

# Excellence Exchange



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An in-depth analysis of key issues facing credit unions &  
an examination of how credit unions are meeting these challenges.

## CORPORATE SOCIAL RESPONSIBILITY

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People talk about corporate social responsibility (CSR) as though it was only recently discovered, and maybe for some businesses that is true; but for credit unions, which were built on basic principles of social responsibility, CSR has been around for a long time.

While CSR is an entrenched concept for credit unions, we cannot rest on our laurels. New approaches to stakeholder engagement, social reporting, environmental management, social marketing and community and social investment, and growing consumer and public interest in these issues, warrants ongoing governance and management oversight of a credit union's CSR program.

More and more companies are starting to elevate their CSR efforts to the level of corporate strategy, writing CSR into their business plans, developing performance targets and establishing monitoring and reporting programs. Importantly, businesses are asking the key questions: what difference are we making with our CSR investments? And, could we generate greater returns to community and to our bottom line with more strategic consideration of our CSR efforts?

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## **CSR Continuum of Practice**

Many firms believe they are practicing CSR if they have community grant programs in place, or if they have strong employee programs and happy employees. While these are two essential attributes of CSR leadership, more recent CSR thinking would put these businesses at entry level CSR. Indeed, there is a continuum of practice in CSR, ranging from pre-CSR to basic CSR to mission-driven CSR. Credit unions are well-positioned to occupy the mission-driven CSR space. To achieve this standard of CSR performance, many organizations need to develop a strategic CSR program that touches all corners of a credit union's operations from building management, to purchasing, stakeholder relations, marketing and product development. With funding from B.C. credit unions, Strandberg Consulting has developed a 5-point continuum, or ladder, of CSR performance (see [www.corostrandberg.com](http://www.corostrandberg.com) for details).

## **CSR Definition**

Part of the challenge of developing a strong CSR program and culture in an organization is the lack of standard definitions of corporate social responsibility. Common to most definitions are the following elements:

*CSR is the balanced integration of social, environmental and economic perspectives into business decision-making and the engagement of stakeholders in this process.*

Key to this definition is the notion of *balanced integration*, which is to say that social and environmental objectives do not trump financial objectives, and vice versa. The challenge to business managers is to find a balance where optimal social, financial and environmental returns can be achieved from a given business investment.

While a challenge, this is also an opportunity, as demonstrated by some of the best practices of leading CSR financial institutions who have been able to attract market share as a result of their strong CSR orientation. A number of Canadian credit unions and other co-operative financial institutions funded such a study in 2005 to look at how leading CSR banks, asset managers and insurance companies practiced corporate responsibility. The study also considered CSR trends in the financial sector, covering interviews with 50 thought leaders in CSR finance and including numerous international examples of best practices in CSR. These studies are reviewed below.

[http://www.corostrandberg.com/pdfs/CSR\\_Study\\_CUCC\\_6.pdf](http://www.corostrandberg.com/pdfs/CSR_Study_CUCC_6.pdf)

## **Leading CSR financial institutions are embedding CSR into their operations**

Research into best practice CSR financial institutions reveals the following common approaches to the development and implementation of their CSR strategy:

- **Embedding CSR** – finance companies are integrating CSR into the DNA of their operations, through CSR governance programs, CSR mission statements, and CSR performance management systems. (Alterna Credit Union provides an example of this approach.)
- **Stakeholder Engagement** – leading companies are committed to engaging stakeholders in the design of their CSR and business strategies and in collaboration on critical social and environmental issues.
- **CSR Products** – committed CSR companies offer their customers a range of products and services that help improve social or environmental conditions, including socially responsible mutual funds (Ethical Funds exemplifies this) micro-finance investment products, environmental loans or mortgages (see Mennonite Credit Union as an example.)
- **Public Policy** - Many leading CSR organizations are involved in championing public policy initiatives with governments and non-governmental organizations to advance social or environmental matters at the national level.
- **Monitor** - CSR leaders set targets and actively monitor their performance on CSR both as an accountability measure for stakeholders and also to improve their own sustainability performance. CSR organizations seeking brand positioning on CSR often sponsor CSR awards, CSR university chairs and other signature initiatives.

## ***Best Practices in CSR Finance***

### **Alterna Credit Union develops CSR management system**

Alterna Credit Union ([www.alterna.ca](http://www.alterna.ca)) is exemplary for its comprehensive CSR management system, in which the credit union ensures its CSR values and principles are embedded throughout its operations and that the credit union is generating substantive community impact. When the Board of Directors approved the credit union's CSR policy last autumn for the merged organization, it had the following elements of a CSR management system in place:

- CSR vision and policy has been approved by the Board. (The CSR vision is “to achieve mutual growth and prosperity by providing social, economic and environmental benefits to our member communities.”)
- A Board committee is responsible for CSR policy (the Member Relations Committee).
- A senior staff person is designated responsibility for CSR (under VP, Marketing and Communications).
- The CSR strategy is included in the annual business plan, with goals and objectives and financial resources for their achievement. (CSR is one of four key strategic areas, referred to as “Communities” in the plan.)
- The credit union has a strong stakeholder engagement program including regular member town halls to seek feedback on credit union performance.

- There is an extensive array of CSR products and services including member education seminars on socially responsible investment; Community Builder Mortgages which provide non-profit groups 0.50 per cent of each mortgage taken out by its members or supporters, amounting to \$1,000 for a mortgage of \$200,000; and a Spare Change Program in which participating members have the “spare change” under \$1 swept from their accounts once a month into donation pools for environment, homelessness or children’s issues.
- The credit union has a community investment policy to commit two per cent of pre-tax earnings to community programs, and a commitment to CED through its Community Micro- Loan Program which has invested over \$1 million in micro-loans to date, and supported nearly 400 micro-entrepreneurs, over half of whom have remained as members with the credit union.
- The credit union is committed to bi-annual, independently verified social audits reported through an Accountability Report in which it will adopt an internationally recognized sustainability reporting format (likely the Global Reporting Initiative, an international standard for social reporting. <http://www.globalreporting.org/>).
- Plans for 2006 include establishing a cross-department CSR coordinating group to roll out its CSR policy and plans across the credit union, the roll-out of a sustainable purchasing policy across the merged organizations and the development of performance targets for the “Communities” strategy in their business plan.

Two signature CSR leadership initiatives include the Ottawa School of Management Alterna Social Responsibility Program, where the credit union is investing more than \$500,000 over 5 years to encourage a culture of social responsibility among business students; and the Gary Gillam Award for Social Responsibility in which, along with Credit Union Central of Ontario, Alterna co-sponsors an annual award to recognize Ontario credit union members and employees who demonstrate excellence in promoting social responsibility in credit unions or promoting credit unions as a socially responsible investment alternative.

### **Mennonite Credit Union offers members CSR products and services**

Mennonite Credit Union (<http://www.mscu.com/>) has a number of CSR products and services as part of its product and service array. Its strong faith-based orientation positions the credit union for a unique approach to its community. Among its CSR products are the following:

- Community Investment Products:
  - The credit union offers members an opportunity to contribute to the MSCU Charitable Fund (an endowment that offers project grants to church and community-based charitable organizations) through donations and credit card affinity programs, the latter which channels one dollar for every \$1,000 in purchases to a Charitable Fund. Environment and nature as well as micro-entrepreneurship and economic development are amongst the types of projects supported by the Charitable Fund. The credit union

donates 1 per cent of pre-tax earnings to the Fund each year, consistent with Imagine Canada's guidelines for charitable giving (<http://www.imagine.ca/>).

- Socially Responsible Investment Products and Advice:
  - The credit union offers comprehensive financial planning from a socially responsible perspective. Its commitment to socially responsible investing led the credit union to assist in the launch of Meritas Financial Inc, a company offering six socially responsible mutual funds through dealers and financial planners across Canada. Meritas also manages institutional accounts with social mandates, using positive and negative screening guidelines and shareholder engagement to encourage positive corporate social performance. Additionally, it invests up to two per cent of its mutual funds in community development investments in Canada and abroad. MSCU holds a majority ownership in Meritas Financial Inc. ([www.meritas.ca](http://www.meritas.ca))
- Mutual Aid Products:
  - Under a program referred to as "Member Assistance Services," the credit union offers a Special Needs Plan and a Partnership Plan. The Special Needs Plan offers temporary relief, in the form of loans at reduced interest rates, to eligible MSCU members when difficult situations arise such as unemployment, accident, health issues, or damage from a fire or storm. These Special Needs Loans are funded by Special Needs Deposits which are RRSP or non-registered term deposits at below-market rates. The Partnership Plan provides opportunities for members to designate term deposits to assist specific individuals or charitable organizations. These products enable members to help other members in times of financial hardship.

MSCU's commitment to community economic development and mutual aid extends to its international community in the way of a low interest investment in the MEDA Sarona Global Investment Fund which helps finance small businesses in low-income countries around the world. ([www.meda.org](http://www.meda.org))

### **St. Willibrord Credit Union opens Green Branch**

St. Willibrord Credit Union's commitment to building sustainable communities and to leadership in corporate social and environmental responsibility led them to go green in the development of its St. Thomas branch, opened in 2004 (<http://www.mycu.com>). The first credit union in Ontario to adopt the green building principles of LEED (Leadership in Energy and Environmental Design Green Building Rating System: a voluntary program that awards points for achieving specified levels of energy efficiency and indoor environmental quality, among other features. <http://www.cagbc.org>), St. Willibrord found it achieved both environmental and financial performance goals as a result of its efforts.

The building is projected to use 60 per cent less energy than a commercial building designed to the Model National Energy Code. Additional eco-friendly features include a

ground source heat pump system, locally reclaimed wood beams used for the public lobby and locally reclaimed brick for exterior cladding, water conserving toilets and faucets, roof rainwater collection system for landscape irrigation, and drought-resistant landscaping. The branch is located on all four public transit routes.

The numbers work financially as well. Harry Joosten, St. Willibrord VP of Owner Relations and Corporate Secretary, estimates it cost about 10 per cent more to build than if the credit union had followed normal building practices. However, the project received a \$17,000 grant from the Commercial Building Incentive Program (CBIP), an initiative for energy-efficient design of new buildings from Natural Resources Canada, which helped defray some of the costs. And in five to seven years, lower operating costs are expected to recoup the extra construction costs. But the gains don't stop there. Branch employees love the building for its comfortable temperature, humidity and natural light, while credit union owners are equally happy and impressed with their branch experience. And the credit union has generated its share of media coverage for its efforts, including winning the Bell Canada Communication Innovation Award by the St. Thomas and District Chamber of Commerce.

The credit union will continue its balanced approach to CSR over the years ahead, what the credit union refers to as “enlightened self-interest.” When the credit union does things right by and for its employees, the credit union is rewarded with reduced personnel costs by way of lower turnover, higher productivity and better member service. Taking good care of its properties and being a good community neighbour result in higher, positive public awareness and a good reputation. Investing in the communities it serves (five per cent of profits every year) makes southwest Ontario a better place to live, work and play, ensuring St. Willibrord has a strong marketplace in which to grow long term. Triple wins for the credit union, the community and the environment.

### **Credit unions lead the way with social investment products**

Unlike their bank competitors, Canadian credit unions have a suite of social investment products available to their members through their ownership of **The Ethical Funds Company**, Canada's original and largest manager of sustainable investment funds. They launched the country's first socially responsible (SRI) mutual fund in 1986 and today the **Ethical Funds** family has grown to include 17 no-load funds, including the **Ethical Advantage Series** of lifecycle (or target date) funds.

With assets of over \$2 billion, **Ethical Funds** evaluates all investments according to their financial, social and environmental performance and outlook and works with companies, industry, regulatory and like-minded organizations to encourage corporate accountability, sustainability and market integrity.

This approach and these SRI products position credit unions as CSR leaders in the marketplace. Those credit unions that see the market potential of appealing to the new generation of values-based investors will do well to exploit this competitive advantage.

## ***International Best Practices***

A number of international financial service co-operatives also stand out for their CSR approach. Two of them will be briefly profiled here: Co-operative Financial Services and Self-Help Credit Union.

### **Co-operative Financial Services**

Co-operative Financial Services (CFS) is a diversified financial services company, and part of the Co-operative Group, which is one of the largest consumer-owned businesses in the world. They operate The Co-operative Bank, Co-operative Insurance Society and “smile” internet bank. Combined, CFS has seven million customers and over £33 billion in assets. The Co-operative Bank is most noteworthy for its Ethical Policy.

In the early 1990s, the bank discovered a significant number of customers were attracted to the bank because of its deemed ethical orientation. Subsequently, The Co-op Bank developed an ethical stance based on extensive consultation with customers, a policy that reflects customers’ ethical concerns about how their money should and should not be invested. The Ethical Policy has also come to inform the bank’s choice of partners and suppliers and is used in the identification of public issue campaigns for the bank to support. The policy covers human rights, the arms trade, corporate responsibility and global trade, genetic modification, social enterprise, ecological impact and animal welfare.

Regularly conducted research shows that the bank’s ethical positioning has contributed to its profitability. In 2003, 30 per cent of bank profits were attributed to customers who cite ethics as an important factor in their relationship with the bank.

The bank also offers a range of ethical and ecological products and services, including the following:

- A range of affinity Visa credit for which affinity partners receive a donation from the bank for each new card and a margin on the use of the card.
- “Community Directplus” is a telephone and internet-based account designed to provide banking solutions to community organizations. Community groups do not pay a monthly service charge or any fees for credits and debits and are not charged for cheque writing. A small fund is also available for Community Directplus customers to apply for donations. Charitable donations are made by the bank in relation to the size of total credit balances: 10 p for every £100 of new to bank balances.
- Customers are offered a free Home Energy Rating on all house purchases, enabling them to better understand how energy efficient a property is and how to make improvements. Additionally, all of the bank’s mortgages include carbon offset features. Every year that a customer holds a mortgage the bank offsets a fifth of the carbon dioxide emissions arising from a typical household’s energy consumption. Following customer consultation, 2003 offset monies were used for

- reforestation in Uganda, a Bangladesh project which trains local people to build energy efficient stoves, and a Bulgarian project supporting micro-hydro electricity generation.
- The bank re-launched its personal car finance loan with a new package of benefits. For each car loan taken out, the bank offsets a fifth of a typical car's annual CO2 emissions for the lifetime of the loan. The car loan welcome pack includes information on greener motoring, including advice on buying a new car and fuel-efficient driving tips.
  - The bank set up an in-house Ecology Unit in 1994 that has since developed a range of financial products for environmental businesses and organizations. Its products and services include preferential banking rates for businesses investing in or providing environmental solutions, including lower banking charges, cheaper borrowing, higher returns on deposits and specialist financial advice.

CFS's approach to ecological sustainability is guided by its view that there are physical limits to the resources of the earth, both in terms of generating materials and absorbing wastes. Any business activity that exceeds Nature's non-negotiable limits is, by definition, unsustainable in the medium to long term. CFS's Sustainable Development Policy has been heavily influenced by an approach called The Natural Step from which it derived this policy (<http://www.naturalstep.org/>)

Consistent with this approach to sustainability, CFS has been working to reduce its environmental footprint over the past number of years with the following progress:

- 97 per cent of CFS electricity is from renewable sources.
- CO2 emissions per customer account have decreased by 91 per cent from 1997 to 2003.
- The bank has planted 48.5 hectares in the bank's community woodlands since 1997.
- In 2003, the bank offset 17,131 tonnes of CO2 on behalf of its mortgage customers via its Climate Care program.
- Designated bank and insurance supplier contracts have been screened against a range of toxic chemicals.

### **Self-Help Credit Union**

Self-Help Credit Union (<http://www.self-help.org>), based in and primarily serving North Carolina, is a community development credit union that has provided over US \$3.8 billion in financing to 40,000 home buyers, small businesses and non-profits since their founding in 1980. They operate through a series of affiliates in order to capitalize on the benefits of unregulated business models and charitable tax structures. The group includes:

- Center for Community Self-Help (1980):
  - The Center is a non-profit organization that develops and coordinates Self-Help's programs, raises resources, and advocates for economic opportunity.

- Self-Help Credit Union (1984):
  - The Credit Union is a federally insured, state-chartered credit union with 2003 assets of US \$175 million and an efficiency ratio of 39 per cent in 2004. It raises market rate deposits from members to make commercial and home loans. Its members include non-profit and religious organizations and other socially-responsible individuals and institutions.
- Self-Help Ventures Fund (1984):
  - The Ventures Fund is a non-profit organization funded with loans and grants from foundations, religious organizations, corporations and government sources. It manages Self-Help's higher-risk business loans, real estate development and home loan secondary market programs. Its 2003 assets were US \$750 million.

Self-Help runs a number of programs to support affordable home ownership, community facilities, small business lending, real estate development and sustainable development lending, a sampling of which follows.

- Affordable Home Ownership:
  - In 2003, Self-Help made over 370 loans totaling US \$31 million to help North Carolina families achieve homeownership, a strategic path towards building wealth and, for Latino and immigrant families, an avenue to gain familiarity and experience with financial and social systems in the U.S. Self-Help also financed US \$1 billion of loans in its national secondary market home loan program, Community Advantage. Through this program, Self-Help bundles, purchases and monitors groups of nonstandard loans, freeing up capital so that traditional financial institutions can expand their lending to low and moderate-income borrowers.
- Small Business Lending:
  - Since 1980, Self-Help has made US \$195 million in loans to more than 2,340 small businesses. The bulk of its lending is for small businesses with micro-loans of \$35,000 or less. These loans created or maintained over 16,000 jobs. Self-Help's tracking has revealed that:
    - 48 per cent of loans went to minority-owned businesses
    - 46 per cent went to businesses in rural areas
    - 50 per cent went to women-owned businesses.
- Sustainable Development Lending:
  - Since 1988, Self-Help has provided financing (US \$120 million) and technical assistance to over 315 environmental businesses, including companies in the fields of recycling, organic farming, environmental equipment/services, eco-tourism and local crafts. This has created or retained 6,200 jobs. Today, it provides loans and technical assistance to firms in seven economic sectors that promote sustainable development:
    - Recycling
    - Eco-tourism
    - Green retail

- Environmental technology
  - Sustainable forestry/wood products
  - Solar and renewable energy
  - Sustainable agriculture
- Deposit Products:
  - Self-Help Credit Union also offers its customers deposit accounts that invest in economic development, child care centres and environmental businesses. The latter two (Child Care and Environmental Certificates of Deposit) offer market rates, while Economic Development Deposits offer a lower interest rate, between 0 per cent and 0.5 per cent, selected by the consumer. With this funding, Self-Help increases its outreach to borrowers and helps more low-wealth families to economic opportunity.

Key to the success of the Self-Help model is its partnership and affiliate structure which positions the credit union to leverage other funding outside of traditional deposits and to engage in community building programs outside of the regulated environment. While the credit union is under US \$200 million in assets, it has a national brand and reputation for high impact sustainable community development.

## ***Trends in CSR Finance***

Interviews with 50 CSR finance thought leaders around the world revealed a number of key trends that are predicted to shape the nature of financial services over the next decade. Top predictions include the mainstreaming of CSR finance, where most financial services companies are expected to be embedding CSR into their operations, as suggested above. This trend will be driven by the increasing view that CSR is both a business opportunity and a risk management strategy for financial and other companies. Triple bottom line reporting will become *de rigueur*, and stakeholder engagement will become a core competency for many.

Financial institutions are expected to offer a suite of CSR product and services, innovating on the strength of internal cultures that reward and empower staff to contribute to social and environmental performance targets. Many thought leaders commented that community-based and mission-driven credit unions have a natural CSR niche, though this position will be challenged by banks leapfrogging credit unions as other financial institutions build upon the international body of CSR knowledge growing worldwide.

## ***Steps to develop a CSR strategy***

Credit unions that want to get ahead of the curve, or at least keep up with this pack, may be interested in tools and steps to develop a strong CSR program. Indeed, the development of a CSR strategy looks very familiar to the process for the development of any business strategy, the highlights of which are reviewed below:

1. Develop a CSR commitment and vision through the engagement of staff and key external stakeholders
2. Assess current CSR practice and performance and compare to best practice and industry standards
3. Identify strategic CSR direction that builds upon business opportunities and addresses important social and environmental issues
4. Develop action plans and targets to guide performance over a 3 – 5 year period and incorporate into business plan
5. Communicate direction to internal and external stakeholders
6. Monitor and report on performance
7. Celebrate success and identify areas for continuous improvement

## ***Book Resources***

Natural Capitalism

Paul Hawken, Amory Lovins, L. Hunter Lovins

The Ecology of Commerce

Paul Hawken

The Sustainability Advantage: Seven Business Case Benefits of a Triple Bottom Line

Bob Willard

The NEXT Sustainability Wave: Building Boardroom Buy-In

Bob Willard

Walking the Talk: The Business Case for Sustainable Development

Charles O. Holliday, Jr., Stephan Schmidheiny, Philip Watts

Cannibals With Forks

John Elkington

The Green Economy

Michael Jacobs

Corporate Social Opportunity:

David Grayson and Adrian Hodges

## ***CSR Conference and Network***

Winnipeg is playing host to the inaugural CSR conference for credit unions and co-operatives, to be held May 31<sup>st</sup> to June 2<sup>nd</sup> in conjunction with the Canadian Community Investment Network Co-op's Annual General Meeting and Conference where 40 – 60 community loan fund and community economic development representatives will be

gathering (<http://www.communityinvestment.ca/>). Speakers will address critical CSR issues for co-operatives and credit unions and there will be plenty of opportunity to share with, and learn from, other CSR co-op employees. One expected outcome of the conference is the launch of a national CSR network for co-op and credit union CSR practitioners. Contact: [cstrandberg@shaw.ca](mailto:cstrandberg@shaw.ca) for more information on the proposed network.