In the fourth issue of Microsoft Canada's Corporate Social Responsibility series, our panelists investigate the role of the board of directors in fostering CSR within a company. Part of the discussion revolves around the continuing debate within corporate Canada about where (and whether) CSR fits with a corporation's primary objective—the creation of shareholder value.

Professor Beatty and all three of our panelists agree that boards are more focused on CSR now than in the past, but providing guidance on how to strike a balance between the creation of shareholder value and CSR seems more difficult. Similarly, there is little prescriptive guidance for directors interested in fostering CSR within their organizations, one possible lever centres around the board's role of looking at the corporation with a long view. Being somewhat removed from the day-to-day of the company's business, the board can focus on bigger issues like, “is the company living its values?” Of even more relevance, according to Beverley Topping, the board can keep a close eye on how the company's actions affect its reputation. Topping points out that “based on reputation alone, a company can see its stock fall drastically overnight.” Earlier entries in this series have pointed out the connection between CSR and directors to help foster social responsibility in their organizations.

Tackling the first problem, Dirk Schlimg provides a strong view of where CSR fits within a company. He asserts that CSR is not an “add on” or nice to have, but is “strategic to what the company really does.” In other words, there is no conflict between CSR and shareholder value. Schlimg speaks about the ways in which broad CSR efforts, whether employee relations, environmental work or health benefits, all have a tangible effect on the company's bottom line.

On the second issue of providing guidance for a company's reputation.

At the end of the discussion, what is implied is that companies' CSR efforts should tie closely to both their values and business. While management and employees are the ultimate arbiters of how successfully a company's CSR efforts connect with the underlying business, there may be a strong role for boards in ensuring that the company takes a long view to living its values, including values connected to community and social responsibility.

"There is little prescriptive guidance for directors to help foster social responsibility in their organizations."
Will a more effective board boost CSR?

by Prof. David R. Beatty, O.B.E., Professor of Strategic Management, Rotman School of Management and Conway Director, Clarkson Centre for Business Ethics and Board Effectiveness @ Rotman

Boards of directors evolve constantly in response to changes in external conditions, internal challenges, and changes to the board lineup—all of which combine to make the effective functioning of a board an elusive goal. With “being socially responsible” as one of their most important duties, the need for effective boards has never been greater. How then can a board continually evolve, improve and be attentive to the demands of Corporate Social Responsibility?

To begin with, the Chair must, of course, be separate from the CEO in all widely held companies. In Canada, 80 per cent of widely held companies currently have an independent Chair, and this number is expected to rise to 100 per cent in the next few years. There are two fundamental leadership imperatives for the independent Chair: creating and evaluating their “dream team;” and building a strategic dialogue with management.

Creating and evaluating the “dream team”

It is up to the Chair to build an effective team and to continually assess its strengths and weaknesses. All members of the board must have certain general characteristics—including good judgement, perspective, and an ability to think integratively. There is also a need for special skills, such as legal, accounting or industry-specific expertise. And in today’s climate, a board member’s commitment to governance and CSR initiatives will also make an important difference.

In approaching a directorial candidate, the first consideration is always the amount of free time available to them. Operating CEOs have very little time to spare, so it is unrealistic to assume that they can take on some of the massive burdens associated with committee work. On the other hand, retired CEOs may welcome a more considerable expenditure of their time and talents. Keeping a blend of these two classes of directors is important in the overall staffing plan for a “dream team.” In this way, over a decade, the Bank of Montreal’s board was radically downsized while its focus on the bank’s challenges materially improved.

Every board of directors should survey its effectiveness annually, in addition to regular reviews (without management) at the end of each meeting. A particularly detailed annual survey at BMO Financial Group has been a feature of board performance improvement for over a decade. Some 70 questions cover corporate strategy, board mechanics, the Chair’s performance, committee functioning, succession planning, and more specific strategic issues. The full board gets a summary of the areas most in need of improvement, and those that have changed most since the last survey. Action plans are debated and implemented to improve the Board’s performance.

An alert and involved Chair will know what is working and what isn’t—which directors contribute in which settings, and which directors are not contributing much at all. One effective solution is to adapt the “360-degree appraisal” to the board setting. In one large company, each director receives a form with 15-20 dimensions of performance running down the side, and they rate their co-directors on aspects like “prepares diligently for meetings and knows the material;” and “listens effectively to others’ ideas and viewpoints.” Results are compiled by an independent consulting company and sent to each director indicating his/her scores against each dimension.

The scores are accompanied by a letter, indicating “improvement opportunities” and kudos for exemplary performance. The feedback letters are reviewed annually by the Chair, but the entire burden of improving performance rests upon the individual director.

Building strategic dialogue with management

The Chair must create a setting that allows directors to contribute actively to corporate strategy. Agendas are often loaded with necessary work that is not intellectually challenging or stimulating. If allowed to dominate board meetings, such routine matters will quickly deaden any strategic dialogue. Keeping strategy at the top of the agenda not only ensures that the “routine monitoring functions” do not drive out the strategic agenda, including CSR initiatives, but that directors are “fresh” when the matters of greatest significance to corporate survival, prosperity and responsibility are being considered.

An area of stunning mediocrity in many, if not most, boards is the sharing of information and insight with directors. Managers have all the informational power, and directors have none. It is the Chair’s responsibility to redress this imbalance so that the board is enabled.

Finally, managers must remember that directors are busy people engaged in many other activities who drop in on the board meeting. Because directors don’t work daily in the company, managers must be careful to bring them into the context of the issue, and secondly, they must remember that the time of the directors is one of the corporation’s scarce resources, so their presentations to directors must be clear, memorable and compelling.

Allowing directors to meet with management and other stakeholders in a setting less formal than a boardroom is vital to deepening their understanding of the corporate environment and the managerial talent. At one major Canadian industrial company, a roundtable and a director’s dinner takes place the night before every board meeting. The roundtable has no fixed agenda and lasts an hour—with no alcohol served. The dinners alternate between those with directors only (including executive directors), and meetings with a cadre of top managers. It is at these less formal occasions that an organization and its board can exchange views on its place in the community and in the world.

Taken together, these approaches will go a long way towards building effective dialogues between boards and management and ensuring that all parties are socially responsible.

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Information Supplement

Each of the articles in this series is accompanied by a discussion featuring an expert panel with special interest in Corporate Social Responsibility.

Discussing some of the issues raised by Professor Beatty's, "Will a more effective board boost CSR?"

Claude Lamoureux
President and CEO, Ontario Teachers' Pension Plan

Dirk Schlimm
Vice President, Corporate Affairs, Husky Injection Molding Systems Ltd.

Beverley Topping
President and CEO, Institute of Corporate Directors

1 Are boards changing?

Topping They're changing for the better, in part because of people like the Canadian Coalition for Good Governance and pension funds which are making more demands on directors and corporations. But I think all of the disgraceful Enrons and WorldComs of the world have brought everything to the surface.

Lamoureux I agree with Beverley. But while boards may pay more attention now, to think that before these things didn't matter isn't entirely right. Now many more committees are involved, whereas before it was the CEO and his friends. So that is certainly a major change. Controls are much more important than they were before. Then you look at compensation—making sure it's much more responsive to results as opposed to being totally random, as we've seen too often. So in view of these areas where things are changing. Is it changing fast enough? Is it changing at the same rate around the world? I don't think so.

Schlimm Our board has changed quite a bit, especially since we went public in 1998. And from day one we split the role of the Chair and CEO. Over time, the board has become quite involved and, at least from management's perspective, has taken quite an interest in what we do. And I think that's all for the better.

Topping An example of how people are interested in more effective boards is how the Institute of Corporate Directors has grown dramatically over the last two years. The most important thing is the emphasis on ethics, morality, rules and principles. Corporate governance is all about education. People are now interested in this and want to be kept up to speed. The other thing is the relationships between people. Being a director is a very lonely job, and I think our program creates an environment where directors can share a lot of experiences and questions they have with each other, and learn from the diversity of those experiences. Director education is key.

2 Will an effective board promote CSR issues?

Topping An effective board works together to create greater shareholder value in a positive, effective way. You have to have an independent chair, and you have to have independent directors on the audit committee, and you do have to have a governance group. Shareholder value is a very big picture. You should include corporate responsibility in shareholder value. I don't think it's prevalent in most corporations as a key item. I think there's becoming more awareness of it though, and the importance of it.

Lamoureux In my mind, an effective board essentially looks at the long term. And if you want to bring CSR into that, CSR is about the long term. You have to be able to survive and continue to produce results. You don't clip a mine and get the metals out as quickly as possible. You're concerned about what happens later on. As an investor, we take that into account by investing in companies that do well over the long haul, and companies that don't practice CSR will likely have more trouble down the road.

I'm on the board of a company called Domtar, and one of the ways they want to differentiate themselves is to show that they're leaders in the area of producing paper with fibre or essentially by cutting timber from forests that can regenerate themselves. And obviously a lot of Canadians are concerned about that.

Now, let me play Devil's Advocate for a minute. It's nice to say "we'll be proactive, we'll do this," but at the same time you still have to produce a product that people appreciate, that is reasonably priced and that you can make a profit on—that's why we have corporations.

CSR is nice, I'm all in favour of it, but it is not the purpose of a corporation the last time I checked. What is the purpose of a corporation? It's to create wealth for shareholders, and if you don't get that, then you should be in another line of work. I'm not saying that corporations shouldn't be involved in other areas. But we had a lot of well-meaning corporations that didn't survive. Our friends at Eaton's were being socially responsible when they sponsored a Christmas parade and all of that, and people appreciated them. But where are they today? So it is nice to say "I'm well-meaning," but if you don't create value you're out.

Schlimm When we talk about CSR in our context, we look at the environment and we look at people. In David Beatty's article, he's saying that being socially responsible is one of the most important duties of a corporation. I take from this that it's not just a bit of philanthropy or a little bit of public relations,
but that it's strategic to what the company really does, Claude talked about the purpose of the corporation. Our purpose statement is to be "a role model of lasting business success based on our values"—so we agree with him! If you're not successful, the whole thing doesn't matter.

What we do—and we bring our board into this—is to ask "what does social responsibility do for us?" It's not just something nice we do, it's about the way we treat our people and the way we treat the environment. Yes, there is investment. But there is a clear return. We track our absenteeism, which is less than half the Canadian average in absenteeism. We track our injury rates, and they're very low. We track what we spend on health care and benefits, and it's below the Canadian average. We're doing what we think is the right thing based on the values we have defined for the company. Then we look at the result and we find that there is a benefit that comes out of them.

3 Is it "survival first, then CSR?"

LAMOUREUX From an investor's point of view, I think we should first try to push the board to make their companies as effective as possible. I'm not saying that we shouldn't push CSR issues, but we have a long way to go to make our corporations really shareholder friendly.

When we have trouble with accounting, when we have trouble with revenue recognition, as a director you have to look at that. We've seen too many companies put in danger because of accounting! You look at Arthur Andersen—in terms of social responsibility they might have been great. They were in the right industry—white collar, people live long. But 80,000 people lost their jobs and their pensions and their health care—and in the US that counts for a lot—because of the stupidity of the company.

Topping Effective boards look at the corporation on a long-term basis and part of that is reputational risk. And corporate social responsibility falls into reputational risk. Based on its reputation alone, a company can see its stock fall drastically overnight. So I think you tie in corporate social responsibility, with the bottom line being very much a part of that. If you're not successful at the business, you're not doing anything in a positive way, you're not creating a product, you're not paying people. I'll use Today's Parent magazine as an example. As an entrepreneur who started a company and had 65 people working there, I knew we couldn't be in business unless we had people who were happy and productive. But we needed to make the bottom line work or we wouldn't have a job. As the entrepreneur I felt a huge responsibility to that. It's one big circle.

Schlimm Long term, CSR has to help you to be more successful. You get more engagement from people; they help you to be more successful. You build better relationships. If these things don't make us more competitive in the global marketplace—and we compete with companies from Japan, from Europe—and it's a burden to us, then we're in trouble.

4 Should the board Chair drive CSR issues the way a CEO might?

LAMOUREUX I would dare say that if the Chair says to the CEO, "Here's the kind of company we want," the CEO often wouldn't do anything. I may be wrong, but the board is there to pick a good management team, they're not there to run the business. If the board is going to decide "We need to do this for the environment, we need to that," the CEO will often say, "Do you want my job? Take it!" Maybe they recruit someone who can fit those values, but it's hard for a board to impose its values on an organization.

Schlimm It's a lot about "buy-in." If we had a Chair who didn't even care about these issues then you might have a problem, at least at our organization. For me, it's great to work for an entrepreneur like Robert Schlad, and also to have someone like our board Chair, Bob Gillespie, who has a different perspective, and to hear them discuss executive compensation or whatever else we try to do. You get a very balanced view between the dynamic view and the more corporate view, and at the end, if the two of them agree on something, then that's real consensus.

5 How do you see an effective board Chair?

LAMOUREUX A good Chair brings the best out of people, makes sure that everyone participates and doesn't monopolize the conversation. A good Chair is really a good moderator. Because sometimes the silent person is the one with the one idea that no one has thought of. A good Chair ensures that the discussion is balanced, and they also listen to management. In my mind, all board members are equal, but a good Chair is the person that makes sure that people relate to each other well. Look at Nortel. There was a board filled with all-stars, and yet the results weren't there, and to this day I'm wondering what was missing. You had a group of people who individually were at the top of their fields, but you put them together and at the end of the day it didn't work. Something was missing. Chemistry perhaps.

6 What makes a good board member? And will an effective board boost CSR?

LAMOUREUX A good board member—experience, curiosity, integrity. Why is Mr. Schad at Husky Injection Molding successful? Because he knows a lot about plastics and equipment, and because he loves the business. And a good board member should also love the business. If you don't like the end product, you won't do a good job.

One other key attribute is the ability to stand up and say "Dirk, I don't get it," or "Bev, are you going to want money with this?" and to be strong enough to question everything and everyone if need be. Too many people assume "Oh, this is complicated. Go ahead."

As to CSR, in the end I don't think people are black and white. They'll bring a sense of "I want to help the employees" or some other view. Very few board members want to be on a board where they know that things have been done badly.

Topping What makes a good board member? Everything that Claude just said—experience, curiosity, ethics, morality, the ability to relate to other people, the ability to listen, a commitment to participate, a commitment to question. And, if you want to use that label, corporate social responsibility, because boards need people who have morality and have a good long-term vision of a business. All of those things are combined in creating the business of the bottom line.

Schlimm I totally agree, especially on having to care about the business. That's the number one characteristic we look for. Board members have to care. I see that reflected in preparation—that willingness to spend the time. When potential board members do their due diligence they ask "Do you have environmental issues? How do you interact with the environment? What are your people like? What is your turnover like? What is your health and safety record?" To attract a better board you need people who buy into the belief that doing things through these values will make us more successful.

Topping I think diversity is also important—diversity of experience, of gender, of ethnicity. All those things together. It will boost the financial survival of the company to get input from many different perspectives, many different curiosities, especially if you have a good, collaborative and congenial board.

7 Is a good board always collaborative and congenial?

All Yes!