Information Supplement

Social Responsibility Series

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PART 1 OF A 6-PART SERIES

What's a CEO to do?

David Hemler
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Welcome to the first of a six-part series on Corporate Social Responsibility (CSR). At Microsoft Canada Co. we regard CSR as a fundamental element of any sound business model and we encourage others to adopt similar policies, both as individuals and as corporate entities.

In association with the Rotman School of Management and Queen's School of Business, we have brought together several experts in the field to discuss CSR. In Part One, Professor Roger Martin, Dean of the Rotman School of Management, takes a wide overview of the issues and challenges surrounding CSR. Both Martin and our three other panelists make it clear that, where CSR is concerned, there are no easy answers for CEOs. Professor Martin highlights the lack of widely-accepted standards for CSR and the challenges that many CEOs face. The standards may be ambiguous, but he makes it clear that companies are expected to have a CSR strategy, and there can be real costs to a company's reputation for those who lack this focus.

Yet, as our panelists point out, even if there were "off the shelf" CSR solutions or well defined standards, they may not benefit most CEOs. CEOs need to grasp the broad implications of CSR, marry it with their business interests and then create a socially responsible vision that is both in line with the company's business and something that employees and other stakeholders can get behind and support.

In this way, socially responsible behaviour should be viewed not as an expense, but more as an investment in the company's brand and its reputation with customers, in the retention of its human capital and finally in its success as a business.

We hope you enjoy this provocative six-part series exploring the growth of CSR in the Canadian business community. Our next segment will appear on May 9, and will discuss some of the tools that CEOs can use to build a successful CSR program.

David Hemler

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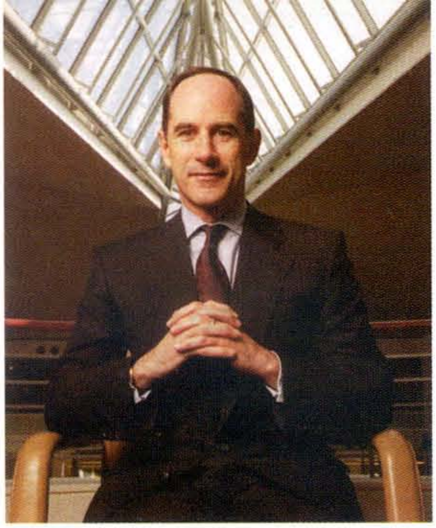

Corporate Social Responsibility: What's a CEO to do?

by Prof. Roger Martin, Dean, Rotman School of Management and Director, AIC Institute for Corporate Citizenship @ Rotman

CEOs everywhere are on the hot seat, feeling increased pressure

to run their firms in a way that makes them exemplary corporate citizens. And it's no wonder: the media and the public waste no time in attacking slip-ups in corporate behaviour; consumers show increasing willingness to punish corporations that they think are not being socially responsible; and employees are ever-less inclined to work for corporations that they think are not socially responsible.

Thanks to the Internet, over the past decade, social responsibility advocates have had no trouble pinpointing corporate actions they don't agree with; and if rebuffed by a corporation, they have been able to respond quickly and powerfully with effective campaigns. The tricky and frustrating thing for CEOs on the receiving end of these campaigns is that the sphere encompassing corporate citizenship has grown incredibly wide. To be socially responsible, corporations are being asked to do a wide variety of things: protect the environment in which they operate; adhere to strict standards of governance; take care of their employees; support their communities; promote health and wellness; support education; and more. To complicate matters, standard requirements for being considered "socially responsible" in each of these areas are ambiguous, at best.

The truth is, there are no widely-accepted standards for Corporate Social Responsibility (CSR). Some standards are beginning to emerge, such as the Global Reporting Initiative, the Global Compact, and the OECD Guidelines for Multinational Enterprises. However, none has gained anything close to wide acceptance, let alone widespread understanding of what they really mean.

Commentators, customers and employees calling for enhanced corporate citizenship have little or no advice for CEOs as to how to trade-off earning returns for their shareholders against performing acceptably-well across this wide array of CSR areas. They demand social responsibility, whatever exactly that means, but at the same time, performance at less-than-acceptable standards will be punished. And as we have seen, whether it be Royal Dutch Shell after the Brent Spar incident; Nike in the wake of Asian sweatshop allegations; or Arthur Anderson after Enron, the punishment can be harsh indeed.

Because the CSR universe is so broad, the standards high (yet ambiguously defined), and the economics mysterious, it is extremely difficult for a corporation to rebut an allegation of social irresponsibility. When Wal-Mart is assailed for allegedly engaging in sexually-discriminatory employee practices, it is no easy task for it to defend itself across its wider portfolio of activities. This one area tends to define Wal-Mart's overall irresponsibility in the minds of many commentators, customers and employees—whether rightly or wrongly.

Corporations need a way of getting out ahead of the CSR issue, or they risk either falling irretrievably behind, failing to earn the appropriate rewards for investing in citizenship, or both. The business world needs tools for thinking about CSR and a process for developing a comprehensive corporate citizenship strategy that can be carried out throughout a corporation and communicated to the outside world.

In 2004 Michael Lee-Chin, Chairman and CEO of AIC Limited, donated $10 million to the Rotman School for us to establish the AIC Institute for Corporate Citizenship. The purpose of the institute is to help business leaders better understand the changing role of their businesses in society and to develop new tools to help them make better decisions about corporate citizenship. Over time, we will create and disseminate an actionable model for making business decisions about corporate citizenship.

"They demand social responsibility, whatever exactly that means, but at the same time, performance at less-than-acceptable standards will be punished."

The research we are conducting aims to equip CEOs with an effective model that enables them to make a coherent set of choices that result in their corporations being seen as exemplary corporate citizens. Our analysis takes the perspective of a corporate CEO who wants to do the right thing, but doesn't know how. In taking this perspective, we are in no way suggesting that the many other facets of CSR are not useful and important. CSR work has many applications—from helping governments and NGOs think about the role of corporations in society, to providing ways for investors to think about the interests of the social good, to helping activists hold corporations accountable for bad behavior. These and other applications are all interesting and legitimate, but our focus and the creation of tools must begin somewhere.

In 2002 I put forward a tool for thinking about CSR that I designed to help CEOs think through the practical task of being an exemplary corporate citizen. The creation of the tool, the "Virtue Matrix", was motivated by the absence of thinking models that can help CEOs think through questions around CSR. In the next article in this series (which will appear in the May 9th issue) I will discuss how this tool can help CEOs calculate the return on CSR.

Roger Martin (martin@rotman.utoronto.ca) is Dean of the Rotman School of Management, University of Toronto and is Director of the School's AIC Institute for Corporate Citizenship. He is Chairman of Workbrain Corporation, a Director of Thomson Corporation and Chairs the Institute for Competitiveness and Prosperity. Prof. Martin serves as a Trustee of the Hospital for Sick Children and the Skoll Foundation and is a co-founder of the Emagine Program.

Each of the CSR-focused articles in this series will be accompanied by a discussion featuring an expert panel with special interest in Corporate Social Responsibility

Discussing professor Roger Martin's "Corporate Social Responsibility: What's a CEO to do?"

Jasmina Mihajlovska
Director, Corporate Social Responsibility
Direct Energy North America

Michel Leduc
Vice-President, Industry and Government Affairs
Sun Life Financial

Rosemarie Boyle
Vice-President, Corporate Communications and External Relations,
Export Development Canada

1 Professor Martin suggests that there is serious pressure on CEOs to act according to the dictates of Corporate Social Responsibility and very few road maps on how to do that. Would you agree with him?

LEDUC CEOs are facing a significant challenge with CSR and I would agree that the bar is being raised. There are many issues that the CEO has to focus on while balancing significant conflicting interests. For example, what do you say to shareholders who are looking to a company to increase their returns and not to join Greenpeace?

I think what a CEO needs to do is really have a fundamental grasp of those conflicting interests and try to create a strategy or be behind the strategy/vision. The CEO must set the tone from the top and try to communicate—whether it is through the annual meeting or important documents—that we are trying to achieve value for all of our stakeholders. It is not just table stakes anymore; we have to take a very aggressive position on environment or the war for talent. It is not just altruism; it is based on a corporate strategy to create value for all of our stakeholders whether they are employees, the community or shareholders.

2 How does Canada measure up internationally in CSR?

BOYLE It is interesting to me that Canada is in a different situation from the UK and US. I would say that the UK is very far ahead of Canada in the whole CSR world. US companies—with obvious examples over the past few years—have had to come to terms with this, but through more of a regulatory approach. In Canada, we see that some of the big companies know what CSR is all about—at least the ones operating internationally. They have gone through it in the context of dealing with environmental standards, anti-corruption guidelines, transparency and so on, especially if they are in the mining/extraction or oil and gas business.

But amongst the mean, I think it is still a relatively new concept and they need to think about it not only from a domestic perspective but also from an international perspective if they are going to grow their size.

MIHAJLOVSKA Canadians are in an enviable position in that, for the most part, nothing is being imposed on them today from a regulatory or legal perspective. The UK for example, has reporting laws that we do not have here.

It gives us an opportunity to forge a leadership position and set the path and not let the government do it for us. My company is in the energy sector and even though we're not a BP or a Shell—and we do not impact the environment directly the way that they do—we still rely on those companies, so we do have a responsibility to manage those relationships and make sure that they are acting as good citizens just as we are acting as good citizens in the market place.

LEDUC I'm on the front line of these issues. There are a tremendous number of questions and discrepancies and it's a lot of work. We have to be selective about those CSR policies that have the most impact. You either do it right or you don't do it.

3 Once it was said "a CEO's sole responsibility was to the shareholder to increase profits"—would you say that those days are gone?

MIHAJLOVSKA Yes. However, even to this day, we think of the case in 1929 where a Canadian bank president argued passionately with skeptical shareholders in favour of charitable donations, and most recently with the Tsunami disaster—you are still reading articles of companies or CEOs who are being criticized for spending money without the shareholders' permission.

It goes beyond the shareholders. We have stakeholders to consider in our strategy and we have a commitment to the marketplace.

If we say we want to do business here then we have more things to consider than just the shareholders.

BOYLE I would add that CEOs are under pressure from their own people. Their employees themselves are defining CSR—"communities are best"—things like that. Especially younger employees—generation Y. They're expecting that they will be working for companies, organizations and NGOs that are living up to their social responsibility. So the employees are holding their corporations and specifically their CEOs, more accountable. And it is having a major impact in the marketplace.

Poor CSR practices will hurt a company's reputation and impact immediately on the bottom line. You are going to have a high turnover of staff, you may have customers who don't stay with you or you may hit regulatory problems and lose your license to operate. I think most advanced CEOs understand that they have a responsibility. They have to bring their shareholders along with them and in many cases the shareholders, like the employees, can help instill that expectation on the CEO.

MIHAJLOVSKA That is an element we are seeing in our business relationships with suppliers, government etc., when we meet with them. They are asking us about our CSR strategy and community involvement, and often times we have won contracts where we haven't necessarily been competitive. Our prices per kilowatt/hr may be higher than a competitor's. But because we have invested "X" amount of goodwill in our community we have ended up winning that bid.

4 Coming back to professor Roger Martin's "What is a CEO to do?," he is suggesting that some CEOs are lacking in vision, that there is a timidity there. Who do you see out there doing exceptional things?

BOYLE I don't think it is generally known in Canada, but we are definitely seeing some leadership from a number of Canadian companies—perhaps not as many as we would like—who have signed up for the global compact. HBC and Talisman are two that come to mind. And there have been leaders within the oil and gas sector. So there is some leadership, but there is room for more.

MIHAJLOVSKA Are there CEOs who come to mind? I think that sometimes, unfortunately, CEOs are sequestered in an ivory tower and they are not as accessible to the general public, let alone to their employees.

It is important for CEOs to be talking about CSR. It does need to come from the top. I think philosophically, CEOs will say that they support CSR and believe in it, but they might not have the vision to execute. And that is why it's important to bring people on who will carry it out.

5 What's a CEO to do?

BOYLE The CEO sets the tone, it's a top down approach. Their office is where the vision and accountability is set. CEOs get the big bucks, not only to develop the business strategy, but also to devise the whole vision for the company. And they must do what they can to put in place the kind of structure and people that will drive that behaviour. The CEO's role is crucial and hopefully it is someone who has a broad vision, not only of his or her own industry sector, but of the responsibilities to the larger community and globally, especially if they are a multi-national.

The CEO needs to have the courage of his or her convictions to not only walk the talk but to make sure that the employees do as well. Also, to put it into terms that everyone—shareholders, stakeholders, employees—can relate to. They don't have to be a leader in every aspect and that is probably not even possible, but they do need to figure out what is right for their company and drive that kind of performance.

MIHAJLOVSKA It is a cultural shift in perception that needs to come not only from the CEO but also from the whole senior management team pushing it down. And the employees need to push it up and meet half way.

I think that it's important to use CSR as an education vehicle to communicate with stakeholders that this is important and interdependent, not exclusive.

CSR is tied to our overall corporate strategy, business plan and the promise to deliver our corporate values. It is endless. I don't even think we're able to put a definition around it because I feel that it limits us. I like the idea of letting a CEO run with it and empower his team to implement it.

BOYLE I think the CEO should be looking at the cost of not having sound corporate values or good CSR practices. If they have that in place, it is going to determine the way they react to economic problems in their industry; it is going to impact their response to a crisis, such as a tainted product, environmental contamination, etc.

I think that companies that have a CSR as an operating principle have armed themselves to a certain extent because it is going to condition their business responses in a whole variety of areas.

LEDUC Even the most hardened stock analyst will recognize that the most valuable part of an organization is their reputation and brand.

The CEO of a certain famous company once said that "all my factories all around the world can burn down tomorrow, but I still have my logo." And it was a powerful statement, because that is where the value is.

Yes, there will be downturns and some upswings, but companies that focus on the long term create value through the decades. There is a clear correlation between those companies that have a robust approach to governance and employee relations and those who don't. Despite swings in the market, there is solid evidence that those companies that have done it right have a greater value proposition for all of their stakeholders.

You can say that some organizations have built their position and reputation on more than just the quality of their products.

MIHAJLOVSKA I think the most important thing for CEOs, or for anyone in this discipline, is to look at CSR as an investment and not as expenditure. It is about more than just writing a cheque, it is about getting your employees engaged in community activities, environmental issues or whatever the pillars are within your CSR strategy. I think when you present it to CEOs and executives that way, they get it—and then they want you to be able to measure those results.

As a leader you have the opportunity to forge your own path and not have it imposed on you. As a follower you have to adapt other people's practices.

It really comes down to good management. If you have a solid CEO and leadership team committed to this, you will see great things. ■