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# Social Context of Business

## Week 4: Corporate Social Responsibility

### Part 2



VOTRE LIEN AVEC CE QUI COMPTE — CONNECTS YOU TO WHAT MATTERS

# The Social Context of Business

Week	Day	Date	Topic	Reading
1	Monday	Sept. 12	Introduction The Relationship Between Business and Society	Syllabus Chapter 1
2	Monday	Sept. 19	Understanding Business and its Stakeholders	Chapter 3 & 4
3	Monday	Sept. 26	Understanding Business and its Stakeholders Corporate Social Responsibility	Chapter 13 Chapter 7 & 8
4	Monday	Oct. 3	Corporate Social Responsibility (Part 2) Group Project Teams and Intro	Chapters 8 & 9
5	Monday	Oct. 10	Thanksgiving – No Classes	
6	Monday	Oct. 17	Mid-Term Examination (Second Half of Class) Corporate Social Responsibility (Part 3)	
7	Monday	Oct. 24	Reading Week – No classes	
8	Monday	Oct. 31	Career Centre Workshop Guest Speaker/Catch-up	
9	Monday	Nov. 7	The Ethics of Business	Chapter 5 & 6
10	Monday	Nov. 14	Regulating Business Governance of the Corporation	Chapter 10 Chapter 11
11	Monday	Nov. 21	Ethics in the Workspace	Chapter 12
12	Monday	Nov. 28	Environment	Chapter 14
13	Monday	Dec. 5	Globalization	Chapter 15
14	Wednesday	Dec. 7	Sustainability Integration, Review, and Synthesis; Projects Due	Chapter 16
		TBD	Final Examination	

## **Session Objectives:**

1. Explore the fundamental debate: What is the responsibility of business?
2. Look at some of the barriers to implementing more sustainable practices in organizations
3. Understand how CSR is measured and reported
4. Understand the relationship between CSR and Profitability

# CSR Measurement and Reporting

# CEOS Support Reporting



- 74% of CEOs agree that measuring and reporting their total (non-financial) impacts contributes to their long-term success
- Only 25% do

## CSR Auditing & Reporting Approaches

- Inventory
- Program management
- Process
- Cost or outlay
- Social responsibility accounting
- Sustainability reporting
- Social indicators
- Social objective setting
- Triple bottom line reporting
- Social reports
- Sustainable guidelines
- Externally verified social reports
- Consultation with Stakeholders



# Stora Enso

Stora Enso utilizes crowdsourcing to enhance global corporate social responsibility

## What?



Stora Enso considers global responsibility as a strategic issue.

## Why?



In order to gather opinions on the focus areas of its responsibility strategy, Stora Enso invited its stakeholders to a virtual brainstorming session to discuss what the company should concentrate on.

## How?



The first virtual brainstorming session gathered people from 17 countries and resulted in 16 different themes that the participants reviewed according to their importance.

## Results?



An analysis of the outcomes of the virtual brainstorming session produced three focus areas to steer the development of Stora Enso's global responsibility strategy.

## Benefits?



In its Global Responsibility Report in 2012, Stora Enso announced the establishment of the online External Advisory Panel, which is open to everyone. The panel provides Stora Enso with a better picture of the thoughts of its stakeholders at regular intervals. The panel has been incorporated into the company's global responsibility management.

***What should be measured?***

## Social Auditing and Reporting Criteria

Ex.: Canadian Business for CSR

- **Measures performance in 7 areas:**
  - Community (9 criteria)
  - Employee (19 criteria)
  - Customer (7 criteria)
  - Supplier (9 criteria)
  - Environment (6 criteria)
  - Shareholder (6 criteria)
  - International operations (4 criteria)

## Social Auditing and Reporting Criteria Ex.: Global Reporting Initiative (GRI)

- A non-profit organization that works toward a sustainable global economy by providing guidance in sustainability reporting.
- Among GRI's principles are those:
  - *intended to define report content*: materiality, stakeholder inclusiveness, sustainability context, and completeness
  - *intended to define report quality*: balance, comparability, accuracy, timeliness, reliability, and clarity
- *Sustainability Reporting Guidelines* include the following standard disclosures:
  - Strategy and Profile
  - Economic
  - Environmental
  - Social

- Used by 4,000 companies
- Used by 80% of largest 250 corps
- 6 categories, 42 ESG aspects, 91 indicators

## Other Global Corporate Reporting Guidelines

- OECD Guidelines for Multinational Enterprises
- UN Global Compact
- Caux Round Table Principles for Business
- ISO CSR Reporting Standards
- Carbon Disclosure Project (CDP)



## UN GLOBAL COMPACT

A strategic policy initiative for businesses that are committed to aligning their operations and strategies with **ten universally accepted principles** in the areas of human rights, labor, environment and anti-corruption.

World's largest corporate citizenship and sustainability initiative. Launched July 2000  
10,000+ participants, including over 7,000 businesses  
in 145 countries around the world.



## Global Compact Principles

1. Support and respect the **protection of human rights**
2. Do not be complicit in **human rights abuses**
3. Uphold the **freedom of association** and the effective recognition of the right to collective bargaining
4. Eliminate all forms of **forced and compulsory labor**
5. Abolish **child labor**
6. Eliminate **discrimination** re employment and occupation
7. Support a **precautionary approach** to environmental challenges
8. Promote greater **environmental responsibility**
9. Encourage the development and diffusion of **environmentally friendly technologies**
10. Work against **corruption**, including extortion and bribery



## CDP (Carbon Disclosure Project)



**In order to protect their long term investments, institutional investors must act to reduce the long-term risks arising from environmental externalities.**

Annually survey 5,000 largest listed companies and 110 global cities to measure, disclose, manage, and share vital environmental information on four focus areas:

1. **Climate change** risks — supported by 767 signatories with \$92T assets
2. **Water** risks — supported by 573 signatories with \$60T assets
3. **Deforestation** risks — supported by 240 signatories with \$15T assets
4. **Supply chain** risks

## Indicators Still Vary Widely

- Only 22% of indicators in corporate sustainability reports were used by more than 3 corporations.
- 55% of indicators were used only once.



“Reporting on Corporate Sustainability Performance,” The Conference Board of Canada, November 2012. Based on an analysis of indicators disclosed in 94 Canadian cross-sector corporate sustainability reports in 2008.

## Low Complete Disclosure Rates



Only **3%** of the world's largest listed companies report on all 7 basic, 1<sup>st</sup> generation sustainability metrics:

- Energy (40%)
- GHGs (39%)
- Water (25%)
- Waste (23%)
- Payroll (59%)
- Employee turnover (12%)
- Injury rate (11%)



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Corporate Knights, "Measuring Sustainability Disclosure," October 2014.

# Reporting Is The “Trim Tab” On The Corporate Rudder



- What gets reported gets measured
- What gets measured gets managed
- What gets managed gets imbedded in executives’ mindsets

What managers report shapes the way managers think.

Integrated reporting breeds integrated thinking



To change the game, change the scorecard

Better reporting for better business

***What do you think are the future trends in CSR reporting?***

## The Future of CSR and Social Reporting

- Fad-and-fade scenario:
  - Awareness and practice of CSR will decline significantly
- Embed-and-integrate scenario:
  - CSR is accepted, continuous enhancement continues
- Transition-and-transformation scenario:
  - incremental changes to CSR are insufficient, redesign of corporation necessary

Source: White, 2005

## Reporting And Disclosure Trends

1. Disclose any **conflict minerals** in supply chain  
Must meet Dodd-Frank Act Section 1502's SEC disclosure filing requirements by June 2014; report on source of origin for tin, tantalum, tungsten, and gold (3TG) in supply chain; are in almost all electronics.
2. Report on **material non-financials** / intangibles  
Follow GRI G4, IIRC, SASB, and INCR SSE guidelines
3. Report on **ESG in supply chains**  
Especially social compliance in retail supply chains
4. ESG disclosures for listing on **stock exchanges**  
Led by INCR SSE with WFE and SASB with U.S. SEC; NASDAQ QMX and NYSE are collaborating on these efforts; voluntary, so far



## Mandatory Carbon Reporting

The U.K. government introduced **mandatory carbon reporting** rules requiring 1,800 of the country's largest listed companies listed on the London Stock Exchange to report annually on their GHGs, starting April 2013.

This was the world's first mandatory requirements for GHG reporting.



## EU Mandatory ESG Reporting

By 2017, annual financial reports must include sustainability factors.

Applies to 7,000 companies with 500+ employees in the EU's 28 countries.

Companies required to report on their and their supply chain's:

- Environmental Matters
- Social Matters
- Employee-Related Matters
- Respect for Human Rights
- Anti-Corruption Matters
- Bribery Matters
- Diversity Policy
- Country by country reporting on taxes



## “Gold Standard” Benchmark KPIs

### Environmental

- **Energy:** 100% renewable
- **Carbon:** zero footprint or better
- **Water:** fair share or net zero
- **Materials:** 100% recycled/renewable
- **Waste:** net zero or better
- **Biodiversity:** protects or restores
- **Ecosystems services:** net positive

### Social

- **Injuries and fatalities:** zero
- **Labor rights:** for 100% of employees
- **Remuneration:** living wage
- **Engagement:** 90% of employees
- **Turnover:** 10% or less
- **Local:** 75% of workers and suppliers
- **Social /Human capital:** net positive

### Governance / Financial

- **Financially sustainable:** makes a profit
- **Taxes:** 100% of statutory taxes paid
- **Ethics:** zero ethical violations
- **Diversity:** mirrors stakeholder demographics
- **Transparency:** full disclosure is an affirmative duty
- **Policies & systems:** embed sustainability principles
- **Stakeholders:** 100% of key ones are engaged



## Why report?

- Enhances corporate reputation and trust
- Provides some protection against crisis
- Stakeholders expect accountability and transparency
- **CSR linked to profitability**

# Sustainability Business Case

## Opportunities

1. Increased revenue	9%
2. Reduced energy	75%
3. Reduced waste	20%
4. Reduced materials	10%
5. Increased productivity	2%
6. Reduced turnover	25%

## Income Statement

Revenue

Expenses

+51 to  
+81%

**PROFIT**

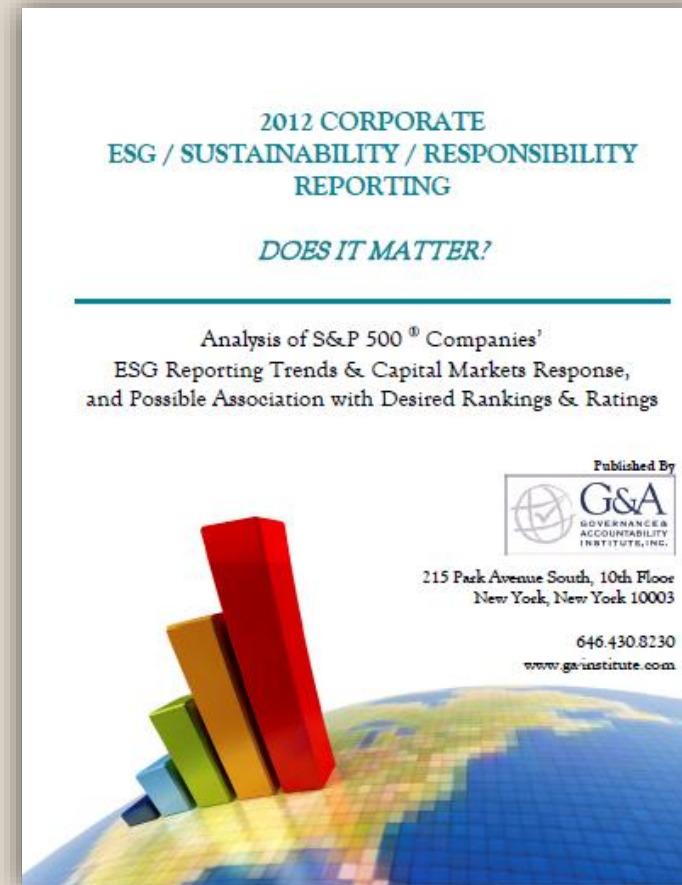
## Risks

7. Reduced revenue and  
increased expenses

-16 to  
-36%

## Reporting Companies Outperform

- **53%** of S&P 500 companies published sustainability- or CSR-type **reports** in 2011, **up from 20% in 2010**
- **63%** follow the Global Reporting Initiative (**GRI**) framework
- **Between 2007 and 2011, companies that reported on their sustainability efforts outperformed the broad S&P 500 Index**



Governance and Accountability Institute,  
"2012 Corporate ESG / Sustainability / Responsibility Reporting: Does It Matter?" December  
2012.

## CDP Leaders Outperform



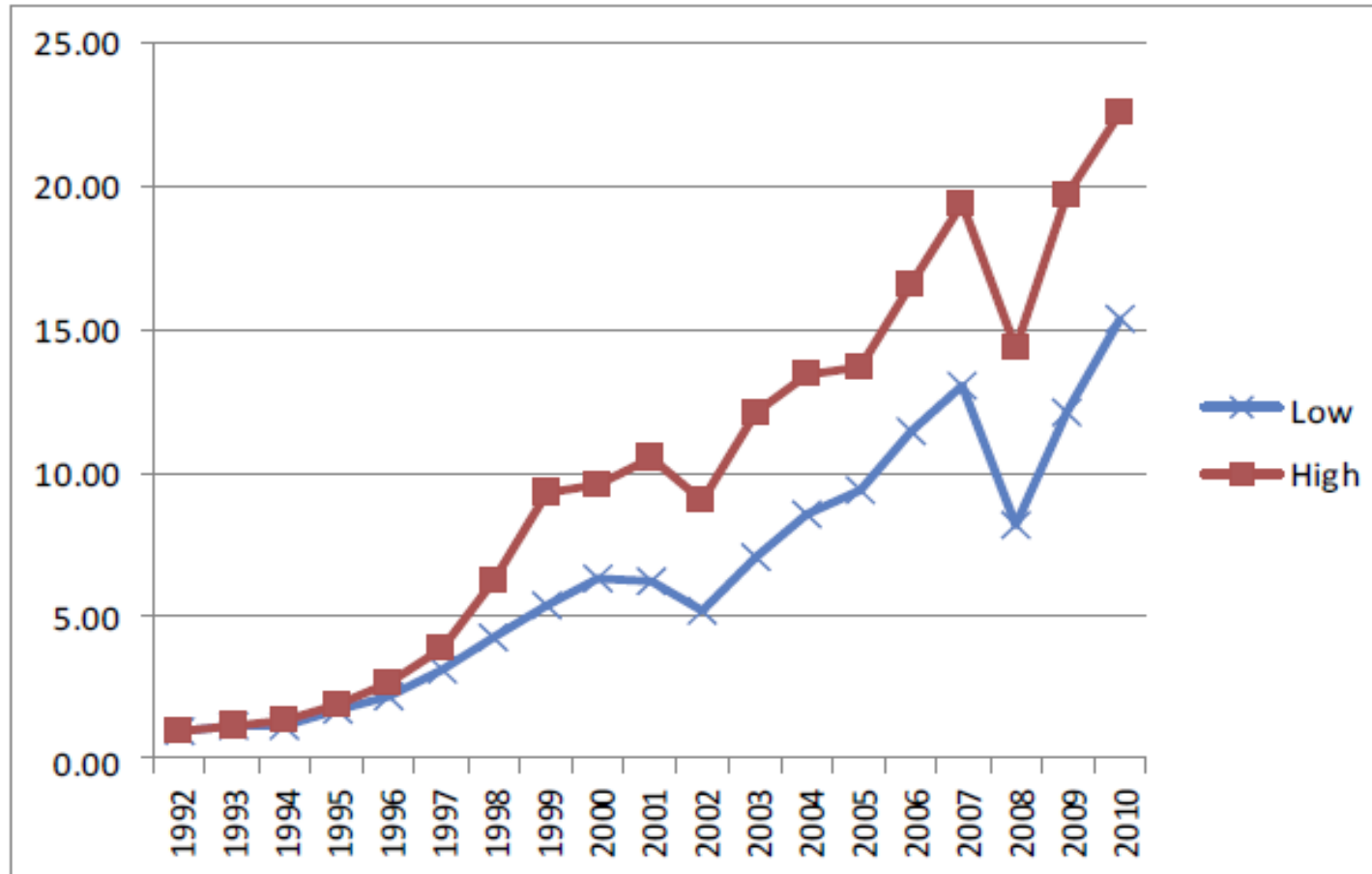
Industry leaders in terms of CDP disclosure scores had a :

**5.2% higher return on equity,**  
18.1% more stable cash flow, and  
1.6% higher dividend growth  
than industry laggards.

“Linking Climate Engagement to Financial Performance: An Investor’s Perspective,” Sustainable Insight Capital Management and CDP, September 2013.

# Market Performance

Evolution of \$1 invested in the stock market in value-weighted portfolios



Robert G. Eccles et al, "The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance," HBS working paper 12-035, Nov. 25, 2011. <http://www.hbs.edu/research/pdf/12-035.pdf>.

## Happy Correlations

“There appears to be a correlation between high-scoring companies and well-performing stocks, according to Cary Krosinsky, vice president of Trucost.”

His analysis found that  
the top 100 companies in this year’s  
Newsweek Green Company rankings  
outperformed the Standard & Poor's 500 Index  
(on an equally weighted basis) by 6.8%  
for the 12-month period ending September 1, 2010.



# JSI vs. TSX 60, 2008-11



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## Week 4: Mini-Assignment

The purpose of this week's mini-assignment is to practice the art of reflection which has been shown to be a critical component of ethical decision making processes and moral character building.

As a reflection exercise, write a short paragraph **(250 words, not point form)** about today's class on the Merck Case and CSR. Describe what stood out *for you* in terms of key learnings. Did the discussion make you think differently about business and society? Did any of the issues raised surprise you? Or leave you with more questions? Reflect on why this might be the case.

There are no right or wrong answers and you will receive your point as long as it is evident that you have put some thought into the reflection piece. Write your entry in the journal page under Week 4: Merck Case Reflection Piece. **Due Sunday Oct. 9 by 11:59PM.**

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