CORPORATE COMPLIANCE: Take 3 Steps to Develop an Effective Social Responsibility Framework

The general public naturally expects companies to make good products and provide good services. But they're now also expecting companies to be good neighbours and generally socially responsible. For example, people don't want companies polluting the environment, wasting resources or using suppliers who have horrible workplace safety records. And the boards of directors and senior management of many companies are increasingly recognizing that effective management of environmental and social risks can improve the bottom line by optimizing operations and making them more competitive.

So how does a company develop a corporate social responsibility (CSR) framework to govern its operations' Canadian Business for Social Responsibility created a white paper, CSR Governance Guidelines (Guidelines), to help corporate boards, senior management and CSR professionals, such as EHS coordinators, effectively manage environmental and social risks and opportunities. We'll explain the steps the Guidelines say companies should take to develop a CSR framework.

WHAT IS CSR'

According to the Guidelines, CSR is defined as a company’s environmental, social and economic performance and its impacts on both internal and external stakeholders, including workers, customers, community, government, investors, suppliers and society in general. Some companies use other terms for CSR such as corporate responsibility, corporate sustainability and ‘triple bottom line.’ And other companies treat various aspects of CSR separately, such as environmental management and community relations. (Read this in-depth look at CSR by OHS lawyer Norm Keith of Gowlings.)

Developing CSR must start at the top of the company, such as with the board of directors of a corporation. That’s because individuals at that level may be able to see the big picture and ensure that the various divisions of the company all commit to pursuing CSR goals. Because CSR issues can represent significant risks and opportunities, oversight of environmental and social risk management and CSR performance must be incorporated into board governance to ensure that long-term shareholder and stakeholder interests are protected and promoted. Boards should understand how and when CSR issues can:

- Impact or enhance the company’s strategy and vision;
- Necessitate board level oversight and accountability;
- Influence risk identification and management;
- Require changes to board composition and expertise; and
- Improve external disclosure.

***Insider* Says:** In unincorporated companies, senior management can drive the development of a CSR framework for the organization. But because the Guidelines are directed to corporate boards’and for simplicity’s sake’we’ll use the term boards throughout to include both boards of corporations as well as members of senior management in unincorporated companies.

TAKE 3 STEPS

The development of an effective CSR framework can help boards ensure that CSR issues and opportunities are well-managed and maximized throughout the company. To develop a CSR framework’or improve an existing one’companies should take the following steps:

Step #1: Assess & Benchmark Current CSR Performance

Before your company implements a CSR framework, it should first assess its current CSR performance and compare it to that of leading companies. For example, even without a formal CSR framework, your company may already have CSR-like practices in effect, such as tying management compensation to achieving sustainability goals. Boards can assess and benchmark the company’s current practices using the Guideline’s Corporate Social Responsibility Assessment Checklist.

The checklist, which helps identify gaps in current CSR performance and prioritize actions, has five sections:

1. Vision and strategy;

2. Oversight and accountability;

3. Risk identification and management;

4. Board composition and expertise; and

5. External disclosure.

Step #2: Develop an Action Plan

Once the board understands how the company’s current CSR practices compare to leading companies, it can develop an action plan to formalize its CSR framework. The Guidelines note that the actions the board takes next will depend on the results of its assessment, its priorities and how it intends to approach CSR management in general. But some of the recommended actions include:

Confirm CSR approach and integrate into the company's mission and values. Board members and senior management should meet to ensure that they agree on a definition of CSR, the business value of CSR and the company's CSR vision and commitment. The result of this meeting should be a board-level CSR policy.

Create a CSR committee. Either create a new committee dedicated to CSR management or give a CSR mandate to a pre-existing committee that already deals with related issues.

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

Provide oversight. Ensure that CSR goals, objectives and targets are incorporated into the company's business plan and strategy. For example, include environmental and social considerations in risk identification, management and monitoring.

Consider CSR when approving major business decisions. CSR must be fully incorporated into both the company's daily operation and major business decisions. So include consideration of CSR risk, opportunities and impacts in decisions such as acquisitions, mergers, business partnerships and divestitures.

Disclose CSR performance. It's important that the company communicate its CSR commitments and performance to internal and external stakeholders. The board should review and approve CSR reports, ensuring that CSR disclosure covers material risks and complies with CSR reporting standards.

Step #3: Integrate CSR into Board Governance

The board should next integrate CSR into its governance role. For example, the Guidelines say boards can:

Ensure effective CSR management systems. Ensure that policies, processes and data systems exist to support CSR and that CSR guides decisions across the various divisions of the company and locations. Incorporate CSR into the company's Code of Conduct/Ethics to provide guidance on the significance and role of CSR as a factor in decision-making.

Provide mechanisms for stakeholder input. Ensure that mechanisms are in place for board consideration of unfiltered input from stakeholders, such as anonymous surveys of workers on CSR initiatives.

Incorporate CSR factors into recruitment. The board won't be committed to CSR if its individual members aren't. So explicitly include CSR in director recruitment by, say, seeking diversity in directors, ensuring candidates' values align with the company's and seeking directors with knowledge of or expertise in CSR issues and/or management. And when recruiting a new CEO, ensure candidates are assessed for CSR competency and values alignment.

Reward executives for CSR performance. Money can be a great incentive. So incorporate non-financial objectives, such as reducing the company's GHG emissions or injury rate by a designated percentage, into executive compensation and ensure that the company's performance management systems reward CSR performance.

Implement 'walk the talk' initiatives. The board should lead by example. So review the board's own operations to identify and implement measures to align those operations with the company's CSR goals and strategy, such as reducing emissions from board travel, implementing green meeting procedures such as teleconferences, using green accommodations and sustainable food services, etc.

Ensure continuous improvement of CSR practices. To continually improve the company's CSR framework, incorporate CSR-related questions into the board's annual evaluation. Conduct a peer review to identify emerging CSR issues and keep abreast of CSR best practices.

Bottom Line

A company's CSR policies will only be effective and taken seriously if there's commitment at the top of the company to pursuing CSR goals. That's why the Guidelines suggest that the board or senior management drive the implementation of a CSR framework and lead by example. These Guidelines can help your company implement a CSR framework (or improve an existing one) that's effective at achieving its goals. And for an example of a CSR framework in action, see sidebar.

INSIDER SOURCE

CSR Governance Guidelines, Canadian Business for Social Responsibility, June 29, 2010

[box] **Case Study of a CSR Framework in Action**

The Guidelines include examples of four Canadian companies with leading CSR practices. One company featured is Loblaw Companies Ltd., Canada's largest food distributor and a leading provider of general merchandise products, drugstore and financial products and services.
Based in Brampton, Ontario, Loblaw has over 139,000 full-time and part-time employees in more than 1,000 corporate and franchised stores across Canada. In 2009, it had sales of over $30 billion and operating income of $1.2 billion for an operating margin of 3.9%.

As to CSR, Loblaw says, 'Doing the right things for the future of our communities, our country and our planet is also the right thing for the future of our business.' Its CSR vision focuses on five key themes:

1. Respect the Environment

2. Source with Integrity
3. Make a Positive Difference in Our Community
4. Reflect Our Nation’s Diversity
5. Be a Great Place to Work.

The board and management at Loblaw have used this five pillar approach to effectively communicate a shared vision and commitment to CSR. For example, the board reviews the company’s Code of Ethical Business Conduct annually to ensure that it’s current and reflects best practice. The Code incorporates CSR through a Vendor Code of Conduct that sets out the company’s expectations of its vendors with respect to ethical conduct and social responsibilities, including labour practices, respect for the environment and compliance with various laws.

The board regularly considers industry specific CSR trends and issues, such as food safety, health of Canadians, population growth and climate change. They ensure that material CSR issues are considered in the development of the company’s CSR strategy, which in turn is incorporated into its overall business strategy.

One of the board’s responsibilities is to monitor CSR through receipt of regular reports on CSR policies, practices and performance. The Vice President of Corporate Affairs provides the board with updates on performance against CSR priorities and metrics twice a year. The board has delegated CSR responsibility to its Environment, Health and Safety Committee, which has a mandate to assist the board in fulfilling its oversight responsibilities in relation to environmental, food safety and workplace health and safety policies, procedures, practices and compliance.

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