the interests of the company’s employees,
   c. the need to foster the company's relationships with suppliers, customers and others,
   d. the impact of the company’s operations on the community and the environment,
   e. the desirability of the company maintaining a reputation for high standards of business conduct, and
   f. the need to act fairly as between members of the company.

**U.S. CONTEXT**

The Delaware General Corporation Law is considered the *de jure* reference point for discussions of fiduciary duty, given the significant proportion of U.S. corporations incorporated in the state. As articulated by BSR senior advisor Allen White, the fiduciary provision has been shaped by a series of judicial interpretations that have resulted in the following view.

Underlying all the board’s actions are three pillars: duty of loyalty, duty of care, and good business judgment. Duty of loyalty means that corporate directors must act in the best interests of the organization consistent with their roles as guardians of its future. Duty of care means that loyalty must be accompanied by due diligence, or the responsibility to seek and obtain all information necessary for making decisions for which it is responsible. Good business judgment, or the business judgment rule, derives from a long history of judicial rulings that assign to corporations the ability to make business decisions that support the long-term interests of the corporation even in cases where short-term interest—most notably, profit-maximization—may be sacrificed.1

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1 White, *The Stakeholder Fiduciary*. 
The Case for CSR Governance
A Growing Emphasis

Chapter Summary
- Many international corporate governance codes incorporate CSR perspectives.
- Boards are confronting new social and environmental pressures.
- Boards are establishing CSR committees to provide focused oversight of their firms’ CSR performance.
- Canadian corporate law allows for Canadian boards to consider stakeholder interests.

Globally, there is a modest trend toward boards adopting CSR mandates. The following review of the key CSR trends and drivers for boards of directors points to a growing emphasis on CSR by company boards.

TRENDS IN CSR GOVERNANCE
Questions on boards’ role in CSR evolved out of the debate that followed in the wake of the corporate governance scandals earlier this decade at companies such as Enron and WorldCom. These scandals led to increased concern among corporate leaders and regulators about accountability and transparency issues. Further drivers—such as growing shareholder activism, changing social expectations about the role of corporations, and the globalization of capital markets—have resulted in a proliferation of corporate governance principles and codes of conduct over the past 10 to 15 years.1 With the updating of these corporate governance codes, CSR principles made their way into these new guidance documents.

Questions on boards’ role in CSR evolved out of the debate that followed in the wake of the corporate governance scandals that unfolded earlier this decade.

NEW CORPORATE GOVERNANCE CODES INTRODUCE CSR PERSPECTIVES
Corporate governance worldwide is characterized by a lack of universal rules or standards.2 The Organisation for Economic Co-operation and Development’s (OECD’s) updated 2004 corporate governance guidelines—designed to apply across jurisdictions—attempted to fill this void. The principles provide a clear CSR mandate for boards. This mandate obliges boards to take into consideration

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the interests of all stakeholders, including employees, creditors, customers, suppliers, and local communities. The OECD guidelines point out that in order to meet this requirement, boards must take into account environmental and social concerns.\(^3\)

Another milestone in the CSR governance literature is the King Report on corporate governance for South Africa. This report predated the OECD governance guidelines by 10 years and went beyond the then-traditional financial and regulatory aspects of corporate governance to advocate an “integrated approach to good governance in the interests of a wide range of stakeholders having regard to the fundamental principles of good financial, social, ethical, and environmental practice.”\(^4\)

The OECD’s corporate governance guidelines state that boards must consider environmental and social concerns.\(^3\)

In the United Kingdom, the 2001 Turnbull Report helped further propel CSR onto the governance agenda. Also known as Internal Control, Guidance for Directors on the Combined Code, the report asked companies to consider the following: “Are the significant internal and external operational, financial, compliance, and other risks identified and assessed on an ongoing basis? (Significant risks may, for example, include those related to market, credit, liquidity, technological, legal, health, safety and environmental, reputation, and business probity issues).”\(^5\)

This and other U.K. standards and guidelines released at the time focused on risk management and encouraged boards to establish arrangements for “significant” CSR risks. Companies were advised to determine which CSR risks were significant to their business and to develop appropriate structures to manage them.\(^6\) Consideration of CSR aspects within corporate governance frameworks was mirrored in other national initiatives occurring in Europe, North America, Africa, and Australia then, a practice that has continued.

In Canada, for example, the Canadian Council of Chief Executives (CCCE), seeking to instill public confidence in capital markets and the enterprise system on the heels of the corporate scandals, published the statement “Governance, Values and Competitiveness: A Commitment to Leadership” in 2002. The statement laid out the council’s views on corporate governance and called for companies to have a written code of ethics or conduct that, along with other matters, deals with the following:

- the purpose and values of the business;
- relationships with stakeholders (including customers, suppliers, and the media);
- environmental protection;
- product quality and safety;
- workplace health and safety;
- employment practices, human rights, and non-discrimination;
- political contributions; and
- corporate and employee involvement in the community.\(^7\)

The statement says companies that demonstrate strong moral values and good corporate citizenship will earn reputation and shareholder value benefits; and it adds that in order to serve the interest of their shareholders, companies must take into account the interests of a wide variety of stakeholders.\(^8\) The statement, written from the perspective of the chief executive officers of Canada’s largest public corporations, further comments that among the core functions of company boards is the need to oversee management of the firm’s ethical operation and to tie

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4 Institute of Directors, King Committee on Corporate Governance, Executive Summary, King Committee on Corporate Governance, Executive Summary of the King Report 2002, p. 6.

5 Association of British Insurers, Disclosure Guidelines on Socially Responsible Investment.

6 As reported in Association of British Insurers and British Bankers Association, Guidance on Corporate Social Responsibility Management and Reporting for the Financial Services Sector, p. 21.


8 CCCE, p. 15.
compensation to both short- and long-term performance. The chief executive officers (CEOs) commit themselves to the principle that good corporate citizenship “at home and abroad, including respect for human rights, environmental stewardship, and community investment, plays an essential role in enhancing public trust, attracting and retaining talented people, and reducing investor perceptions of risk. We therefore commit ourselves to continuing to review our strategies and practices with respect to corporate citizenship.”

NEW SOCIAL AND ENVIRONMENTAL DEMANDS ON BOARDS OF DIRECTORS
As acknowledged by the CCCE in its statement on corporate practice, the firm environment is becoming increasingly more complex. There are growing demands placed on boards—from the financial community, for example, which is looking for links between shareholder value and the social and environmental (i.e., non-financial) performance of the firm. To serve investor and other stakeholder needs for CSR information, there is also greater disclosure of company policies and performance on social, environmental, and ethical issues. With more information on firms’ CSR performance available, interest in the role of the board in CSR oversight is growing. Non-governmental organizations (NGOs) and other civil society organizations are also calling for greater stakeholder involvement in board governance. They, along with active shareholders, are paying greater attention to company positions on key public policy issues, such as the environment (particularly climate change) and human rights. Further, there is ongoing scrutiny of board composition and diversity on the part of activist shareholders and other CSR watchdog groups.

BOARDS ARE ESTABLISHING CSR COMMITTEES
Recent trends toward delegating responsibility for social and environmental oversight to board committees have also been documented. In the U.S., for example, as of 2004 20 per cent of Standard & Poor’s 500 firms had board committees overseeing CSR issues such as environment and health and safety. As well, eight of the Fortune “Top 10 Most Admired Companies for Social Responsibility” had board CSR committees in that year. Eleven per cent of the 100 largest publicly traded U.S. companies had social responsibility or public policy committees in 2005.

In Canada, a survey of 142 Canadian companies (drawn from a list that included firms on the TSX60, the top 50 from the FP500 and ROB Top 1000, the largest provincial and federal Crown corporations, and select CSR-oriented firms) revealed that 62—or 44 per cent—had committees with sustainable development mandates. However, only eight of these firms—less than 1 per cent—were found to have committees with CSR or sustainability explicitly in their titles.

Experts generally agree that boards can benefit from establishing CSR committees in the early days (to facilitate greater focus on and understanding of CSR), then incorporating it into other committee mandates.

In the U.K., according to one thought leader interviewed for this report, 20 per cent of the top 100 companies had board committees considering CSR issues in 2007, another 10–15 per cent had a regular board agenda item considering CSR, and 30–40 per cent had ad hoc conversations on CSR on at least an annual basis.

A survey of 750 U.S. firms found that more than one-third include an annual or twice-yearly board review of their company’s citizenship. Of these firms, more than two-thirds claimed to have reached a board decision during the preceding year driven by their company’s corporate citizenship positions.

9 CCCE, p. 16.
10 CCCE, p. 30.
11 Adapted from Mark Schacter’s Boards Face New Responsibilities in CA Magazine and referenced in Aron Cramer and Matthew Hirschland, “The Socially Responsible Board,” p. 20.
12 Cramer and Hirschland, p. 21.
15 Strandberg, CSR Governance Thought Leader Study, p. 19.
16 As reported in SustainAbility, The Power to Change, p. 15.
Goverance and CSR experts continue to debate whether or not boards should establish CSR committees. Some fear that doing so would isolate CSR issues from mainstream business strategy. The general view, however, is that it can be beneficial for boards to establish CSR committees in the early days to facilitate greater focus on CSR and understand it better. Once an integrated approach has been achieved, CSR can then be incorporated into other committee mandates, such as governance or risk management, or can be an expectation of the entire board and each of its committees.

**CANADIAN CORPORATE LAW ALLOWS FOR BOARDS TO CONSIDER STAKEHOLDER INTERESTS**

The *Canada Business Corporations Act* (CBCA) permits directors to take stakeholder interests into account in determining what is in the best interests of the corporation. Section 122(1a) of the Act states that in exercising their powers and discharging their duties, directors shall “act honestly and in good faith with a view to the best interests of the corporation.”\(^\text{17}\) According to a report by Canadian law firm Blake, Cassels & Graydon, courts have been flexible in their interpretation of what constitutes corporate best interests: “The jurisprudence reflects the court’s adherence to the so-called business judgment rule in most situations and indicates a willingness to allow directors the flexibility in their decision making to consider stakeholder interests where appropriate.”\(^\text{18}\)

**MODEST TREND TOWARD BOARDS ADOPTING CSR MANDATES**

Analysts, thought leaders, and board directors themselves perceive a definite (albeit modest) trend toward greater integration of CSR considerations into business strategy and boardrooms. Some boards are moved to action by a concern for emerging social and environmental risks, while other boards adopt CSR as part of their values framework.\(^\text{19}\) While CSR integration is still only a moderate trend, it is expected that there will be an inexorable move toward “board table” CSR—primarily issue-driven—with some boards leading the pack in adopting a strategic approach to tackling social and environmental developments and opportunities.\(^\text{20}\)

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

Some believe that CSR governance will become a mainstream governance practice over the decade. By then, social and environmental issues are expected to be considered pure business concerns and not necessarily flagged as CSR, driving a trend toward CSR becoming integrated into traditional governance operations. The common sentiment is that these changes will be evolutionary and gradual. This reflects a growing consciousness that boards need to take into account non-financial considerations. Over the coming decade, CSR governance is predicted to take on the significance that corporate governance has today.

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

Further trends expected to materialize over the decade include a greater role for boards of directors in the CSR-reporting process on firm social and environmental

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\(^{17}\) CBCA at section 122(1)(a), as referenced in Blake, *A Study of Stakeholder Interest*, p. 38.

\(^{18}\) Blake, *A Study of Stakeholder Interest*, p. 45. This is further supported by *Teck Corp. v. Millar* (1972) where the judge held that considering employee and community interests could be consistent with the bona fide interests of the shareholders. “If [directors] observe a decent respect for other interests lying beyond those of the company’s shareholders in the strict sense, that will not […] leave directors open to the charge that they have failed in their fiduciary duty to the company.”

\(^{19}\) Strandberg, *The Convergence of Corporate Governance and Corporate Social Responsibility Thought Leaders Study*.

\(^{20}\) Ibid., pp. 6–7.
performance and the increasing integration of CSR into CEO compensation. Directors will also develop a good sense of CSR-oriented risks and opportunities and will work to minimize the former and maximize the latter. Lastly, it is expected that boards of directors will become increasingly more diverse. People with hybrid backgrounds—such as those with both NGO and business experience—will be viewed as more valuable than those directors with a single-minded focus.

“I think when you walk into a boardroom in the future you will notice a greater diversity.”

MINORITY VIEWS
A small number of interviewees for this report were less certain CSR governance would become mainstream any time soon. Some thought it would be at most industry-specific, with a limited number of industries moving on these issues. For example, companies whose footprint on society is most complex (such as those in the oil and gas, chemicals, or mining sectors) will find themselves—whether willingly or unwillingly—embedding CSR in governance. Heavy footprint sectors (i.e., resource industries) are more likely than others to be comprehensively integrating CSR into their governance structure, according to this minority view.
Drivers of CSR Governance

Chapter Summary

- Institutional investors, concerned about a firm’s long-term performance, are key drivers of board consideration of social and environmental issues.
- A focus on CSR materiality is driving board attention.
- Awareness that CSR governance can have a long-term effect on firm performance further board interest in CSR.

INSTITUTIONAL INVESTORS DRIVE BOARDS TO CONSIDER SOCIAL AND ENVIRONMENTAL ISSUES

Shareholders are perceived as the chief driver of CSR governance—particularly institutional investors with their quest for long-term value creation. The mainstream institutional shareholder community is starting to ask companies for greater consideration of social and environmental concerns. Two indicators of this trend are:

- the UN Principles for Responsible Investment, in which signatory investment firms sign on to embed environmental, social, and governance (ESG) aspects in their assessment of companies and to engage actively with companies on these matters; and
- the Carbon Disclosure Project, in which institutional investors with a current combined $57 trillion of assets under management seek information on business risks and opportunities presented by climate change and greenhouse gas emissions from the world’s largest companies (3,000 firms in 2008).¹

Institutional investors and the socially responsible investment community are looking for greater corporate disclosure of ESG factors to facilitate their stock analysis. These developments are driving boards to increasingly consider CSR as a business concern. The degree to which boards adopt a clear CSR governance framework can be an indicator to the investment community of the significance with which a firm treats these risks and opportunities.

“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.”

¹ From www.cdproject.net, May 19, 2008.
Other stakeholders expected to be significant drivers of CSR governance include consumers and the general public (from whom corporations receive a social licence to operate) and civil society NGOs (who are becoming more activist on the role of the board and will be driving business to internalize previously externalized social and environmental costs). The media will also be raising questions of transparency and disclosure of a firm’s CSR performance.

A number of structural conditions are predicted to affect CSR governance over the coming decade. These conditions include climate change, water scarcity, the impact of globalization on the allocation of labour, changing consumer and employee behaviours as a result of educational forces, and the emergence of new economic powers (e.g., China) that will be driving a concern for social and environmental issues that flow from their increased consuming power. As scientific research into climate change, human rights, and social unrest becomes increasingly available, and awareness of their cumulative effect on the firm’s value proposition grows, board members will pay more attention to these issues.

Additional drivers include:

- The development of international and industry standards for CSR (e.g., the ISO CSR guidelines, an international standard for CSR management to be released in 2008, and the Global Reporting Initiative, which is setting the international standard for sustainability reporting);
- Increased CSR reporting, which will drive more disclosure of board-level approaches to CSR;
- Increasing board diversity, which will further advance boardroom CSR practices, with more women and younger directors expected to have perspectives on these issues;
- Employees becoming increasingly concerned about their employers’ approach to CSR;
- Firms attempting to avoid government regulation on sustainability through proactive efforts; and
- Corporate scandals and missteps.

In practice, directors report the following reasons why their board adopted a CSR approach:

- CSR was a founding principle of the company.
- A corporate merger created opportunities to build CSR into board governance.
- Pressure from stakeholders—including activist groups, employees, and customers—intensified.
- A major shareholder pushed CSR interests.
- There was a strong desire for leadership, including CSR leadership.
- Awareness of the business case grew.

**CSR Materiality Drives Board Attention**

As directors of CSR-oriented firms attest, growing board recognition of the CSR business case will be a significant driver of CSR governance. The CSR business case documented in the literature includes enhanced reputation, improved brand equity, minimized operational risks, improved productivity, ability to attract and retain talent, greater efficiency, enhanced customer and regulator relations, improved access to capital, broadened social licence to operate, increased innovation, and overall enhanced competitive positioning. Much research to date highlights the growing view that CSR issues are material to a company’s bottom line, and, thus, justification for board-level oversight.

Clearly, boards of directors should concern themselves with material matters only, raising the question of how to identify and quantify social, environmental, and ethical issues of significance.

The material nature of some CSR-oriented business risks and opportunities is a growing CSR governance issue. Clearly, boards of directors should concern themselves with material matters only, raising the question of how to identify and quantify social, environmental, and ethical issues of significance. The CSR governance literature gives considerable coverage to risk and opportunity management considerations, highlighting the significance of this issue. For example, *The Materiality Report* proposes a rationale, framework, and process for identifying the key social and environmental considerations that could be material to a company’s long-term success, and it argues for including material social and environmental issues.

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in the governance process. Specifically, it recommends board-level commitment to (and engagement in) the materiality determination process, and board review and sign-off of the conclusions. Rating agencies also look for evidence that a company has identified material social and environmental risks and has introduced processes and controls to manage and govern them. Alarm bells ring when company boards fail to do so. This matter of materiality will become a growing concern in future: Of the social and environmental issues a company confronts on a day-to-day basis, which are most likely to affect the firm’s bottom line? Increasingly, boards and executives will be grappling with this question, if they are not already doing so.

**CSR Governance Can Have a Long-Term Effect on Firm Performance**

Firms that are well managed from a CSR perspective are predicted to benefit from improved shareholder value. Boards, however, should stay away from a focus on procedural issues. They need to focus instead on identifying potential opportunities and threats or risks. Firms (and their boards) that stop at risk management and legal compliance and overlook the innovation and opportunity side of CSR are less likely to generate positive long-term value. Some specific bottom-line benefits of effective CSR governance include the following:

- **Stakeholder views:** When boards bring the voices of stakeholders into the governance structure, they are exposed to new ideas and encouraged to consider information that would otherwise not reach them. This moves boards to have broader conversations around these issues, with positive impacts on strategy and returns.

- **Risk and opportunity management:** Common sense suggests that looking carefully at risks and avoiding them, and looking carefully at opportunities and capturing them, advances returns. Firms with effective CSR governance will perform better because they anticipate issues earlier and embed them into their plans, thus providing their business models and strategies with higher levels of innovation and making them more robust.

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One of the bottom-line benefits of effective CSR governance is long-term corporate success. If a board fails to govern the company in a way that is congruent with CSR, the company is likely to fail.

- **Competitive advantage:** CSR can help establish a competitive advantage for boards looking to differentiate their firms from their competitors. Company boards that follow CSR-related issues and monitor their external environment properly are better able to: capitalize on opportunities; attract, motivate, and retain talent; develop new products or technologies to generate cost savings; and establish new markets. There is a significant opportunity for creating out-performance through board attention to the competitive opportunities of CSR.

- **Long-term orientation:** There is perceived to be a basic congruence between behaving responsibly and long-term corporate success. If a board fails to govern the company in a way that is congruent with CSR, the company is likely to fail sooner or later—eventually it will be tripped up by a CSR oversight.

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“If CSR governance is more than baroque architecture, then it is likelier to have a positive effect on long-term shareholder value.”

It is important, however, not to get too carried away by these claims. A more modest view is that while CSR governance could be necessary for good performance, it must be viewed as one element of many, not as a panacea. A company that performs well on CSR terms might have technological weaknesses or poor cost structures or strategies—for which no amount of CSR can compensate. CSR might be a prerequisite for corporate success, but perhaps not a genuine source of competitive advantage. However, while admittedly strong CSR governance is no guarantee of profitability, it can help ensure that the company finds a way to stay in business over the long term. Indeed, companies lacking a sustainable business model won’t survive over time.

The CSR business case, institutional shareholders with long time horizons, society at large, and other drivers are propelling CSR onto the board agenda and mainstreaming CSR as a governance concern. As CSR is increasingly taken up by corporations in Canada and around the world, more and more directors will be paying attention to these issues. In fact, as has been noted, a number of firms are establishing CSR committees—a clear indicator of these board priorities.

Overall, there is a growing trend in Canada and globally toward greater board consideration of CSR factors. A review of how leading CSR-oriented boards currently address CSR within their governance frameworks can help point the way to future practice in this area.
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n an attempt to understand current approaches to CSR governance within CSR-oriented firms, a survey was conducted. Eleven Canadian and seven international directors of companies with board CSR committees participated. They were surveyed on their definitions of CSR, the CSR board role and functions, barriers and success factors, and top CSR issues. A survey of 28 CSR governance thought leaders from around the world was also conducted to determine perspectives on the “ideal” board role in CSR oversight, potential barriers, and future best practices in CSR governance. Collectively, these views reveal that there is considerable good practice in operation at a number of leading CSR companies (although there is some disconnect between the “theory” and the “practice” of CSR governance). These insights, derived from leading thinkers and practitioners in CSR governance, paint a picture of the road ahead for boards looking to integrate a CSR perspective into their deliberations.

**HOW BOARDS DEFINE AND INTEGRATE CSR**

In order to understand the nature of current CSR governance practice, it is insightful to consider board perspectives on CSR: How do boards define it, and what is their approach to integrating social and environmental considerations into their decision making? Research into current practices of leading CSR boards reveals that boards follow one of three different models or approaches to CSR.

**STAKEHOLDER MODEL**

In the stakeholder model, boards are stakeholder-centric. They look at their obligations to their various stakeholders—consumers (and the marketplace more generally), communities (including community relations, philanthropy, and socio-economic development), employees (fair workplaces, health and safety, and diversity)—and to the environment. Stakeholders might also include

**Chapter Summary**

- Boards have different orientations toward CSR, and this affects their approach.
- Current practice is for CSR board committees to recommend and advise on CSR policies and principles and provide oversight on firm CSR performance. The committees spend less time on CSR strategy and risk management.
- There is no consensus on the board’s role in engaging stakeholders. Some believe boards should directly engage stakeholders, while others believe this is management’s purview.
future generations, suppliers and business partners, and aboriginal communities. Common to this perspective is the view that for a firm to be successful over the long run, stakeholders must also be successful. This perspective was the most common orientation, with over half the board directors applying this approach.

“CSR is the point of intersection of the various stakeholders and shareholder-value creation.”

INTEGRATION MODEL
The second most common perspective is that CSR governance involves overseeing the integration of CSR throughout the company. Directors who took this approach spoke of integrating ethical, social, and environmental issues into business decision making with a focus on balancing long-term interests.

“We have no set written definition. It goes without saying that we aim to comply with the spirit of law. We are aware that laws and regulations are lagging indicators of expectations and recognize that companies are one of the key building blocks of society and have moral obligations as any member of society. CSR is our behaviour, conduct, actions, and contributions that go beyond laws and regulations. In our view, when we talk about CSR, it is what we do beyond the law. Behaving responsibly requires us to move beyond solely profit-oriented considerations.”

SYSTEMIC CHANGE MODEL
A few directors spoke of CSR as being core to the purpose of their firms—firms whose mission is to provide life-enriching products and services and contribute to social and environmental well-being of communities and the planet.

While no attempt was made to assess whether the nature of the industry (e.g., consumer products versus resource company) affected the board’s CSR definition, it is interesting to speculate on the conditions which influence a board’s CSR philosophy.
“CSR is about effecting systemic change in working conditions, producing innovative and sustainable products, and using our products as a tool for positive social change. We aim to be a zero-impact consumer products company.”

While not all directors explicitly connected CSR to shareholder value, implicit in most definitions was the idea that directors saw CSR as contributing to sustainable value creation. Many commented that CSR was fundamental to their licence to trade.

In day-to-day practice, CSR is a routine business item of company boards. CSR committees meet roughly three to five times a year and then spend about 15–45 minutes per board meeting reporting on their deliberations (similar to other board committees). From time to time, a CSR item becomes a main agenda item at the board meeting. When that happens, discussion can last upwards of an hour or so.

“If there is an issue that will impact on the long-term value of the company, it gets discussed. The issues of social responsibility are given full and thorough debate and deliberation.”

In many cases, CSR is internalized within the company as a whole and thus is an element of most agenda items at every board meeting. Additionally, a few firms explicitly include CSR considerations in annual board strategy sessions.

“CSR is almost the subtext of virtually everything you are talking about.”

“CSR is always part of strategic planning.”

It would appear from the current practices as studied here that boards differ in both how and the degree to which they integrate CSR into general board deliberations, suggesting that approaches to CSR governance are still in considerable flux. For example, boards with a stakeholder orientation are likely to generate different strategies than boards focused on embedding CSR or those that focus the firm on transforming its business model toward advancing systemic change. Further, boards oriented toward considering reports of their CSR committees will generate different outcomes from those considering CSR within general board discussions, and different still from those that are expressly including CSR in board strategy development. These are very diverse approaches, with very different outcomes in terms of how the firm advances on the CSR path toward long-term value creation.

**ROLE OF BOARD CSR COMMITTEES**

All the subject firms studied for this report had CSR committees (a condition for inclusion in the study). These committees went by different names, such as “corporate responsibility,” “corporate social responsibility,” “public responsibility,” “corporate/social responsibility,” and “environment, health, and safety.” Officially, as noted in their terms of reference, over half the board CSR committees were mandated to review, recommend, and monitor compliance with policies (specifically, codes of conduct), management systems, commitments, and regulations.
Example of the Evolution of CSR Governance: NIKE

At the time it first began to consider corporate responsibility\(^*\) (CR) at the board level, NIKE had a director with a background in global women’s rights. This director made CR a special interest, sponsoring discussions on the global supply chain and the situation of workers and the environment. When NIKE began to take on major partnerships with NGOs around the world, the board decided it would be a good idea to have a board committee that could devote all its time to this area of work.

NIKE found that a focus on CR helped the firm move from risk management to a business integration model. This focus spawned a great deal of innovation and evolved into a deeper understanding of CR as a means of effecting systemic change in working conditions, developing innovative products, and using sports as a tool for positive social change.

CR was a founding principle of the company, with an orientation toward environmental and labour concerns (though its understanding of how to work on both fronts grew over time). While criticism of NIKE’s supply chain practices was a trigger of heightened board attention, CR was always a function and priority of the board. However, the way the board has understood the priority has changed over time.

The board established the Corporate Responsibility Committee in 2001 to review significant policies and activities and make recommendations to the board of directors regarding labour and environmental practices, community affairs, charitable and foundation activities, diversity and equal opportunity, and environmental and sustainability initiatives. The committee is made up of five board members; the board chair or the CEO (or both) attend every meeting. The committee meets three or more times a year for roughly two hours and reports regularly to the board.

Additionally, CR is discussed frequently at every board meeting as it is a factor in product innovation, supply chain management, and most business priorities. The board is working toward fully integrating CR into the firm’s business model. CR matters come up regularly and are integral to how the whole business is discussed. The board includes financial and non-financial metrics in its decision-making process on executive discretionary bonuses, and it looks at social and environmental progress as part of the overall performance of the business. Given the board’s oversight of, and role in, setting the strategic direction of NIKE’s CR approach, the board and its Corporate Responsibility Committee have significantly influenced the firm’s approach to innovation for a better world.

\(^*\)Note that NIKE uses the term “corporate responsibility” rather than “corporate social responsibility.”

Other common mandates within committee terms of reference include: monitoring and providing recommendations on public policy, consumer, stakeholder, corporate and general public trends, issues, and developments that could impact the company; monitoring and overseeing CSR risk management; monitoring stakeholder relationships; providing oversight and guidance on CSR performance/progress; reviewing and recommending changes to CSR reports; monitoring crisis readiness and emergency plans; reviewing legal proceedings; and reviewing incidents and remedial actions.

In practice, the board committee is most frequently responsible for:
- advising on the scope and philosophy of principles and standards;
- designing, updating, and monitoring implementation of CSR policies; and
- reviewing scorecards and monitoring progress against CSR targets.

Some additional functions mentioned by interviewees include:
- discussing CSR strategy;
- identifying and managing issues;
- ensuring support for CSR from top management;
- ensuring that there is sufficient budget to implement CSR commitments;
- including CSR in capital planning; and
- monitoring compliance.

Less frequently mentioned were committee responsibilities for monitoring and providing recommendations on CSR trends and developments that could impact corporate performance. (These are, however, common formal committee mandates. It is interesting to speculate as to why CSR committee directors don’t mention this as part of their role. Might it be that they do not feel as equipped to comment on trends and developments that could impact corporate performance?)
This look at the role of CSR board committees suggests that they are primarily spending their time on recommending and advising on CSR policies and principles and providing oversight on firm CSR performance. Less common are CSR strategy and risk management. In fact, CSR strategy development was rarely included within the committees’ terms of reference.

**MECHANICS OF CSR GOVERNANCE: THEORY AND PRACTICE**

With the growing awareness of the inherent role of the board in addressing CSR matters, expectations are outpacing current practice (which is evolving at a real-life pace). Appendix E provides a summary overview of how the literature perceives the CSR role and practice for boards in contrast to the perception of thought leaders and the current state of play. This analysis reveals that the spotlighted firms have strong CSR governance programs—as evidenced by their practice of setting the tone at the top, developing CSR commitments, establishing a CSR committee, including financial and non-financial factors in CEO compensation, monitoring CSR performance through regular progress reports, and including CSR in new director orientation.

The comparative analysis also reveals some interesting disconnects or performance gaps. As noted in the earlier section, board interviewees did not indicate that identifying and managing material environmental, social, and ethical risks was a significant committee role or practice (although this does show up in the mandates of the firms’ CSR committees). Further, CSR does not appear to be a common element within business strategy development for practicing boards, even though this is a common exhortation on the part of thought leaders and within the literature review. Additionally, at present, social and environmental reporting is largely the purview of management. There appears to be modest board or committee engagement in establishing the initial scope of the report. This includes the material issues on which to report, with committee members typically involved in providing input on drafts. Sustainability and CSR reports appear to be released as management reports. Boards rarely approve their release as a disclosure statement to shareholders and stakeholders on firm sustainability performance, possibly highlighting some accountability gaps.

Regarding director recruitment, explicit CSR background or experience is not a criterion, though values alignment is deemed an important recruitment consideration. As for director education, CSR is typically included in new director orientation, but few firms focus on ongoing training of directors on CSR issues.

“No consensus on the board’s role in engaging stakeholders
Finally, there appear to be some philosophical differences on one key point. Many articles in the literature review point to the need for boards to have direct exposure to stakeholder interests and concerns. Most thought leaders believe stakeholder engagement to be the responsibility of management. The same holds true for the director interviewees. However, a few thought leaders argued for boards to establish platforms for stakeholder engagement, such

“Our Enrons of the world, it would be easy for boards to think CSR is simply a concern for honesty and integrity. However, the larger challenge is for boards to be informed about, and exposed to, situations where there are longer-term financial and reputational consequences for the entity, stakeholders, and the public. This, then, points out the need for certain CSR expertise on the board and within management.”
as advisory committees or annual stakeholder meetings, but this was rare. As for the companies themselves, one firm stood out for its stakeholder orientation. This firm reported that once or twice a year, an external stakeholder advisory committee (set up to advise management) meets with members of the board’s CSR committee for purposes of information. Additionally, from time to time, board chairs of this company have played a leadership role on strategic CSR initiatives and partnerships with external groups and NGOs. A review of the terms of reference of the 18 CSR committees reveals that over half have been given explicit authority to engage outside resources or external parties.

It is interesting to contemplate the nature of this disconnect on the appropriate role for active board engagement with stakeholders, but it points the way to future debates on the essential responsibilities of board directors. Expect boards and theoreticians to be grappling with the question of stakeholder engagement question in the years to come.

From this review, it is apparent that there are some strong CSR governance programs in place. The gap between current practice and thought leader expectations provides an indication of how CSR governance might evolve over time. A deeper understanding of the barriers and success factors for strong CSR governance might further reveal the opportunity road map for improving board practices in this area toward the end goal of enhancing shareholder value and sustainable wealth creation.

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**An Example of How Enbridge Includes CSR in Its Governance**

Enbridge defines CSR as conducting business in a socially responsible and ethical way, protecting the environment and the health and safety of people, supporting human rights, and engaging, respecting, and supporting the communities and cultures within which the company operates. The firm has been actively championing a CSR ethic for a number of years and formally adopted a CSR policy in 2004. Enbridge’s long-standing CSR orientation stems from its belief that having the trust of its community partners is a key element if the company is to continue to be successful at achieving both sustainable growth and increased corporate value. Attracting and retaining skilled employees is another key driver of CSR at Enbridge. The company believes that employees prefer to work for a company that focuses on CSR and can communicate progress in this area. This belief is expressed at the board level through a strong program of CSR governance.

The board oversees the way the company interfaces with the community, government, employees, other stakeholders, and the environment. It monitors corporate performance in these areas—everything from traffic accidents and employee well-being to emissions in the atmosphere, climate change policy, and pipeline safety. The board seeks to ensure that it is conducting business in a socially responsible and ethical way. Its primary motivation for considering CSR within its overall governance model is that it believes good CSR is good for business. The board wants employees to be proud of the way the firm operates, and it wants host communities to see Enbridge as a loyal participating partner in the community. The most important things a company has are its reputation and brand—and the board is responsible for ensuring that Enbridge’s reputation and brand are enhanced so as to generate stock value for shareholders.

In 2004, the board renamed its Environment, Health, and Safety (EH&S) Committee the “CSR Committee” and expanded its mandate to include responsibility for human rights, community investment, and stakeholder relations. The committee, composed of five directors, meets four times a year. The board might discuss CSR issues for 30 minutes, or the discussion could go on for hours, depending on the nature of the issues. (In fact, there are times when the board discusses CSR issues for the entire duration of the meeting.) The committee’s role is to receive regular reports from management on such issues as health, safety, the environment, charitable works, community involvement, human rights, impacts of operations on local communities, political contributions, and government relations. The committee plays a monitoring role, probing and overseeing progress and risks in key areas. Sometimes the committee recommends certain actions to the board, but most of the time it provides input and feedback directly to management. The committee monitors the firm’s performance and progress against targets and compares its performance—year-over-year and with that of its industry peers.

Additionally, the board includes key CSR issues in its strategic planning process, spending time on Aboriginal relations, greenhouse gas emissions, CSR issues in capital planning, and other CSR-related matters.
Barriers and Success Factors
Creating a Culture for CSR Governance

**Chapter Summary**
- Boards that do not understand the CSR business case are less likely to have a role in CSR matters.
- The lack of understanding and awareness of CSR opportunities and threats, and the absence of a CSR governance road map, are further barriers to CSR governance.
- A critical success factor for CSR governance is a strong culture and leadership by the chair and CEO in support of CSR discussions.
- Awareness of the CSR business case is an important precondition for CSR governance; boards that understand the opportunities to manage risks and create business value through a CSR orientation are more likely to be interested in CSR matters.

**Directors interviewed for this report identified the critical success factors in engaging boards on CSR matters, naming “culture/leadership” and “developing the business case” as the two most important success conditions. (See boxes “Critical Success Factors for Board Consideration of CSR” and “Awareness of the Business Case Is a Critical Success Factor for Board Consideration of CSR” for further commentary on the cultural, leadership, and business case aspects critical for successful board-level engagement on CSR.)**
In some instances, management leadership on CSR is deemed key to a strong CSR orientation on the board. Explicit efforts to educate boards on all aspects of CSR programs and developments can also result in greater awareness, interest, and engagement on the part of directors. In one instance, a strong focus on succession planning over the years enabled the board to recruit internal CEOs who were strongly aligned with the corporate values. In another example, CSR leadership was provided by a significant founding shareholder who held these values—the shareholder was deemed to be the key driver of CSR consideration by the board.

Additional success factors include: directors that are recruited for their CSR competency and are knowledgeable and strong champions of sustainability; the existence of a CSR committee that has a clear mandate and allows focused time and attention on key topics; and the inclusion of CSR within the mission and values of the company.

Having a specialized CSR function within the organization can help to solidify success. Finally, industry regulation on sustainability issues can be a further important contributing factor.

To overcome the barriers and reinforce conditions of success, it is essential to nurture a board culture for CSR. This is done by: developing the CSR business base; establishing a values framework; building CSR knowledge; understanding, encouraging, and rewarding leadership; fostering open board dialogue; including CSR factors in CEO succession planning and director recruitment and training; providing a CSR mandate to a committee; and structuring a CSR function within the firm. Addressing the CSR business case and the culture gap will be important considerations going forward.

Boards will need to understand these barriers and success factors if they wish to join the ranks of emerging best practice CSR governance practitioners. Indeed, it is important to understand the top CSR issues that boards will be grappling with over the decade and to become familiar with predicted future best practice in CSR governance so as to develop an overall CSR governance road map.
CHAPTER 6

The CSR Board Agenda and Future Best Practices

A CSR Governance Road Map

Chapter Summary

- Climate change will be the most critical CSR issue for boards in the coming years.
- “Good corporate governance” will be redefined in the future to include CSR.
- Boards will take either an “embedded” approach or a “focused” approach to integrating CSR into their affairs.
- Boards will integrate CSR into their strategy sessions.

Climate Change to Be Most Critical Issue for Boards

Board CSR priorities in the coming years will be as diverse as the firms themselves. Board CSR agendas will encompass both social and environmental issues, and at the top of the list will be climate change—the firm’s role and responsibilities in dealing with climate change and the opportunities and risks engendered by global warming.

Secondary issues on the environmental front include water, land access, and product stewardship. On the social side, the focus will be on diversity, compensation, workplace issues, labour shortages, aging and other demographic challenges, health care, human rights, ethics, and community and customer relations.

These CSR issues may well find their way onto the board agenda, whether driven by a crisis, competition, or forward thinking. They are likelier to do so if they are identified, managed, and leveraged through a comprehensive CSR governance program. The following section provides an overview of future best practice in CSR governance, which can be rolled up into a road map or guidance tool for directors wishing to bring CSR into the boardroom.

Board CSR agendas will encompass both social and environmental issues. Climate change will top the list—the firm’s role and responsibilities in dealing with it and the opportunities and risks engendered by it.

“Good Corporate Governance” Redefined to Include CSR

Our research reveals that, in future, CSR will be integrated into basic governance practice, effectively redefining “good corporate governance.” There are two models predicted for future best practice in CSR governance: embedded and focused.
TWO MODELS FOR FUTURE GOOD PRACTICE IN HOW BOARDS APPROACH CSR

In the “embedded” CSR model, CSR becomes absorbed into traditional governance processes. It becomes part and parcel of board duty to look at long-term resource constraints and other social and environmental risks and opportunities, and to factor these considerations into corporate strategy and oversight. In such an integrated model there won’t be a distinct CSR group, director, committee, remuneration bonus, or stand-alone CSR report. CSR—expressed as universal principles—will be incorporated into the corporate charter at the constitutional level. This will be the foundational framework from which CSR governance will flow.

“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.”

In the “focused” CSR model, boards still adopt CSR at the foundational level and embed their CSR perspectives into the firm’s mission, vision, and values. However, boards of directors following this approach explicitly consider CSR matters. They provide structured time for CSR, whether on the main agenda or, more commonly, through a separate board committee that takes time to delve into the issues. CSR becomes a focus of the business strategy and is expressly integrated into performance management systems. Executive compensation is tied to the achievement of environmental and social (in addition to financial) goals. These boards regularly account for their social and environmental performance against goals and targets, through CSR reports or other methods.

Neither model is likely to hold sway; indeed, the approach boards take may be more a factor of the firm’s culture, its external environment, its place on the CSR learning curve, and/or the degree to which the CSR ethic has been thoroughly and successfully integrated into business decision making.

Both approaches are likely to include the following additional practices:

- **CSR in Strategy Development:** CSR will become integrated into corporate strategy in the future best practice board. Some boards may have a stand-alone CSR strategy; others might integrate a CSR perspective across the firm’s strategic direction, including possibly marketing, R&D, legacy and new products and services, new markets, and operations. Whether a firm follows an embedded or a focused approach, there will be a process for identifying and capitalizing on CSR opportunities as well as for managing emerging CSR risks. Both will make their way into CSR and firm strategy.

- **I am drawn most closely to the linkage between strategy and CSR. Unless CSR is an integrated part of corporate strategy, it just won’t happen. This is where the directors’ oversight should be focused.”**

- **CSR in Risk Management:** Future boards will recognize CSR as a financial risk that needs to be taken into account. They will manage their social and environmental risks as an overall part of their normal business—an integral part of successful corporate governance and management.

- **CSR Policies and Audits:** Boards will adopt CSR policies and embed CSR into current codes of practice. They will provide oversight of internal control systems to monitor conformance with the firm’s CSR policies.
“CSR governance will not be a box-ticking process. What was best practice yesterday will be routine tomorrow—the practice is evolving.”

- **CSR in Major Business Decisions and Capital Investments**: Board approval of major business decisions and significant capital investments will be subject to consideration of the social and environmental impacts on stakeholders, the environment, the supply chain, and other aspects.

- **CSR Training for Directors**: Future directors will have taken CSR training and be oriented to their governance role in respect of social, ethical, and environmental issues.

**EVOlution of Stakeholder Engagement**

As noted earlier, there is a debate over the proper role of the board when it comes to stakeholder engagement. There are a few isolated examples of boards and board chairpersons that take leading roles with key stakeholder groups; but for the most part, such practices are rare. While current best practice in stakeholder relations involves two-way dialogue between the firm and stakeholders, in future some predict an evolution toward stakeholder governance (a step beyond stakeholder management and engagement). Stakeholder governance could include stakeholder board members, stakeholder panels providing advice 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 for stakeholders to have direct access to the board.

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

**Evolution of Board Strategy**

Among firms that practice CSR today, the degree to which CSR considerations are brought into the board strategy process is mixed. A common view, however, is that having a clear CSR strategy will be central to effective CSR (and therefore financial) performance. Firms that incorporate social and environmental analysis and priorities into their board-level strategic planning, and that identify and strategize around material CSR issues, are likelier to achieve improved financial and sustainability outcomes.

Whether boards in the future follow the embedded or the focused model, good corporate governance will come to be defined in a way that includes a role for the board in social, ethical, and environmental matters. The following chapter provides a potential road map that points the way for directors, boards, their advisors, and investors to start taking these issues into account.
CSR Governance Road Map

Chapter Summary

- Boards can follow a 12-step “CSR governance road map” to plot out good practice in establishing their CSR governance framework. Investors and other stakeholders can use this model to assess board CSR performance.

- An important first step on the CSR path is for boards to be involved in establishing a CSR mission, vision, and values, and in setting the tone “at the top.”

- Communicating the board’s commitment and building CSR into risk management, strategy, performance monitoring, and reporting are critical additional steps.

- More advanced boards may wish to ensure that executive compensation incorporates CSR components, that directors are recruited, trained, and oriented on the basis of CSR factors, and that critical business decisions such as CEO recruitment, mergers and acquisitions, and major capital investments consider CSR impacts and opportunities.

A CSR governance road map, or framework, is proposed here to stimulate debate and discussion about the proper role of the board of directors in factoring social and environmental considerations into building long-term shareholder value. Boards can use this as a template to review the role they would like to play in CSR strategy, oversight, and reporting. Investors can use the road map as a checklist for assessing the degree to which a firm takes CSR risks and opportunities (which affect long-term shareholder value) seriously.

Stage 1 is for those boards just starting out and includes the initial steps a board might take to move along a CSR path. Stage 2 is for boards that are ready to take their CSR role to a more integrated level.

The following road map has been organized into Stage 1 and Stage 2 CSR governance. Stage 1 is for those boards just starting out and includes the initial steps a board might take to move along a CSR path. Stage 2 is for boards that are ready to take their CSR role to the next, more integrated, level. Altogether, there are 12 steps to a comprehensive CSR governance model.
A Road Map for CSR Governance

Stage 1 For Boards Just Starting Out

1. Build CSR into the firm’s mission and values.
   Establish CSR mission, vision, values, principles, and policies in
   consideration of stakeholder priorities and international standards.

2. Communicate board’s commitment.
   Communicate the board’s CSR commitment internally and to stakeholders.

3. Build CSR into risk management.
   Include social and environmental considerations in risk and
   opportunity identification, management, and monitoring.

4. Integrate CSR into business strategy and provide oversight.
   Integrate CSR into business strategy and corporate plans;
   set goals, objectives, and targets, and monitor performance
   against targets.

5. Mandate a committee with CSR responsibility.
   Include a CSR mandate within a pre-existing committee,
   or establish a new committee with a clear mandate.
   (See box “Proposed CSR Committee Mandate.”)

6. Report to stakeholders on CSR performance.
   Review and approve third-party audited CSR report for
   distribution to shareholders and stakeholders; ensure CSR
   report complies with international CSR reporting standards.

Proposed CSR Committee Mandate

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, stakeholder, corporate, and general public trends, issues, and developments that could impact the company.

Risk Management: Monitor and oversee CSR risk management plans; review effectiveness of 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 board CSR report.

Incident Management: Review incidents and remedial actions and monitor crisis readiness and emergency plans.

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

Sources: The Conference Board of Canada; Strandberg Consulting.
Stage 2 For Boards Ready to Take CSR to Next Level

Incorporate non-financial/longterm objectives into executive compensation; ensure performance management systems reward CSR performance.

8. Recruit directors with CSR perspectives. 
Explicitly include CSR in director recruitment, e.g., director diversity and experience and background in CSR issues/management.

9. Orient and train directors on CSR. 
Include CSR in director orientation, ongoing training and education, and board evaluations; ensure board is provided with adequate CSR expertise and information to make informed decisions.

10. Provide mechanisms for stakeholder input. 
Ensure mechanisms are developed for board consideration of unfiltered input from stakeholders.

11. Recruit CEOs with CSR competency. 
When recruiting a new CEO, ensure candidates are assessed for CSR awareness and competency.

12. Consider CSR in major business decisions. 
Include consideration of CSR in major acquisitions, business partnerships, mergers, and investments.

After a board has followed all these steps toward integrating CSR into its mandate, it will want to assess progress and impact. The board may then decide that it has achieved its integration objectives and that it no longer requires a stand-alone CSR committee. At that point, the board may prefer to integrate CSR perspectives into other committee mandates (audit, risk management, human resources, governance, etc.).

This 12-point road map can be a guidance framework for boards seeking to take social and environmental factors into account in their deliberations. Most of these elements are already in practice among leading CSR firms around the world that are looking to build long-term shareholder value. Boards that integrate these steps into their corporate governance program will be able to benefit from greater CSR oversight and strategy on material issues that affect the future of the company.
CHAPTER 8

Conclusion

Chapter Summary
- This study reveals that there is a definite trend toward increased board oversight of a firm’s social, environmental, and ethical performance.
- Although current practice is limited, the growing business case for CSR, along with the engagement of institutional investors and the arrival of a new generation of directors, will “mainstream” CSR governance in the years ahead.
- There is considerable good practice in CSR governance that can provide a road map for directors to enhance their oversight role.
- The board’s key role is to “set the tone at the top.” This is a critical success factor in CSR governance—and, ultimately, CSR performance.

As the research reveals, however, even within many leading CSR firms there are disconnects between practice and theory—CSR factors are not a prime consideration in board recruitment and training, boards are not taking accountability for the firm’s CSR performance reporting, and CSR does not appear to be a strategic consideration in long-term strategy planning. Nevertheless, much good practice does exist, and that has helped in the development of a CSR governance road map. This road map is made up of 12 steps to help boards forge a path toward the integration of CSR factors into their operations. To move forward, it is clear there needs to be a board culture for CSR—the actions and mindset of the CEO and performance and the emergence of governance standards, codes, and regulations that prescribe a role for directors in considering stakeholder interests and long-term social and environmental operational risks, firms are expected to bump CSR issues from the C-suite into the board suite. While CSR factors are now considered primarily operational matters, all signs point to their becoming matters for board oversight and strategic decision making in the coming decade.

The growing realization of the CSR business case, more engaged investors, and a new generation of board directors will drive the mainstreaming of CSR governance.

This look at the trends, drivers, and current and best practice in CSR governance reveals a definite trend toward increased board oversight of a firm’s social, environmental, and ethical performance. While current practice is limited, the growing realization of the CSR business case, more engaged institutional investors, and (over time) a new generation of board directors will drive the mainstreaming of this practice in the years ahead. Given the materiality of CSR to firm
chair are critical to the setting of the tone. Indeed, this study concluded that “setting the tone” is a key role of the board. The board must “set the tone at the top” by articulating and communicating a clear values framework within which the firm operates.

Whether boards decide on a stakeholder, integrated, or systemic model, or whether they adopt an embedded or focused approach, one thing is clear—we will see more boards practicing CSR in the years to come. Debate will continue as to the role of the board in directly engaging (or even recruiting) stakeholders, how central CSR should be to firm strategy, the accountability of the board for firm CSR performance (as evidenced by the board’s role in the CSR reporting cycle), and the role of the CEO and board chair in shaping board CSR agendas. It is on these fronts that CSR governance will evolve in the coming years.

Boards seeking to do more than pay lip service to CSR issues will be integrating social and environmental incentives into the firm’s performance management system, recruiting CEOs in alignment with their CSR priorities, and building CSR into firm strategy. These areas are worthy of further study, as they will dictate how CSR unfolds in the years ahead.
APPENDIX A

Bibliography


Institute of Directors. *King Committee on Corporate Governance, Executive Summary*. Johannesburg: Author, 2002.


Peoples Department Stores Inc. (Trustee of) v. Wise, [2004] 3 S.C.R. 461, 2004 SCC.


# Advisory Committee Members

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Organization (location)</th>
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<tbody>
<tr>
<td>Peter Chapman</td>
<td>Executive Director</td>
<td>Shareholder Association for Research and Education (Canada)</td>
<td>Responsible investment NGO</td>
</tr>
<tr>
<td>Valerie Chort</td>
<td>Partner</td>
<td>Deloitte &amp; Touche Canada (Canada)</td>
<td>Consulting—CSR and risk</td>
</tr>
<tr>
<td>George Dallas</td>
<td>Managing Director and Global Practice Leader</td>
<td>Standard &amp; Poor’s (U.K.)</td>
<td>Rating agency</td>
</tr>
<tr>
<td>Tim Gardener</td>
<td>Global Head</td>
<td>Mercer Investment Consulting (U.K.)</td>
<td>Institutional investor</td>
</tr>
<tr>
<td>Georg Kell</td>
<td>Director General</td>
<td>United Nations Global Compact (U.S.)</td>
<td>Global corporate sustainability</td>
</tr>
<tr>
<td>Alex MacGillavry</td>
<td>Head of Programmes</td>
<td>AccountAbility (U.K.)</td>
<td>Think tank—accountability and transparency</td>
</tr>
<tr>
<td>Hon. Barbara McDougall</td>
<td>President and Chief Executive Officer</td>
<td>Canadian Institute of International Affairs (Canada)</td>
<td>Board director</td>
</tr>
<tr>
<td>Alex Neve</td>
<td>Secretary-General</td>
<td>Amnesty International Canada (Canada)</td>
<td>Social NGO</td>
</tr>
<tr>
<td>Patrick O’Callahan</td>
<td>President</td>
<td>Patrick O’Callahan &amp; Associates (Canada)</td>
<td>Governance advisor</td>
</tr>
<tr>
<td>Dale Parker</td>
<td>Director</td>
<td>Canada Pension Plan Investment Board/Talisman Energy (Canada)</td>
<td>Board director</td>
</tr>
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<td>Doug Pearce</td>
<td>Chief Executive Officer Chair</td>
<td>British Columbia Investment Management Corporation</td>
<td>Institutional investor</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>David Stewart-Patterson</td>
<td>Executive Vice-President</td>
<td>Canadian Council of Chief Executives (Canada)</td>
<td>Business</td>
</tr>
<tr>
<td>Mike Russill</td>
<td>Chief Executive Officer</td>
<td>World Wildlife Fund Canada (Canada)</td>
<td>Environmental NGO</td>
</tr>
<tr>
<td>Alyson Slater</td>
<td>Communications Director</td>
<td>Global Reporting Initiative (Netherlands)</td>
<td>Sustainability reporting</td>
</tr>
<tr>
<td>Alice Tepper-Marlin</td>
<td>Chief Executive Officer</td>
<td>Social Accountability International (U.S.)</td>
<td>Social NGO</td>
</tr>
<tr>
<td>Rt. Hon. John Turner</td>
<td>Partner</td>
<td>Miller Thompson (Canada)</td>
<td>Board director</td>
</tr>
<tr>
<td>Robert Walker</td>
<td>Vice President, Sustainability</td>
<td>The Ethical Funds Company (Canada)</td>
<td>Investor–shareholder engagement</td>
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<tr>
<td>Allen White</td>
<td>Senior Advisor</td>
<td>Business for Social Responsibility (U.S.)</td>
<td>Think tank—CSR</td>
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<tr>
<td>John Wiebe</td>
<td>Chief Executive Officer</td>
<td>GLOBE Foundation (Canada)</td>
<td>Think tank—capital markets and sustainability</td>
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<td>Peter Zollinger</td>
<td>Director</td>
<td>SustainAbility (U.K.)</td>
<td>Think tank—corporate sustainability</td>
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## APPENDIX C

### Thought Leaders

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<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>Phillip Armstrong</td>
<td>Head</td>
<td>Global Corporate Governance Forum, World Bank</td>
<td>United States</td>
</tr>
<tr>
<td>David Beatty</td>
<td>Chief Executive Officer</td>
<td>Canadian Coalition for Good Governance</td>
<td>Canada</td>
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<tr>
<td>Gary Brouse</td>
<td>Director, Corporate Governance</td>
<td>Interfaith Centre for Corporate Responsibility</td>
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<tr>
<td>Valerie Chort</td>
<td>Partner</td>
<td>Deloitte &amp; Touche Canada</td>
<td>Canada</td>
</tr>
<tr>
<td>Sean de Cleene</td>
<td>Director of Strategy</td>
<td>African Institute for Corporate Citizenship</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Mark van Clieaf</td>
<td>Managing Director</td>
<td>MVC Associates International</td>
<td>United States</td>
</tr>
<tr>
<td>George Dallas</td>
<td>Managing Director and Global Practice Leader</td>
<td>Standard &amp; Poor’s</td>
<td>United States</td>
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<tr>
<td>Bill Dimma</td>
<td>Director</td>
<td>Home Capital Group Inc.</td>
<td>Canada</td>
</tr>
<tr>
<td>Tim Gardener</td>
<td>Global Head</td>
<td>Mercer Investment Consulting</td>
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<tr>
<td>Sean Gilbert</td>
<td>Director</td>
<td>Global Reporting Initiative</td>
<td>United States</td>
</tr>
<tr>
<td>Dr. Julie Fox Gorte</td>
<td>VP and Chief Social Investment Strategist</td>
<td>Calvert Group</td>
<td>United States</td>
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<tr>
<td>Mark Goyder</td>
<td>Director</td>
<td>Tomorrow’s Company</td>
<td>United Kingdom</td>
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<tr>
<td>Pierre Habbard</td>
<td>Senior Policy Advisor</td>
<td>Trade Union Advisory Committee to the OECD</td>
<td>France</td>
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<tr>
<td>Jayn Harding</td>
<td>Head of CSR</td>
<td>FTSE4 Good</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Dr. Andrew Kakabadse</td>
<td>Professor, International Management Development</td>
<td>Cranfield School of Management</td>
<td>United Kingdom</td>
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<tr>
<td>Georg Kell</td>
<td>Director General</td>
<td>United Nations Global Compact</td>
<td>United States</td>
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<tr>
<td>Anne Kelly</td>
<td>Director, Governance Programs</td>
<td>Ceres</td>
<td>United States</td>
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<tr>
<td>Mervyn E. King</td>
<td>Senior Counsel</td>
<td>Supreme Court of South Africa</td>
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<td>Mindy Lubber</td>
<td>Chief Executive Officer</td>
<td>Ceres</td>
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<tr>
<td>Dr. Craig McKenzie</td>
<td>Professor</td>
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<td>Henderson Global Investors</td>
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<tr>
<td>Marion Swoboda</td>
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<td>Sustainable Asset Management</td>
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<td>Beverly Topping</td>
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<td>Peter Zollinger</td>
<td>Director</td>
<td>SustainAbility</td>
<td>United Kingdom</td>
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## Director Interviewees

### Canadian Directors

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<tr>
<td>Bob Astley</td>
<td>Corporate Director</td>
<td>Bank of Montreal</td>
<td>Canada</td>
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<tr>
<td>Mel Benson*</td>
<td>Chair, Environment, Health &amp; Safety Committee</td>
<td>Suncor Energy</td>
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<tr>
<td>Governor James Blanchard*</td>
<td>Chair, Corporate Social Responsibility Committee</td>
<td>Enbridge</td>
<td>Canada</td>
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<tr>
<td>Dr. F. Peter Boer*</td>
<td>Chair, Public Policy and Responsible Care Committee</td>
<td>NOVA Chemicals</td>
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<tr>
<td>Holger Kluge*</td>
<td>Chair, Health, Safety &amp; Environment Committee</td>
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<tr>
<td>Nancy Lockhart*</td>
<td>Chair, Environmental, Health, and Safety Committee</td>
<td>Loblaw Companies Limited</td>
<td>Canada</td>
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<tr>
<td>Jeffrey Marshall*</td>
<td>Environmental, Health &amp; Safety Committee</td>
<td>Catalyst Paper</td>
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<td>John Mayberry</td>
<td>Director</td>
<td>Inco/MDS Inc./Scotiabank</td>
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<tr>
<td>Ken McCready*</td>
<td>Member, Corporate Responsibility &amp; Environment Health &amp; Safety Committee</td>
<td>EnCana Corporation</td>
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<tr>
<td>Barbara McDougall*</td>
<td>Chair, Corporate Social Responsibility Committee</td>
<td>Imperial Tobacco</td>
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<tr>
<td>Mary Mogford*</td>
<td>Member, Corporate Governance and Nominating Committee Chair, Audit Committee (Environment, Health &amp; Safety Committee)</td>
<td>Potash Corporation of Saskatchewan</td>
<td>Canada</td>
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<tr>
<td>Eric Newell*</td>
<td>Member, Safety, Health &amp; Environment Committee</td>
<td>Nexen Inc.</td>
<td>Canada</td>
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<tr>
<td>Dale Parker</td>
<td>Director (since retired)</td>
<td>Talisman</td>
<td>Canada</td>
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<tr>
<td>Paul Tellier*</td>
<td>Chair, Human Resources, and Member, Audit Committee and Corporate Governance (Environment, Health &amp; Safety Committee)</td>
<td>Alcan Inc.</td>
<td>Canada</td>
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<tr>
<td>John Turner</td>
<td>Director</td>
<td>Empire Life Insurance Company</td>
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**International Directors**

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<td>Corporate Responsibility and Reputation Committee</td>
<td>Unilever</td>
<td>United Kingdom</td>
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<td>Jill Conway</td>
<td>Chair, Corporate Responsibility Committee</td>
<td>Nike</td>
<td>United States</td>
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<tr>
<td>Sir Christopher Gent</td>
<td>Chair, Corporate Responsibility Committee, Non-Executive Chairman</td>
<td>GlaxoSmithKline</td>
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<tr>
<td>Wim Kok</td>
<td>Chair, Social Responsibility Committee</td>
<td>Shell</td>
<td>United Kingdom</td>
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<tr>
<td>Hélène Ploix</td>
<td>Chair, Social Responsibility Committee</td>
<td>Alliance Boots PLC</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Marco Suter</td>
<td>Chair, Corporate Responsibility Committee</td>
<td>UBS</td>
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<tr>
<td>Dorothy A. Terrell</td>
<td>Chair, Public Responsibility Committee</td>
<td>General Mills</td>
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*Interviews with these directors were included in the interview analysis as they were board members of firms with “CSR/EHS” committees. The other interviews were conducted in the pilot phase.

Note: In two instances (Alcan and Potash), the director interviewed was not a sitting member of the “CSR/EHS” committee.
# Mechanics of CSR Governance
## Comparative Analysis

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<th>Literature Review</th>
<th>Thought Leaders (Ideal)</th>
<th>Directors (Actual)</th>
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| Practices     | • Determine core values, principles, and corporate purpose to frame CSR.  
                • Identify and manage material environmental, social, and ethical risks and opportunities.  
                • Integrate into board practices. | • Set values and tone at top.  
                • Assess risks and opportunities.  
                • Incorporate CSR within strategic plans.  
                • Create incentive structures for executive CSR performance.  
                • Focus on long-term orientation.  
                • Be accountable to stakeholders.  
                • Be informed and understand CSR issues. | • Set tone at top.  
                • Include CSR in principles and values.  
                • Provide oversight on CSR; monitor performance on CSR.  
                • Create incentive structures for executive CSR performance.  
                • Define business strategy in CSR.  
                • Identify and fund CSR responsibilities.  
                • Set and monitor CSR policy direction. |
| CSR Committee | • Set up accountabilities to monitor performance (e.g., committees). | Company-specific decisions to establish CSR committee. Options include:  
                • Role of full board  
                • Incorporate into all committee functions  
                • Incorporate into a pre-existing committee  
                • Stand-alone committee | All had stand-alone CSR committees. |
| Strategy      | Develop CSR strategy, targets, and key performance indicators. | Include CSR within planning and strategy development. | CSR is (occasionally) included within business strategy. |

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<th>Thought Leaders (Ideal)</th>
<th>Directors (Actual)</th>
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<td>Reporting</td>
<td>Disclose/report on CSR performance.</td>
<td>Boards should be involved in CSR reporting.</td>
<td>Provide input into CSR report; some boards approve the report, though most do not.</td>
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<td>Executive CSR Compensation</td>
<td>Link remuneration to non-financial factors.</td>
<td>Boards should tie executive compensation to environmental and social performance. (Alternative: Tie to long-term performance.)</td>
<td>CEO compensation includes financial and non-financial factors.</td>
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<td>Consideration of CSR in Director Recruitment</td>
<td>Include CSR in director recruitment.</td>
<td>Three approaches: • Ensure values alignment. • Recruit directors who can understand and represent stakeholder interests. • Recruit stakeholder representatives.</td>
<td>Three approaches: • Values alignment • Recruit directors with CSR orientation • Not a factor</td>
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<td>Training</td>
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<td>Include CSR in director training.</td>
<td>CSR is included in new director orientation; some reference to director training on CSR issues.</td>
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<td>Stakeholder Engagement</td>
<td>Identify and address stakeholder issues; establish opportunities for direct stakeholder engagement.</td>
<td>Stakeholder engagement is a management responsibility.</td>
<td>Stakeholder engagement is a management responsibility. Site, field, and facility visits and receptions are common opportunities for stakeholder interaction.</td>
</tr>
<tr>
<td>CEO Recruitment to Take CSR into Account</td>
<td>Include consideration of CSR.</td>
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<tr>
<td>Major Acquisitions or Investments</td>
<td>Include consideration of CSR.</td>
<td>No mention.</td>
<td>Mentioned once.</td>
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</tbody>
</table>
Related Products and Services

Governance and Corporate Social Responsibility Networks

- **Centre for Corporate Citizenship and Sustainability**—this new research centre is a “one stop shop” for CSR executives looking for a primary and reliable source of new knowledge to bring to their organizations.
- **Strategic Risk Council**—this council is for senior management with overall responsibility for strategic assessment and risk management in multinational and national firms.
- **Corporate Ethics Management Council**—this council is for senior executives who have strategic responsibility for ethics, compliance, or reputational risk management within their organization.
- **Public Enterprise Governance Centre**—this centre is for board members, chief executive officers, and chairs of public enterprises in Canada, including federal, provincial, and municipal corporations and agencies of the Crown.
- **Council on Corporate Aboriginal Relations**—this council is for directors, managers, and senior management personnel responsible for developing and managing their organization’s relationships with Aboriginal groups and companies.
- **Corporate Community Investment Council**—this council is for professionals responsible for managing their organization’s strategies and programs related to community investment and partnership development, stakeholder relations, and corporate contributions and reputation.

Research Reports

- *Risk, Governance, and Corporate Performance: A Board’s-Eye View*
- *Corporate Social Responsibility Review*
- *Compensation of Boards of Directors, 17th Edition: Cost of Running Boards Escalates*
- *The Elephant in the Boardroom: A Spotlight on the Board’s Role in Materiality—Meta-Materiality*
- *How to Ensure Ethics and Integrity Throughout an Organization*

Conference e-Proceedings

Conference e-Proceedings are audiovisual CD-ROMs containing a recorded archive of the presentations made at Conference Board events and synchronized directly with all PowerPoint presentations.

- National CSR Conference: Connecting Business Value With CSR
- Western Corporate Governance Forum: Next Steps, New Thinking
- 2008 National Governance Conference

The Directors College

Canada’s only university accredited, corporate director development program that leads to the professional designation Chartered Director (C.Dir.). The Directors College was founded by McMaster University’s DeGroote School of Business and The Conference Board of Canada.

For more information, go to www.thedirectorscollege.com.

Go to www.e-library.ca to see other informative reports that would interest you.
Phone 1-866-242-0075 for information on related products and services.
WANTED

Senior Leaders and Practitioners in Corporate Citizenship, Sustainability, and CSR
Explore Best and Next Practices, Exchange Ideas, and Make New Contacts

Who
CSR professionals looking for a “one stop shop” that provides information from a primary and reliable source should consider The Conference Board of Canada’s Centre for Corporate Citizenship and Sustainability. This new executive network brings together senior leaders from the public, private, and non-profit sectors seeking new knowledge and insight on the topic of corporate citizenship and sustainability. These key stakeholders will include suppliers, distributors, outsourcing firms, makers of related products or services, and technology providers.

What
The Centre’s objective is to help members increase their knowledge of corporate citizenship and sustainability and to discover new ways to bring their organizations up to current standards in such countries as the U.K. and Australia.

When
The Centre convenes up to three times per year, bringing together senior-level executives and practitioners via face-to-face and electronic networking. The use of leading-edge technology facilitates the dissemination of information to our members.

Where
The Centre meets in locations across Canada to address current corporate social responsibility (CSR), corporate citizenship, and sustainability issues through informal networking and structured presentations. Our inaugural meeting looked at “Benchmarking and Reporting Your CSR Initiatives.” The themes for subsequent meetings are based on consultation with members and cover current issues (such as climate change).

Why
For more than two decades, The Conference Board of Canada has helped Canadian businesses find their footing in CSR. Through our research, we publish strategic insights and develop practical tools to assist companies implement CSR. Through our Annual Corporate Social Responsibility Conference, executive networks, and The Directors College, we also bring together senior leaders from the private, public, and not-for-profit sectors to explore the changing role of business in society.

www.conferenceboard.ca
The Conference Board of Canada has a unique ability to bring together the senior leaders of Canada’s top organizations to discuss issues, share and compare best practices, and learn from each other. Our main services are:

**Executive Networks:** Exchange Ideas and Make New Contacts on Strategic Issues

**Conferences, Seminars and Workshops:** Learn from Best-Practice Organizations and Industry Experts

**Custom-Ordered Research:** Tap Our Research Expertise to Address Your Specific Issues

**The Niagara Institute:** Develop Leaders of the Future with Interactive and Engaging Leadership Development Programs

**Customized Solutions:** Help Your Organization Meet Challenges and Sustain Performance

**e-Library:** Access In-Depth Insights, When You Need Them Most

**e-Data:** Stay on Top of Major Economic Trends

**The Directors College:** Canada’s only university accredited corporate director development program

For more information, contact our Corporate Account Executive Team at 1-866-711-2262 or go to www.conferenceboard.ca.