Social returns find a spot on the corporate agenda

JUDITH MAXWELL
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OTTAWA — Three years ago, the Economist magazine declared that corporate social responsibility was a "regrettable" public relations victory. Last January, it somewhat grudgingly acknowledged that CSR is a matter of enlightened self-interest.

A lot has changed in three years – even in Canada. Top-down pressure on corporations from securities regulators and large institutional investors, and bottom-up concerns from consumers and shareholders are reinforcing the need to pay more attention to environmental, social and corporate governance risks.

For regulators, the emphasis is on responsible investment. For community leaders, the search is on to find the sweet spot where corporate and community goals converge. For corporate directors, the task has become enterprise risk management.

While climate change may not affect this year's earnings, it could present very substantial risks or rewards in the medium to long term. And sometimes long-term worries can turn into immediate pain on the bottom line. A year ago, the Big Three auto makers were lobbying fiercely against tougher fuel emission standards. This summer, as demand for large vehicles plummeted, they started a headlong dash to build smaller, more fuel-efficient cars.

Some companies have been quicker than the Big Three to respond to these new dynamics. Last February, the Ontario Securities Commission completed a review of environmental disclosure by 35 companies – 22 were listed on the TSX and 13 were new ventures. The review found some cases of good disclosure, but too many companies offered the bare minimum – "boilerplate" disclosure.

The OSC report did not change the rules, but it has put companies on notice that investors need an informed assessment of environmental risks and opportunities.

At the same time, the Institute of Corporate Directors has added non-traditional risks such as climate change to its director education sessions. If future competitiveness and profitability are at risk, then directors have a duty to ensure that all risks are being properly managed and disclosed.

This shifts the mental map needed for business planning and alters the dialogue at the boardroom table. It also dramatically increases the amount of information needed to provide full disclosure to shareholders and the public.

That takes many companies into new territory. Don Raymond, senior vice-president at the Canada Pension Plan Investment Board, said in a speech in March, 2007: "We need a GAAP [generally accepted accounting principle] for measuring a company's carbon footprint."

To help solve that problem, the CPPIB has been the major Canadian supporter of the Carbon Disclosure Project. It has also begun to engage corporate leaders in dialogue about how they can improve long-term returns by strengthening their environmental, social and governance standards.One of the key information intermediaries for responsible investors (institutions and individuals) in Canada is Jantzi Research Inc. Michael Jantzi, a founder and president, is encouraged that 10 of the largest institutional investors in Canada are now committed to responsible investment. But, he says, "Canada has along way to go to catch up to the U.K., Europe and Australia."

With all this talk of measurement and disclosure, what has happened to the social dimension? It too has evolved. Patrick Cescau, Unilever Group chief executive officer, said in the spring issue of Rotman Magazine that doing good and doing well are not mutually exclusive. In developing countries, Unilever looks for projects that will generate new business models and new products that meet social needs while fostering economic development and sustainability for the communities where it operates.

The California Public Employees' Retirement System (Calpers) California Initiative is prepared to put money into ventures that offer that sweet spot where financial and social returns converge. Working with intermediaries (mainly private equity partners), Calpers has been generating healthy returns for the pension fund since 2001 while “making a positive impact on the economy of formerly bypassed California markets.”

Professor Tessa Hebb, leader of the Carleton Centre for Community Innovation at Carleton University notes that Calpers has found dozens of intermediaries to help identify and manage community investment opportunities, but, she says, “such intermediaries are still rare in Canada.” It is a capacity Canada needs to develop in a hurry.

In one path-breaking example, Alterna Savings Credit Union and the Ottawa Community Loan Fund partnered with the pension fund of the Public Service Alliance of Canada to provide PSAC with a market rate of return on its investment in an affordable housing portfolio in Ottawa. The end result is a financial and social rate of return that leverages the strengths of the three partners.

We've seen this kind of innovation before: Sixty years ago, Canada Mortgage and Housing Corp. began providing mortgage loan insurance to protect lending institutions against default on loans where the borrower could not afford the full 20-per-cent down payment. Unlike the subprime disaster in the United States, the CMHC insurance enabled families of modest means to buy a home and helped to sustain the post-war housing boom.

Managing environmental, social and governance risks is not a game for neophytes. It takes good information systems, strong intermediaries with sound technical skills and far-sighted leadership on the part of corporate directors, executives and institutional investors.