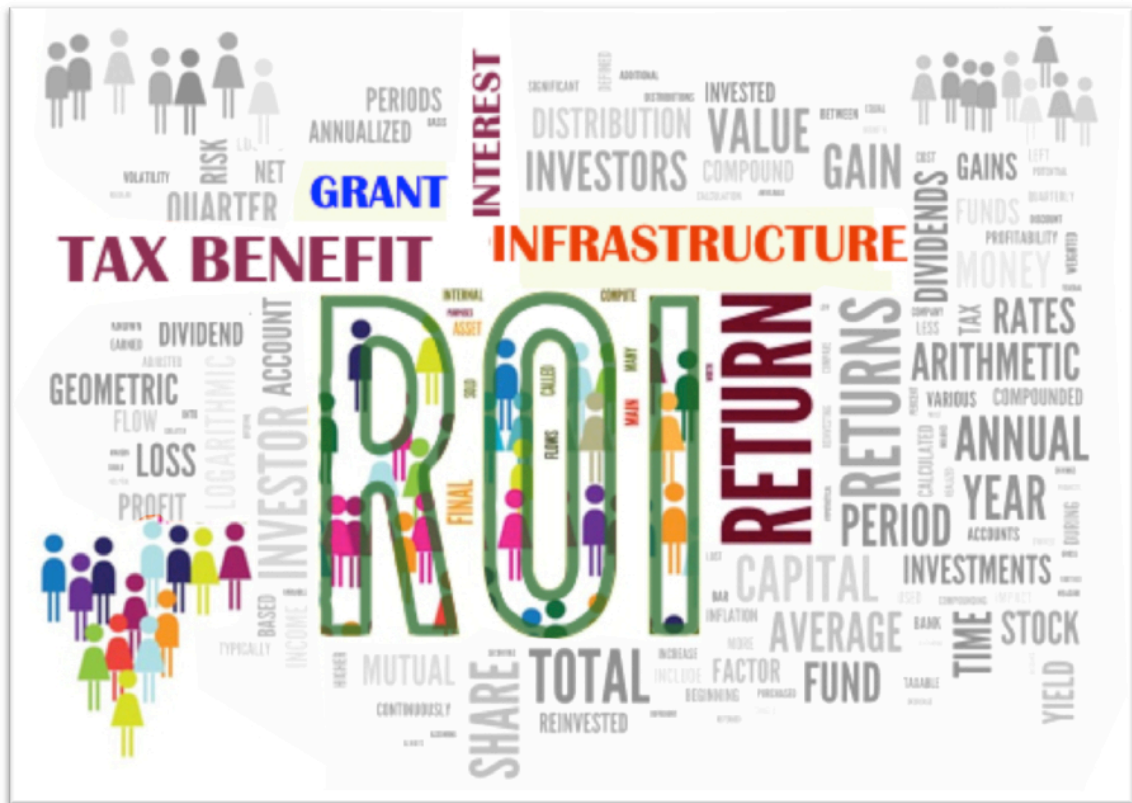


CSR: TIME for SOCIETY'S RETURN on INVESTMENT

Michael Bloomfield, Lanlin Bu & Adrian Southin



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Principal Authors:

Michael Bloomfield Founder and Executive Director, Harmony Foundation
Lanlin Bu Program Manager, Harmony Foundation

Research

Adrian Southin Harmony Foundation
Michael Bloomfield Founder and Executive Director, Harmony Foundation
Lanlin Bu Program Manager, Harmony Foundation

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Harmony Foundation of Canada
BOX 50022 Unit 15-1594 Fairfield Road
Victoria, BC. Canada V8S 1G1
Tel: (250)-380-3001
harmony@islandnet.com
www.harmonyfdn.ca

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Introduction

Corporate social responsibility (CSR) goes by many names: corporate ethics, triple bottom line, corporate sustainability, corporate accountability etc. The difficulty is not what to call it; rather that, in most cases, companies emphasize CSR as marketing and public relations rather than investment in healthy societies. This paper will make the case that CSR driven by marketing and PR, despite some successes, largely has been unsuccessful. What is required is a partnership that benefits both business and society, shifting from the “transactional CSR” of image building and brand promotion to “transformational CSR.” Society should benefit from CSR at least as much companies do; over and above responsible behaviour society deserves a fair return on investment. After all by providing infrastructure, research and development grants, and many other subsidies, society invests substantially in business. Therefore, business should be working with leaders and communities around the world to advance social development, human rights and environmental stewardship. After all, peaceful, prosperous societies are the best places to live and do business.

Unbalanced Focus on Revenue

For Canadian corporations, like their counterparts around the world, the focus rests primarily on the economic bottom line. However, the pursuit of wealth for corporations and investors has come with immediate and long-term consequences for people and the environment. Lax local regulations in other countries are used to operate in ways that would never be acceptable in Canada. Canadians too have experienced the impacts of business operations that do not respect the health and well-being of workers, residents and the environment, let alone the rights of future generations.

For example, despite the illegality of asbestos use in Canada, it is still mined in Quebec and exported to India, China and Vietnam. China remains the biggest importer of Canadian tobacco products whose use is heavily discouraged in Canada because of the dire health consequences. Recent sales of armoured vehicles to South Sudan by Streit Group¹ and General Dynamics equipment to Saudi Arabia by Canadian Commercial Corporation² (a crown-corporation) further exemplify the problem of trade trumping other Canadian values such as human rights and environmental protection. In countries such as Guatemala and Honduras³, which routinely suffer major environmental degradation and human rights violations, Canadian-owned companies like Goldcorp have been accused of protecting the interests of shareholders over local residents who

¹ <http://www.theglobeandmail.com/news/world/canadian-company-sold-armoured-vehicles-to-south-sudan-report/article31191713/>

² <http://www.theglobeandmail.com/news/politics/canadas-arms-deal-with-saudi-arabia-shrouded-in-secrecy/article22547765/>

³ Moore et al. *In the National Interest? Criminalization of the Land and Environment Defenders in the Americas*. Mining Watch Canada, August 2015.

have far more at stake. Rather than abiding by Canadian regulatory standards, such companies operate at the much lower environment, labour and safety standards accepted in-country. Often, these standards are set by non-democratic governments for which corruption and bribery is common practice. According to the World Bank, over \$1 trillion is paid in bribes each year around the world.⁴ SNC-Lavalin is one Canadian company recently punished for such activities.

Regrettably, as a result of incidents such as those mentioned above, Canada is increasingly seen internationally as just another country willing to compromise public health, human rights and the environment to increase profit. Hiding behind lax local regulations is not a defensible or worthy position and it increasingly brings criticism, sanctions and penalties.

The 2013 Rana Plaza factory collapse in Bangladesh – of which Loblaw’s Joe Fresh was one of the many companies using the sweatshop – reminds us that as consumers, we too are benefitting from these scandalous practices. Cheap products usually means cutting corners on worker health and safety. Or maybe we don’t care to remember because it’s inconvenient. As reported by CBC and others, Joe Fresh used Canada Day photos of Prime Minister Justin Trudeau’s children to promote the brand.⁵ While the PMO didn’t approve the advertisement, neither did the Prime Minister use that moment to remind Canada of Joe Fresh’s links to one of the sweatshops stained with the tragedy of Rana Plaza and the generally questionable labour rights record of the garment industry. Meanwhile, Canada has refused to take back 50 shipping containers holding over 2,500 tonnes of garbage sent by Ontario based Chronic Inc. to the Philippines in 2013.⁶ This is a small part of the volumes of our hazardous waste, including electronic garbage, poorly disposed of overseas.

It should be clear by now that a self-enforced, regulatory system of voluntary compliance is not working. Despite voluntary guidelines that have been introduced by the World Bank, some governments and business organizations like the Global Reporting Initiative, when the history of environmental disasters, military abuses, tax evasion, bribery and corruption and human rights violations is reviewed, the situation calls loudly for a mandatory code of conduct.

Self-regulation presents several problems. First, responsible companies operate at an unfair disadvantage as less conscientious corporations get away with the bare minimum, and sometimes not even that. For example, self-regulation did nothing to prevent the largest mining related environmental disaster in modern Canada’s history⁷. In 2014 the breaching of tailings ponds at the Mount Polley, BC mine operated by Imperial Metals, spilled 25 million cubic metres of toxic tailings into the rivers, lakes and forests of the Secwepemc Nation.⁸ Voluntary measures also failed to prevent SNC-Lavalin from paying bribes to Moamar Ghadafi’s family or from avoiding

⁴ <http://www.worldbank.org/en/topic/governance/brief/anti-corruption>

⁵ <http://www.cbc.ca/news/politics/trudeau-kids-joe-fresh-image-1.3670450>

⁶ <http://news.nationalpost.com/news/canada/years-after-2500-tonnes-of-canadian-trash-landed-in-manila-philippines-demanding-we-take-it-back>

⁷ https://en.wikipedia.org/wiki/Mount_Polley_mine_disaster

⁸ <http://www.cbc.ca/news/canada/british-columbia/mount-polley-mine-1.3650218>

taxes as reported in the Panama papers.⁹ It did not stop Tahoe Resource's private security forces from shooting seven Guatemalan protestors of Escobal silver mine in 2013¹⁰, or hold Nevsun Resources to account for the forced labour abuses by their subcontractor Segen Construction at the Bisha Mines in Eritrea.¹¹

If Canada continues to turn a blind eye to companies willfully circumventing even the most basic levels of ethical conduct, what will be the consequences for our international reputation and relationships and the willingness of other countries to invite Canadian companies to do business? To support the efforts of responsible companies, to discourage and, if need be, punish irresponsible behaviour, it's time that the provinces and federal government name names. For example, why haven't Canadians been told which bank was named in the Panama Papers for facilitating client tax evasion? Some have argued that it's because several wealthy families at the head of Canadian business empires with deep political connections also were implicated. Similarly, why was amnesty offered to "high net worth" clients of KPMG involved in an offshore tax "sham" on the Isle of Man?¹²

Transactional CSR

During the 1950s, as CSR was first conceived, the focus was on responsibilities to society, with little discussion of gaining benefits for business. General Dynamics established the first corporate ethics office after an embezzlement scandal (1974 to 1979) involving the company¹³ and Frigitemp Corporation. Then in the 1980s due to a series of Wall Street Scandals, companies reacted to public pressure by adopting CSR as risk management and public relation tools. Since then, it has largely stayed that way¹⁴.

Notable cases where crisis management was unable to overcome unscrupulous business practices include Nestle's aggressive marketing of baby formula in Asia, Africa and South America, Union Carbide's fertilizer plant explosion in Bhopal, India and General Motors' disastrous Corvair car which led to the consumer advocacy movement.

The absence of serious CSR in all of these cases caused considerable harm to public health and the environment, not to mention to the reputations of the companies involved. As more unethical practices have been exposed, scrutiny of corporate behaviour has intensified. Investors and customers have more and more frequently organized campaigns against alleged unethical businesses as well as urging government to take legal action to protect them and others directly affected. Nevertheless, CSR largely has remained a combination of regulatory compliance combined with marketing and public relations motivated to preserve image and brand with a dollop of philanthropy for good measure.

⁹ http://www.huffingtonpost.ca/2016/05/18/snc-lavalin-panama-papers_n_10031200.html

¹⁰ Moore et al. p.34

¹¹ <https://www.hrw.org/report/2013/01/15/hear-no-evil/forced-labor-and-corporate-responsibility-eritreas-mining-sector>

¹² <http://www.cbc.ca/news/business/canada-revenue-kpmg-secret-amnesty-1.3479594>

¹³ <http://www.nytimes.com/1983/09/07/business/ex-general-dynamics-aides-indicted.html>

¹⁴ CSR Guide for Multinational Corporations in China, p. 6

It should not be a surprise under these circumstances that sporting events are more richly supported lavishly funded than programs for abused women and children; finding support for a concert in the park is easier than raising funds for cleaning up the environment, addressing poverty or the rights and needs of Indigenous people. With this sort of negligent and self-serving behaviour, public skepticism towards CSR is unlikely to shock anyone. The public has grown tired of CSR that is largely photo opportunities and logo gratification, and expected businesses to behave at a higher standard.

What's missing in this transactional approach is the holistic view that CSR is truly meant to espouse: social, economic and environmental responsibility and a business community committed to and serving the best interests of society. So while some corporations may donate money to worthy causes or have performed well in some other ways, for which they deserve thanks, none have achieved consistently high performance standards across operations, especially when operating beyond public scrutiny.

Transactional CSR fails because it does not integrate social and environmental responsibilities throughout the corporate structure. Regrettably, it is often practiced as a way to cover up or buy social license for poor practices. When the overwhelming priority is to maximize profit, it's easy to understand how that pressure trumps all other responsibilities.

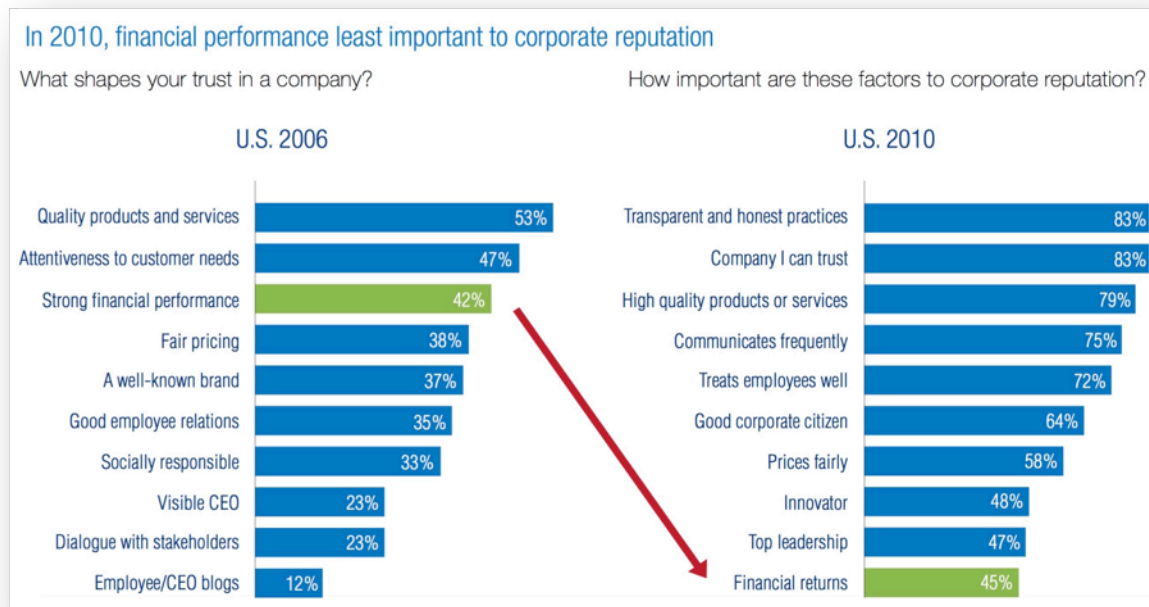
Need for Change

The dominant transactional approach has failed to meet society's pressing social and environmental goals; in fact, it often undermines them, and it is unfair. It needs to be changed.

The following chart shows a summary from the *Edelman Trust Barometer 2010* that reports a dramatic shift in public attitudes in just four years. While Financial Performance was ranked third in 2006 as an indicator of a trustworthy corporation, Transparent and Honest Practices replaced it in 2010, with Financial Performance moving down to 10th place. In the *Edelman Trust Barometer 2016*, the perceived importance of financial returns sank even further from 45% to 36%.¹⁵

¹⁵ *Edelman Trust Barometer 2016*

People are coming to recognize that as members of society, they have helped contribute to the profitability of business. Taxes pay for roads, airports, ports, communications and other infrastructure that enable companies to operate, and are used to provide research and development grants and other subsidies. Consumers also know that while they pay their taxes each year, corporate taxes are substantially lower, if in fact they are paid at all. Media coverage of the Panama Papers revealed a new level of tax evasion that is still being revealed to the public. For example, Apple, the wealthiest company in the world, has over \$181 billion in offshore tax havens.¹⁶ They are not alone in this increasingly common practice that deprives the public of vital services.



From *Edelman Trust Barometer 2010*

Corporations need to re-envision themselves as part of society, not its masters. Society deserves a fair return on its investment. Companies need to understand their contribution to public services as their responsibility rather than some magnanimous gesture for which they are owed something. A new approach needs to be adopted: transformational CSR, the kind of CSR focused on long-term and mutually beneficial relationships that further social justice and sustainability.

Transformational CSR

A business strategy that strives for excellence in social, environmental and economic performance will be most successful in creating long-term value for both business and society. Therefore, business needs to adopt a new model of CSR, transformational CSR. In this model,

¹⁶ <https://www.oxfamamerica.org/explore/research-publications/broken-at-the-top/>

the purpose of CSR is to achieve development that gives equal standing to social, economic and environmental needs and responsibilities and successfully balances them in a sustainable way (triple bottom line). It is after all in the best interest of companies to do so: prosperous communities with quality social, cultural and educational opportunities and healthy environments are the best places to live and conduct business. This matters both locally and globally. Healthy, happy employees are more productive and absenteeism decreases, resulting in increased revenue.¹⁷ Customer loyalty tilts toward companies they trust and respect, those who demonstrate high social and environmental performance. In the electronic age this stakeholder scrutiny extends beyond geographic borders as worldwide consumer and investor awareness and cooperation has increased markedly.

Unlike transactional CSR, transformational CSR is not about one-time events or short-term projects or photo-ops; it is an ongoing, recurring process that helps establish companies as responsible organizations in meaningful, lasting relationships with charities and other organizations that serve the public good. For example, in 2007, RBC launched the Blue Water Project, a trend-setting 10-year global charitable commitment of \$50 million to help provide access to drinkable, swimmable and fishable water. The goal is for the program to be sustainable, thus the long-term commitment. For this initiative RBC is to be applauded. Over the past 7 years RBC has pledged over \$47 million to more than 760 charitable organizations worldwide that protect water.¹⁸ Other noteworthy activities in Canada include BMO's promotion of aboriginal business, Vancity's assistance in housing adults with developmental disabilities and the Co-operators' mental health and sustainability programs. Others, such as, Sobeys, the second largest food retailer in Canada, do little more than collect customer donations. To this end, it's time to tone down or discontinue the many of the awards that give top credit to "corporate champions" rather than providing more believable praise for an action well one.

Transformational CSR involves taking a holistic view of the company's entire operations and is inclusive of all elements of the triple bottom line. The table below, adapted from *Canadian Business for Social Responsibility*, demonstrates how leadership involvement and a change in corporate culture is crucial to truly successful CSR.

To be truly transformational and uphold the values espoused by the company, commitment must involve everyone in the supply chain and chain of command: executives, front-line staff and all other stakeholders and partners. Everyone must take seriously the responsibility to openly report successes, failures and targets for improvement. Partners throughout operations must be empowered to participate; programs must be part of the company's overall business mission. And there needs to be consistency. It's not good enough to sell hybrid cars to conscientious consumers and at the same time sell the largest gas-guzzling trucks and SUVs to people who don't care. Offering a line of eco-friendly or fair trade products next to the products that cause human rights and environmental problems exemplifies opportunism, not responsible leadership.

¹⁷ Oswald et al. *Happiness and Productivity*. University of Warwick, 2014.

¹⁸ <http://www.rbc.com/community-sustainability/environment/rbc-blue-water/index.html>

And while it's reasonable that charities compete for funding based on the merit of their proposals its tawdry for companies such as the insurance company Aviva to force them to participate in popularity contests based on sending the most likes to the company's Facebook page. Using charities to promote companies their products, a common practice, disrespects both the public's goodwill and the important work of charities.

Comparing Transactional and Transformational CSR					
Performance Drivers		Transactional			Transformational
		Compliance	Operational	Strategic	
Commitment to CSR	Leadership Mindset	Defensive	License to operate	Risk and opportunity	Inspirational values based
	Vision	Jobs Profits Taxes	Philanthropy Responsible operations	Sustainable and profitable	Triple bottom line Beyond organization Long term
	Leadership Involvement	Staff Driven	Functional ownership	CSR Executive Cross Functional Team	CEO Key stakeholders
	Engagement Approach	Inform	Consult	Involve	Partner/Empower
Integration of CSR	Commitment	Minimal	By project or function	Strategic Plan	CSR metrics drive Performance assessment
	Action	Random programs	Siloed programs	Coordinated program	Programs central to business mission
	Evaluation	Minimal	Internal audit	3 rd party assurance	Stakeholder assessment
	Reporting	Legal requirements	Public relations focus	Public reporting	Transparency

From Canadian Business for Social Responsibility

There are many benefits from transformational CSR, including:

- Long-term value creation for both business and society
- A healthy environment for everyone
- Healthy, educated communities with good public facilities
- Positive stakeholder relations
- Enhanced reputation and support
- Greater public credibility and trust
- Reduced costs and improved performance.

Implementing transformational CSR begins with evaluating the company's current strategy in order to identify opportunities for improvement. Specifically, companies need to:

- Identify where they are and how to improve
- Seek ways to play a more positive role in global and community issues

- Move from short-term goals to long-term success
- Understand and accept the new reality of stakeholder participation
- Work with all stakeholders to advance CSR as part of their corporate culture.

At their peril, businesses too often overlook NGOs in the process. NGOs can bring credibility with local communities, leadership and expertise on issues, and often have the clearest understanding of the impacts of businesses' activities on stakeholders and the operating environments that are directly affected. Developing true partnerships with NGOs can produce credible and sustainable results, and avoid unnecessary conflict. Third-party audits and transparent reporting help ensure accountability. Regular reporting periods should be established for evaluation of the program's effectiveness to date.

Recommendations for success

As argued above, voluntary efforts do not provide a level playing field for business and rely too much on the goodwill of individuals rather than a committed corporate culture. That's why Harmony Foundation proposes that the senior levels of Canadian government work with business and civil society to develop and implement a protocol that guarantees the same standards of human rights, health and safety, and environmental protection whether operating in Canada or abroad. This is our best chance to improve Canada's reputation and long-term opportunities internationally.

Given the limits of entirely noncompulsory standards, the government of Canada should convene a collaborative process to create binding standards for Canadian companies operating at home and internationally. The most credible program would bring together government, business, civil society groups and public stakeholders to develop implement criteria that ensure fairness and accountability. When universal standards are put into action, it's important not to penalize corporations already operating at the desired level of commitment. For example, a company that reduced emissions by 90% would face a much greater challenge than other less forward-thinking companies if legislation mandated a further 25% reduction for an entire sector.

Equally important to success is a system with independent monitoring that provides incentives for good corporate behaviour and penalizes those who fail to meet performance standards. Because of its impact and presence around the world, we should begin with the Canadian mining industry; but let's not stop there. We need to quickly take a more comprehensive approach involving all Canadian companies.

The Government of Canada has already stated its intentions: *"The Government of Canada's expectation is that Canadian companies will promote Canadian values and operate abroad with*

the highest ethical standards.”¹⁹ Our proposal is to formalize that intention with purpose driven regulations to ensure business live up to that standard of care.

Conclusion

Canada has many blessings: a peaceful, well-educated population with tremendous natural, economic and social capital. Will we choose to use our wealth and privilege to make a decisive and positive contribution to the world, securing a better future for our partners and ourselves? Or will we fall prey to excessive self-interest at the expense of others? Do we Canadians need to harm the health and wellbeing of other peoples or the environments that sustain them to increase Canada’s wealth and profits? Do we need to compromise opportunities for future generations or squeeze other species to extinction?

The purpose of this paper is to make the case for a renewed Canadian commitment to fairness and responsibility in our relations with others. The challenge we pose is to turn good intentions into positive results. It’s essential that government and business leaders act now to protect the rights of everyone to safe, healthy places to live, work and raise their families. We believe most Canadians are supportive of the effort to achieve prosperity with integrity.

An effective approach would commit to uphold Canadian standards of worker health and safety, community consultation, social development, labour rights, environmental protection and financial transparency in all of their operations in Canada worldwide. Through consultation with all stakeholders, adoption of a transformational CSR model, a binding protocol with enforceable provisions including government oversight, Canadian businesses can continue to see increased revenue while Canada and Canadians will regain an international reputation for fairness, equity and environmental stewardship.

For further information on CSR by Harmony Foundation, please refer to:

[Strengthening Canada’s Foreign Policy: Lessons from Our China Experience](#) (2012)

[CSR Guide for Multinational Corporations in China](#) (2013)

[Canadian Mining Operations Around the World: Respecting People and the Environment](#) (2013)

[Prosperity with Integrity: Transforming CSR to Benefit Business and Society](#) (2015)

¹⁹ *Foreign Affairs Trade & Development, Canada*