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Economy Paper:
Canada

Corporate Social Responsibility in the APEC Region

Current Status and Implications

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Canada

HRD 01/2003T

Enhanced Risk Management System in the APEC Region: Toward Establishing Effective Corporate Governance

Economy Paper

Corporate Social Responsibility in Canada

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Introduction

A two-day symposium and workshop was held in Tokyo in January 2005 under the auspices of the APEC Project entitled *Enhanced Risk Management in the APEC Region*. The symposium brought together over 250 senior business executives and government officials, as well as experts from across the Asia Pacific region. The symposium explored various aspects of emerging and best practice in the area of corporate social responsibility (CSR) with a particular emphasis on the role of CSR in the management of global supply chains. In the symposium and the accompanying experts' workshop key themes and issues related to CSR in the APEC region were identified. As a follow up to the symposium it was agreed to prepare a compendium of issues and practices, based on individual APEC economy papers. Seven APEC economies have agreed to submit such papers.

As part of this collaborative process, this paper examines the state of CSR in Canada. The paper has been prepared by professional staff of The Conference Board of Canada, a private applied research institution with an extensive program in governance and CSR issues, under the direction of Dr. Charles A. Barrett, Senior Executive Advisor.[1]

The paper outlines:

- the political, institutional, economic and social context which is shaping Canadian corporate commitments to CSR;
- the evolution of CSR in Canada, and its current state, illustrated with data from the Conference Board of Canada's 2004 National CSR Report, as well as selected examples of Canadian practice;
- the social responsiveness of Canadian firms to social, ethical and environmental pressures; and finally
- some general comments on the likely future direction of CSR in Canada.

Origins of CSR Practice in Canada

Isolated incidents of corporate malfeasance or irresponsible conduct notwithstanding, Canadian values and principles such as fairness, integrity, respect for others, openness and diversity are often perceived to be embodied in the way that Canadian companies conduct business, when at home or abroad. In the global economy, this reputation often precedes Canadian firms' entry into foreign markets and is a vital antecedent to the development of stakeholder trust and licence to operate.

This reputation is being put to the test at home. Within Canada, the role of business in society continues to generate debate and occupy contested political space. Constituencies affected by corporate activity are concerned about voicing and exercising their individual, local community and 'global citizen' rights to protect own interests and to hold to account powerful, and most importantly unelected economic entities. A fragmented, yet often vocal and market-savvy civil society has also risen to agitate for accountability and varying degrees of control over corporate power. These actions at the level of the firm can, in turn, be viewed as part of a much larger political trend of an informed and cynical citizenry concerning itself with addressing perceived gaps and deficiencies in contemporary political governance frameworks (of which corporations are now viewed as being part of the global governance architecture).

However, neo-conservative ideologues in some parts of the mainstream Canadian media and business community continue to portray CSR as anti-business, reflecting a left-wing agenda to undermine the efficient and responsible use of owners' financial capital in the pursuit of social goals. Organized labour, a key stakeholder representing close to 30 per cent of the Canadian workforce, is conspicuously absent from much discussion around CSR. Canadian unions are often cynical and suspicious of CSR, regarding it as a strategy by owners to abrogate their responsibilities and circumvent international humanitarian law that circumscribes universally accepted human and labour rights.

Political, Institutional, Economic and Social Context for CSR in Canada

Canada is an open democracy, founded on the principles of "Peace, Order and Good Government." Companies operating within Canada are subject to the rule of law, while also having the freedom to innovate and adopt beyond-compliance practices that build business value. Many of the key norms of environmental and socially responsible behaviour are variously enshrined and required by national and provincial laws, statutes and regulations in Canada, in the legislation of many of the countries in which Canadian firms operate and in international humanitarian law and codes to which Canada subscribes (such as the UN Declaration on Human Rights, ILO Core Labour Conventions and the OECD Guidelines for Multinational Corporations). These documents define *de facto* and *de jure* minimum acceptable standards of business conduct across a range of corporate areas of activity, namely in the areas of environment, health and safety, labour and human rights.

As a federal state, jurisdiction over many of the issues that fall within the remit of CSR in Canada is divided between the federal, and the provincial and territorial orders of government. In some cases, jurisdiction overlaps (for example, in the area of the environment), giving rise to a complex and sometimes conflicting regulatory landscape within which Canadian firms operate. Simply meeting legal compliance obligations in face of the sometimes contradictory, and often overlapping, legislation is often cited by Canadian companies as a key operating challenge.

Paralleling Canada's uncoordinated approach to implementing 'sustainable development' policy and strategy, CSR is still largely 'ghettoized' in Canadian federal public policy. Specific departments address specific aspects of CSR through various policies and programs. CSR issues are also identified regional and trade agreements, in particular the labour and environmental side- agreements of the North American Free Trade Agreement (NAFTA). At the federal level, although no one federal department has responsibility for CSR, an inter-departmental working group (titled 'Club C') has been formed to discuss related issues on an ad-hoc basis. Several departments are communicating about CSR in an attempt to encourage its mainstreaming. For example, Natural Resources Canada, the federal department responsible for the resource sector, has recently published a best-practices guide to CSR. Environment Canada, the federal environment department, has started to address the issue as part of its 'sustainable economy' policy thrust, and has recently supported research on the topic of how capital markets are valuing socially/environmentally responsible business practices. Department-sponsored voluntary initiatives such as the Voluntary Challenge Registry (VCR) and the Accelerated Reduction/Elimination of Toxics Program (ARET) have been important drivers of corporate CSR. Industry Canada, the federal industry ministry, has supported the development of an on-line 'sustainability reporting' toolkit, and has recently published a guidance document on CSR. Foreign Affairs and International Trade Canada has tied CSR to the issue of human security and pro-poor development strategies, as well as acting as the National Contact Point for the OECD Guidelines for Multinational Enterprises.

Where voluntary action is not meeting public expectations, legislation and regulation has been passed. One notable regulatory response is recent changes to Section 459.3(1) of the Bank Act, which requires all federally regulated financial institutions (e.g. banks, insurance companies) with capital assets in excess of $1-billion to issue an annual Public Accountability Statement (PAS), covering some aspects of CSR (such as volunteerism, charitable giving). Another example is the introduction of federal legislation in Canada (2003) to hold corporations criminally responsible for failing to provide a safe work environment. Bill C-45, the so-called Corporate Accountability or Westray bill, received Royal Assent in November 2003, and came into force on February 1, 2004. This far-reaching bill establishes criminal liability for employers and individuals when they fail to take reasonable steps to prevent workplace accidents that affect workers or the general public. Compared with previous occupational health and safety statutes that covered negligence, the primary distinction of Bill C-45 is that it elevates the infraction to a criminal offence. Further, Bill C-45 toughens the law to extend liability beyond directors and officers to employees who have the authority to direct work in the workplace. The law holds individuals liable, not just the corporation proper. Casting a wider reach in other ways, Bill C-45 extends liability to accidents incurred by the general public, not just workers. Bill C-45 increases maximum fines from the current $25,000 to $100,000. Indictable offenses have no maximum fine.

Canada is a society in transition. Historically characterized as a society based on pluralism and the common concern (differentiated from the more individual-centric orientation of its immediate southern neighbour), the Conference Board of Canada has recently (2002) noted that Canadians are embracing post-materialist values, rooted in individual desires for belonging, freedom, self-esteem and quality of life. These shifting values have profound implications for public policy and for the way that corporations organize themselves and interact with society.

Current CSR Practice in Canada

In 2004 the Conference Board of Canada published a National CSR Report entitled *Managing Risks, Leveraging Opportunities*, which set out the state of practice in Canada at that time.[2] The report was based on national survey of the top Canadian corporations, supplemented by a comprehensive analysis of publicly available corporate information, and interviews with stakeholders, representing a range of public, private and civil society organizations. The key findings of the report were as follows:

1. Corporate social responsibility will continue to be a key business issue.
   Companies will not be able to operate without giving consideration to their operational impact on society. The risks of not keeping pace with market and stakeholder expectations are significant. So, too, are the opportunities.

2. In Canada CSR is being formally integrated into business conduct.
   While CSR applies to all companies, in Canada industries subject to intensely political or regulated environment, such as mining, energy, forestry and banking, have responded most strongly to stakeholder demands for CSR practices. Profiles of CSR Sectors, prepared for the Conference Board report are shown in the accompanying boxed text.

INDUSTRY PROFILES:

BANKING

Long considered a sector with a low negative environmental (pollution and greenhouse gas emissions) and social footprint, Canadian financial institutions are now realizing that the scope of their footprint is actually much wider.

Along with managing the impact of their own operations, financial institutions have a critical role to play in encouraging clients to operate responsibly and mitigate their social and environmental impacts. Since financial institutions control the flow of capital, their lending, project financing, and insurance policies and practices can influence the behaviour of businesses they support. Social and environmental issues can pose significant potential credit and investment risks.

Global NGOs have been targeting financial institutions. They are calling on them to enhance screening criteria for financing, to ensure that those projects they support do not cause or contribute to environmental degradation, social injustice or human rights abuses.

Environmental Issues

- Environmental liabilities pose risks for lending institutions, such as legal liability for damage to third parties, and negative impact on the value of loan collateral.
- The scope of environmental responsibility for lending institutions is being extended by some stakeholders to include the practices of clients. Financial institutions are being called upon to integrate standards of environmental responsibility into lending and investment screening activities.

Social Issues

- Annual Public Accountability Statements are now mandatory for financial institutions. Financial institutions with assets of greater than $1 billion are required to disclose information on corporate activity in the following areas: charitable giving, jobs, financial products, and branch openings and closings.
- As of December 2003, three Canadian banks (RBC Financial, CIBC and HSBC Canada) have publicly committed to the “Equator Principles,” a voluntary set of guidelines for managing social and environmental issues in project financing. They join 12 other global financial institutions in supporting these principles. Under the guidelines, participating banks will require projects to comply with the International Finance Corporation’s Environmental, Health and Safety Guidelines, or to justify any deviations to the satisfaction of the bank.1 While they are supportive of the broad direction these principles signify, global NGOs have criticized the guidelines as being inadequate, because they do not require transparency, human rights protection, or the conservation of endangered ecosystems.

BIOTECHNOLOGY/PHARMACEUTICAL

Canada’s bio-technology and pharmaceutical companies face unique ethical pressures. The management practices and CSR initiatives of these Canadian companies are typically aligned with those of the parent. Canadian bio-tech/ pharmaceutical companies are being viewed and judged on the basis of their local community-based charitable giving and social investment activities, as well as their overall corporate brand’s reputation.

Social Issues

- "Bio-piracy" and the commercial application of indigenous communities' traditional environmental knowledge, without consent, are controversial.
- Another highly controversial area is clinical studies that involve the use of animals, and which may cause those animals pain.
- While Canadian subsidiaries are not actively involved, multinational parent corporations are actively collaborating and creating alliances with key stakeholders and multilateral institutions, such as the United Nations and the World Health Organization, to build healthier societies by jointly combating disease (e.g., HIV/AIDS, obesity) in developed and developing countries. Many of these partnerships have emerged as an alternative approach to pharmaceutical innovation for treatment of diseases, for which there is no effective market.

These initiatives are an important example of how corporations combine energies and resources to tackle the global health disparities identified in the United Nation's Millennium Development Goals.

- The generation of return on investment through the application of intellectual property rights and patent protection is being challenged by concerned stakeholders, and framed against the need to reduce the price of medicine for patients, especially those in emerging markets, where diseases, such as diabetes, polio, tuberculosis, malaria and HIV/AIDS are prevalent.
- Questions have been raised about the appropriateness and ethics of the marketing practices used by pharmaceutical companies for new drugs and medicines.

Environmental Issues•

- Ethical and philosophical questions are being raised by new gene technologies that will make it possible to directly alter the genetic makeup of plants and animals. The ability to transplant and re-combine genes has led to genetically modified crops being grown in more than 40 countries on six continents, including Canada. Genetically modified foods typically combine important genetic traits, such as nutrients or the ability to resist insects, with plant strains. Controversies around genetically modified crops include concerns over the unwanted and possibly far-reaching effects of transferring trans-genes through cross-pollination, as well as the use of "terminator technologies."

INFORMATION AND COMMUNICATIONS TECHNOLOGY*

Canada's Information and Communications Technology (ICT) industry is intensely knowledge-based. Thirty-eight per cent of all industry workers have a university degree, compared to the national average of 20 per cent.

In recent years, the ability of the ICT industry to retain highly skilled workers has been strained by an economic downturn and by corporate restructuring.

Outsourcing to off-shore facilities is becoming an important human resource management and corporate responsibility issue.

Canada's ICT industry has historically had a reputation as a "nonsmokestack" industry. There is increased recognition, however, that the industry's activities do have a significant environmental impact. For example, information technology (IT) equipment becomes obsolete quickly, and the ICT industry has to deal with waste and product stewardship issues. IT and telecom equipment also commonly contains toxic materials, which are hazardous, if not managed properly. Some of Canada's largest corporations have adopted voluntary principles of environmental responsibility, such as the Communications Environmental Excellence Initiative's Environmental Charter, the Global E-Sustainability Initiative, and the Electronics Product Stewardship Canada action plan.

Social Issues

- Community involvement is a core focus of the industry. Canadian ICT corporations are forging cross-sector partnerships with charities and non-profit organizations, to help them gain access to the software, hardware, skills and expertise they need to make strategic use of information technology to achieve their charitable mandates.
- Through voluntary industry initiatives, such as the Global E-Sustainability initiative and the Information Technology Association of Canada's "Making IT Work for Volunteers," firms are engaging in bridging the "digital divide," which separates those people who have access to IT from those who do not.

Environmental Issues

- Extending their sphere of influence, stakeholders are interested in how companies integrate environmental performance into procurement and supply chain management practices (particularly with respect to original equipment manufacturers).
- Product stewardship is an important issue. Environmental innovation and consideration of waste issues is compelling manufacturers to build "end-of-life" considerations into product design.
- Many ICT corporations are partnering with organizations such as reBOOT and Computers for Schools to ensure their used computer equipment is refurbished and distributed to charities, non-profit organizations, schools and low-income households.

Source: Reproduced from the Conference Board of Canada's National Corporate Social Responsibility report used by permission. For definitions and data sources, please refer to the Conference Board Report.

3. Companies that understand the scope of their societal footprint stand to reap the benefits of CSR.
   This requires firms to take steps to pro-actively manage their reputation and performance by integrating stakeholder values and interests into decision-making.

4. Reporting is a key accountability mechanism.
   In Canada the accepted view is that transparency builds market and stakeholder confidence. It also helps to ensure sound management.

5. For now public disclosures tend to focus on process, not outcomes.
   The current state of public reporting does not completely reflect what is actually going on inside companies. Stakeholders want to know what a company is doing and what its impact is. Linking policies with performance will help to address stakeholder concerns.

6. There is opportunity for more Canadian corporations to understand the benefits of systematically managing human rights issues.
   It is clear that stakeholders are particularly interested in this area of corporate activity, and therefore systematically addressing this area helps companies to manage risks more effectively.

Talisman Energy, Inc.—Human Rights Commitment

"Talisman supports the principles of, and will promote respect for, the Universal Declaration of Human Rights and we will lead by example, demonstrating values of tolerance and respect. We promote adherence to human rights principles in our areas of operation and will not be complicit in human rights abuses. We will advance best practices with host governments, partners and third parties consistent with our Security Policy, which has been revised in the spirit of the Voluntary Principles on Security and Human Rights."
Original Source: Talisman Energy, Inc. 2003 Corporate Responsibility Report.

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7. New pressures will redefine the relationship between Canada's largest corporations and society.

   There are several important emerging trends: First, there are strong demands by the Canadian public to ensure for corporate accountability and pressures to develop national or adopt international standards of responsible conduct. Canadians want to be more involved in policies, strategies and decision-making in organizations, and scrutiny of corporate Canada's performance in the context of the overall society is intensifying

   Companies are responding by endeavouring to build market and stakeholder confidence and trust through transparency and information disclosure. At the same time there is growing interest by financial community in CSR and its relationship to value creation. All of this is happening at a time where multi-stakeholder coalitions are emerging to tackle major societal challenges. Finally, there is growing interest in how CSR is being managed throughout the value chain.

Other surveys indicate that these values shifts are leading to changing expectations of responsible business conduct. According to the 2002 *CSR Monitor*, there is some evidence that there is a large and growing number of Canadians that would prefer to do business with companies that are more socially responsible. According to the 2003 *CSR Monitor*, Canadians indicate that they factor CSR into their purchase decisions both as consumers and shareholders, as well as in employment decisions. Consumers are voicing expectations that manufacturers and retailers of consumer products and services be socially, ethically and environmentally responsible. While the evidence remains weak that espoused values are translating into purchasing behaviour, a 2001-2002 poll by the Conference Board suggested that 54% of Canadians were translating perceived social irresponsibility into consumer action.

For publicly-traded corporations, CSR is starting to play a role in the capital markets, although it is still far from a mainstream consideration. In fact, there continues to be debate around the relation between CSR and fiduciary responsibility. Federally incorporated corporations and non-financial cooperatives are also required to operate in compliance with the Canada Business Corporations Act (CBCA) and Canada Cooperatives Act. Under the terms of the CBCA and CCA: "Every director and officer of a corporation in exercising his powers and discharging his duties shall…act honestly and in good faith with a view to the best interests of the corporation." This guidance is a key issue for Canadian firms seeking to meet fiduciary obligations (often interpreted in terms of the short-term interest) while pursuing CSR as part of sustainable, long-term business strategies.

As mentioned, CSR is taking on increased prominence in Canadian capital markets. Socially responsible investing (SRI) has grown significantly over the past decade, in both Canadian and global financial markets. As of

June 2002, there was $51.4 billion in socially responsible investment assets in Canada. Shareholder activism around CSR issues is small but growing, with 2004 seeing 19 CSR-related motions being brought forward. Activism has recently become an option for socially conscious investors as a result of 2001 amendments to the Canada Business Corporations Act removed a clause discriminating against shareholder motions on social or environmental issues. This clause was used by corporations to justify their refusal to circulate shareholder resolutions filed "primarily for the purpose of promoting general economic, political, racial, religious, social or similar causes." Resolutions covered issues such as: greenhouse gas emissions; global labour standards; environmental reporting; social, ethical and environmental risk disclosure; and the creation of an ethics committee for Boards of Directors.

Canadian professional accountancy bodies such as the Canadian Institute for Chartered Accountants are also pushing companies to expand the scope of 'materiality' to include social, ethical and environmental considerations in traditional financial analysis and accounts. The Canadian Securities Administrators has recently issued guidance documents concerning corporate disclosure (e.g. Annual Information Form, Management Discussion & Analysis), recommending companies adopt a prospective orientation and discussion of corporate risks, including social and environmental ones.

In this context, the passing of Sarbanes-Oxley legislation in the U.S. has also raised disclosure and internal controls challenges for inter-listed Canadian firms, particularly for those companies who may have future material liability for CO2 emissions control costs under Canadian legislation. Sarbanes-Oxley Act has increased the push for transparency and disclosure of 'material' exposure to environmental liabilities. Although the Securities and Exchange Commission (SEC) has had disclosure requirements for environmental matters since 1982, the new U.S. legislation has effectively elevated regulator and stakeholder expectations about the level of environmental performance information a company should report on. Given the requirement under Sarbanes-Oxley for senior executives of publicly traded NYSE and NASDAQ companies to assure the legitimacy of performance reports (by signing-off on them), there is significant potential for this requirement to affect the reporting practices of Canadian companies listed on these exchanges.

Specific Dimensions of CSR:

***Governance and management practices*:** Canadian corporations have well-developed policies and practices to encourage ethical and responsible behaviour, and they have adapted a broad and expanded view of enterprise risk. Nonetheless, there are opportunities to strengthen practice, notably by increasing the proportion of companies that explicitly consider social and environmental issues, and by strengthening reporting.

Governance and Management Practices—Key Performance Indicators

70%	Board of Directors considered social issues on a regular basis.
76%	Board of Directors considered environmental issues on a regular basis.
68%	Audit committee was the most common board process for considering CSR issues.
79%	Environmental measures reported to the Board of Directors (57 per cent report on social measures).
43%	Management Discussion and Analysis provided information on social, economic, or environmental policies and risks.
94%	There was a formal code of conduct or formal code/policy of ethics.
75%	A comprehensive and systematic management system controlled the environmental dimension of corporate activity (55 per cent social dimension).
66%	Audits of corporate environmental performance were conducted (34 per cent social performance).

55%	The company verified results of environmental audits (30 percent social audit).
43%	Executive compensation was tied to environmental performance measures (18 per cent social performance measures).
62%	The company regularly reported on CSR issues.

Source: From the Conference Board of Canada's National Corporate Social Responsibility Report. Used by permission.

***Human resources management*:** High performance organizations in Canada recognize the critical importance of attracting and retaining top talent. Canadian companies generally have well-developed human resources management and human resources development policies. Companies could be more effective in managing diversity, giving the changing demographic make up of Canada and the impending shortages of skills, a result of a rapidly ageing works force.

Human Resources Management Practices—Key Performance Indicators

81%	Had a workforce diversity policy
79%	Had formal processes and practices to foster diversity
96%	Had a human resources policy (75 per cent engage employees in its updating)
60%	Had an employment programs for youth
55%	Had an employment programs for disabled
62%	Had an employment programs for women
53%	Had an employment programs for visible minorities
64%	Had an employment programs for indigenous peoples
74%	Conducted needs assessments to determine employee benefits
94%	Had an employee skills development and training policy
92%	Had a confidential complaints process

Source: From the Conference Board of Canada's National Corporate Social Responsibility Report. Used by permission.

***Community investment and involvement*:** Canadian companies have a long track record of corporate community investment, with well established practices for donations, for partnering with community groups and of capacity building. There are, however some fundamental changes taking place in the environment for corporate philanthropy. First, companies are realizing the benefits of proactively engaging with stakeholders. Second, companies are coping with increased demands for funding as a result of government cutbacks in support to NGOs.

Community Investment and Involvement Management Practices —Key Performance Indicators

87%	Encouraged employees to volunteer in the community
68%	Encouraged the use of local suppliers in procurement
43%	Had a formal stakeholder relations policy
72%	Had a formal stakeholder relations management approach
49%	Had a formal Aboriginal relations policy

Source: From the Conference Board of Canada's National Corporate Social Responsibility Report. Used by permission.

***Environment, health and safety*:**
There is a high degree of awareness of and concern with the importance of environment, health and safety among surveyed Canadian companies, withy 100% providing workspace safety education and training. This in part recognizes increased accountabilities under recent legislation for workplace accidents. However as discussed in the next section, many Canadian companies are going beyond legislative requirements to establish proactive strategies for environmental stewardship.

Environment, Health and Safety—Key Performance Indicators

100%	Provided workforce safety education and training
70%	Had an environmental management system (EMS)
24%	Are ISO 14001 certified EMS
41%	Had an industry-standard aligned EMS
49%	Actively managed their greenhouse gas emissions
89%	Had eco-efficiency practices
68%	Had environmental technologies
79%	Considered environmental impacts in investment and procurement

Source: From the Conference Board of Canada's National Corporate Social Responsibility Report. Used by permission.

***Human rights*:**
This is the area of greatest interest to corporate stakeholders, and it arises in the context of how companies manage relationships with suppliers and supply chains. Given the structure of the Canadian economy, with expensive overseas investments in the mining and energy sectors, this subject has been of greatest concern in extractive industries. But the concerns are broader, and in particular relate to the boundaries of corporate responsibility for ensuring that fundamental human rights are upheld, and the appropriate degree of transparency in the reporting of practices and performance as it relates to human rights.

Human Rights—Key Performance Indicators

38%	Had a publicly stated commitment to internationally proclaimed human rights
26%	Publicly support the Universal Declaration of Human Rights
72%	Had a human rights policy

58%	Considered human rights impacts in investment and procurement
92%	Had a non-discrimination policy
36%	Had a freedom of association policy
51%	Had a system to manage the human rights dimensions of corporate activity

Source: From the Conference Board of Canada's National Corporate Social Responsibility Report. Used by permission.

The Responsiveness of Canadian Firms to Social, Ethical and Environmental Pressures

While pollution prevention and 'end-of-pipe' remediation practices were historical activities, 'beyond compliance' environmental management became much more important for Canadian business in the early 1990s. Canadian companies began to adopt new tools and approaches in order to reduce environmental impact. Moving from compliance (i.e. strategies to ensure emissions/effluents/waste generated did not exceed regulatory standards) towards pro-active/beyond compliance pollution-prevention strategies/ beginnings of sustainable production were designed to achieve the following objectives:

- Avoid restrictive and rigid environmental regulatory regimes
- Cost minimization
- Address concerns of stakeholders
- Develop standardized performance measurement approaches

Many of these objectives reflected the fact that, at the time, Canadian companies were typically focused 'inside the fence' (i.e. what they were doing as a company to address environmental impacts) versus 'outside the fence' (i.e. broader societal focus).

In the late 1980s, the report of the World Commission for Environment and Development (the Brundtland Commission) and the 1992 World Summit on Sustainable Development marked a watershed in the discussion of CSR in Canada. The scope of CSR expanded beyond environmental protection and community investment to include a host of new issues, and to reflect a much wider societal footprint. This time also represented an emergence period for a strong, vocal and politically active civil society.

From a business perspective, the Rio Documents were particularly influential in that they highlighted the role of corporate environmental and social practices. For the first time, the business community was explicitly recognized for the role that it could play as part of a comprehensive and holistic approach to sustainable development.

Global Best Practice in Canada

Some of these companies are looking to international standards, guidelines and frameworks for benchmarking and management assurance purposes. They are also looking to participate in capital market screening and rating initiatives for reputational gain. For example:

- As of September 30, 2004 the following Canadian corporations belonged to the DJSI World Group: Alcan; Ballard Power; CIBC, Cognos, Inc., Dofasco, Inc. Domtar, Inc., Nexen Inc., Royal Bank of Canada, Shell Canada Ltd., Suncor Energy Inc., TELUS Corp, TransAlta Corp., and TransCanada Corp.

- As of December 2003, two Canadian banks (Royal Bank of Canada, CIBC) and the Canadian affiliates of two global banks (HSBC, and Citigroup) have adopted the 'Equator Principles.' The Principles are based on the IFC's environmental and social screening process.

- A number of Canadian companies are using international human rights standards, such as the Universal Declaration of Human Rights, International Labour Organization conventions and its Declaration on Fundamental Principles and Rights at Work, as a benchmark for their own workplace human rights practices.

- 13 companies have subscribed to the United Nations' Global Compact initiative;

- 2 companies are using the AA1000 standard to assure the quality of their stakeholder engagement activities; and

- 20 companies (and 2 public authorities) are using the Global Reporting Initiative's 'Sustainability Reporting Guidelines' to prepare voluntary CSR/Sustainability reports.

Integration of CSR with Business Strategy: Still Work in Progress

A small proportion of Canada's largest publicly traded corporations can be considered to be amongst the global leaders in their public embrace of CSR. Many of these companies are large, operate in highly-regulated industries (such as finance and electricity generation) or politically contentious industries (such as forestry, mining and manufacturing) where corporate reputation and social 'licence to operate' are at risk. In these cases, companies have voluntarily stated their commitment to responsible business conduct, and have implemented internal controls and management frameworks to assure conformance of behaviour with intention. In an attempt to bring members into the fold and to address free-rider and lowest-common denominator challenges, some industry associations such as the Mining Association of Canada, and Forest Products Association are also promoting CSR and developing industry-wide initiatives. In cases like the Canadian Chemical Producers' Association's 'Responsible Care' standard, such action has become recognized as global-best and has led to worldwide adoption.

The uptake of and approach to CSR by these Canadian companies has evolved over time. Beyond meeting legally defined standards of socially responsible business conduct, the idea of voluntary CSR is relatively new in Canada. CSR was originally understood to encompass philanthropic activity (e.g. corporate donations to local communities) and taking action to prevent environmental pollution. In many respects, it was the attention paid to the environmental dimensions of corporate performance that paved the way for Canadian companies to understand CSR as a broader concept, inclusive of issues such as corporate governance, human resource management, ethics, and human rights.

Beyond these leadership examples, however, there is little evidence that Canadian companies are adopting CSR as a systematic management and assurance strategy. This, of course, is not to say that these firms are not being socially responsible. Without explicit embrace of CSR, Canadian companies clearly still have an obligation to operate with integrity and to not break the law. Further, most companies have created work cultures, adopted internal operating policies and procedures, and articulated statements of values and purposes that are consistent with the expectations of society. The distinction lies in the absence of formally articulated corporate commitments to CSR principles, backed up rigorous internal management systems and controls, followed by transparent disclosure of how corporate behaviour reflects stated commitments. For these companies, it is likely that the 'business case' for CSR is simply not yet persuasive enough.

Despite having a number of large firms –more precisely medium sized by global standards – and a small but growing number of Canadian based multinational companies, the bulk of firms in Canada are small and medium sized enterprises(SMEs). This paper does not examine the state of CSR in SMEs. Unfortunately, the Canadian literature simply has not paid much attention to the relevance of CSR to smaller firms, nor to the operational practices of such companies. This area is in need of further investigation.

Future Directions in Corporate Social Responsibility in Canada

- Corporate social responsibility will continue to be a key business issue. Companies will not be able to operate without giving consideration to their operational impact on society. The risks of not keeping pace with market and stakeholder expectations are significant. So, too, are the opportunities.

- CSR will increasingly be formally integrated into business conduct. Industries subject to intensely political or regulated environment, such as mining, energy, forestry and banking, have responded most strongly to stakeholder demands for CSR practices. Yet, CSR applies to all companies.

- Companies that understand the scope of their societal footprint stand to reap the benefits of CSR. This requires firms to take steps to pro-actively manage their reputation and performance by integrating stakeholder values and interests into decision-making.

- Reporting will continue to be the key accountability mechanism. Transparency builds market and stakeholder confidence. It also helps to ensure sound management. But public reporting currently does not completely reflect what is actually going on inside companies. Stakeholders want to know what a company is doing and what its impact is. Linking policies with performance will help to address stakeholder concerns. There will also be on going debate over the appropriate degree of regulation regarding corporate accountability for social and environmental actions.

- There will be ever greater pressure and scrutiny regarding corporate Canada's broader involvement in society. Canadians want to be more involved in policies, strategies and decision-making.

- Scrutiny of corporate Canada's performance as societal actors will increase. The rapid emergency of international standards and accountability frameworks will raise concerns for all stakeholders—corporate, NGO and governments.

- Building market and stakeholder confidence and trust will increasingly be built through transparency and information disclosure In that connection there will be heightened interest by the financial community in CSR and its relationship to value creation

- Multi-stakeholder coalitions will emerge to tackle major societal challenges; and there will be heightened interest in how CSR is being managed throughout the value chain.

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[1] I would like to thank in particular David Greenall and Prem Benimadhu for their role in the preparation of this paper.

[2] David Greenall, *The National Corporate Social Responsibility Report: Managing Risks, Leveraging Opportunities* ISSN 0827-1070 ISBN 0-88763-644-6 (Ottawa: The Conference Board of Canada, 2004), available by subscription from the Conference Board of Canada.