

The Board's Role in Championing Sustainability



Enron. Worldcom. Sub-prime mortgage crisis. Familiar to all of us, many of these words have likely made their way into boardrooms these last few years. More and more issues of accountability and transparency, good governance and business ethics are becoming entrenched in the jargon of “good governance” gurus.

Corporate Social Responsibility (CSR). Sustainability. Triple bottom-line. No doubt these words are also familiar to the reader. Few in business today could escape the likelihood of bumping into these terms, barely heard a decade ago. More and more issues of environmental and social responsibility are entering the lexicon of management professionals.

“As we near the end of the first decade of this century we are witnessing a convergence of these two trends, driven by values-based board members, CEO champions of governance and sustainability, institutional shareholders seeking long term wealth creation, comprehensive enterprise risk management programs, and increased evidence of the business case for managing social and environmental, as well as financial and operational performance,”

says Coro Strandberg, a CSR expert who advises firms and credit unions on CSR strategy and CSR governance.

Sustainability is a governance issue

Sustainability, defined as the integration of social and environmental perspectives into strategic and operational decision-making, and the engagement of stakeholders in the process, is no longer just an operational and marketplace issue. It's a governance issue.

Strandberg's recent report, *The Role of the Board of Directors in Corporate Social Responsibility*, published by the Conference Board of Canada, makes this clear. In Canada, more and more boards are coming to understand this fact. As Strandberg's study reports, a recent survey of 142 Canadian firms, (including the TSX60, the top 50 from the FP500 and ROB Top 1,000), found that 44% had board committees with sustainability mandates. A survey of 750 U.S. firms found that more than a third include an annual or twice-yearly board review of their company's citizenship.

Guidelines on governance codes of conduct developed over the past decade typically incorporate a CSR or

sustainability dimension. For example, the Organization for Economic Cooperation and Development (OECD) 2004 corporate governance guidelines advises boards to take into consideration the interests of all stakeholders, including employees, creditors, customers, suppliers, and local communities. “The guidelines point out that in order to meet this requirement, boards must take environmental and social concerns into account,” says Strandberg. “Canadian corporate law also allows for boards to consider stakeholder interests. Specifically the Canada Business Corporations Act permits directors to take stakeholder interests into account in determining what is in the best interests of the company.”

Leading CSR firms setting tone at the top

This may be well and good for publicly traded corporations, but what about credit unions? Why should credit union boards care about their involvement with CSR issues? Well, if credit union boards are not motivated by the fact that their competition is moving in this direction, or by their inherent co-operative values (“concern for community”), or by their enterprise risk

management agenda, then, how about this. For her study, Strandberg interviewed 17 Canadian and international directors from firms who had board CSR committees (Nike, Shell, Enbridge, Loblaw's, among others), revealed that leading CSR firms are setting the tone at the top. They believe that it is the role of the board to embed a sustainability perspective into the firm's mission, vision, values and strategic plans.

“These leading boards have adopted a sustainability framework that formally embeds social, environmental and ethical considerations into corporate strategy and operations. They are formalizing a sustainability or CSR policy that sets out their values and priorities in this area, and are communicating their commitment internally to staff and externally to the marketplace,” says Strandberg of her interviewees. “A peek at their business strategy will show how they are incorporating goals, targets and implementation plans to advance their social and environmental objectives. As much as boards provide oversight on financial performance, these same boards are also providing oversight on how their firms are performing with respect to societal expectations and their own targets and goals.”

Many in the credit union system have heard of the “CSR report,” pioneered in the credit union movement by Vancity in British Columbia and Alterna Savings in Ontario in the 1990s. Today, the sustainability report is becoming common practice for boards concerned with monitoring their performance and their stakeholder relations. Corporate accountability and transparency is no longer achieved via the audited financial statements alone. Now the sustainability performance report is used as a tool to foster trust and accountability in the marketplace across the triple bottom-line: social, environmental and financial.

Implications for Credit Unions

Whether or not an organization chooses to establish a board sustainability sub-committee, or keep this responsibility at board level, Strandberg's report reveals that best practice in board sustainability governance includes hiring CEOs or general managers who are aligned with and understand the strategic importance of sustainability, and rewarding them via bonus and other incentive programs for their triple bottom-line performance. This was one of the Vancity board's key discoveries when it established its first CSR plan in the mid-1990's: have a set-aside bonus for the CEO to achieve based on the degree to which the

credit union accomplishes its social and environmental goals. Best practice sustainability governance would include board member orientation and training on CSR and sustainability. (Training on CSR and sustainability is available to credit union board members and management through CUSOURCE® Credit Union Knowledge network.)

Undoubtedly many credit unions boards are already implementing these ideas. It is typical of credit unions to follow CSR best practices. What is often lacking, is formal documentation of their sustainability governance program, consistent application and public reporting on their sustainability governance.

In the wake of the Enron and Worldcom scandals, boards the world over dusted off their governance programs, giving these programs more of a central role in how their board affairs were conducted. Now, with growing societal and environmental pressures more and more boards are pulling out their newly minted governance programs and embedding their CSR priorities and values.

Indeed, the international thought leaders of Strandberg's report predict that CSR governance will become mainstream in the future and “good corporate governance” will be redefined to include a sustainability perspective. Boards which have adopted quality governance programs and pride themselves on their sustainability ethic will do well to ensure their practices sync with their values. Credit unions with strong CSR programs will want to ensure their boards are actively engaged in strategy and oversight in this area. In this way credit union leadership will continue to be the benchmark for quality not only in financial services, but in fostering a thriving community.



Corporate Trust Starts to Rebuild in North American Businesses and Leaders

Trust is essential in the world of business. Trust in companies, business leaders and spokespersons is part of the business platform on which the marketplace performs. And as with business cycles, trust levels rise and fall cyclically, too.

In the early years of this decade, trust levels plummeted as white-collar fraud soared in North American companies. As the Enron and Tyco and many other sagas of corporate greed played out, trust levels regarding businesses and business leaders plunged to all-time lows.

Since the middle part of the decade, businesses and business leaders, for the most part, apparently have been making efforts to “clean up their act.” The drivers? Public demands for environmental stewardship, investor demands for better corporate governance, and an increasing number of business leaders trying to do “the right thing.” The result appears to be an up-tick in the trust cycle.

For example, the latest Edelman Trust Barometer for 2008 shows a “generally improving mood on trust.” This is the ninth annual version of the Trust Barometer, which is produced by one of the world's largest public relations firms and based on an extensive survey of global opinion leaders.

Along with the generally improving mood on trust, the barometer records increases in trust scores in many countries. For example, significant increases in business trust were recorded in the U.S. and Japan. In the case of the U.S., trust in business among opinion leaders measured at an historical high of 58% in 2008 versus 44% in 2007.

According to the Barometer, Canadian companies are among the most highly trusted in the world, with more than three-quarters of the global opinion leaders indicating trustworthiness.

Also noteworthy is that within the Canadian segment of the group of opinion leaders, trust ratings of institutions, industries and corporate headquarters aligned more closely with ratings by European opinion leaders—especially those in the United Kingdom—than with those in the U.S.