

# COMMERCE WITH A CONSCIENCE

Craig Silverman

CORPORATIONS SHIFT TOWARD SOCIAL RESPONSIBILITY



In the late 1960s, Andrew Benedek, then a chemical engineering student at McGill, took his first summer job at a petrochemical company in Quebec. It was his first experience in the corporate world and it nearly became his last.

"I felt ashamed to be a chemical engineer," the 61-year-old says today. "The company was producing very smelly [chemicals] that made the local river smell for another 20 or 30 kilometres downstream, and it was playing a game to not do anything in response to complaints about it."

The experience drove him to pursue a doctorate in environmental engineering because, he says, "The same way we create chemicals that can pollute, we can create those that do not."

In 1980, he founded ZENON Environmental Inc., a company that designs and implements water filtration systems. Last year, for the second time in three years (and for the second straight year that it was eligible), Benedek's company was named number one in a ranking of the 50 best corporate citizens in Canada by *Corporate Knights*, a magazine dedicated to socially responsible business.

ZENON is certainly at an advantage in that the product it makes has an immediate social value, but its number one ranking was also achieved through what *Corporate Knights* called a "near perfect corporate governance rating" and its commitment to helping communities around the world by providing its water systems free of charge.

Each year, the company selects one community with a water problem and brings in a team of employees and managers to install and maintain a water filtration system for that community.

One year, they went to a community in the jungles of Vietnam. Another year saw Benedek and a team from ZENON on Bear Island in Ontario, which was an early outpost of the Hudson's Bay Company and, more recently, home to the Temagami First Nation reserve (though the Temagami were obviously there first).

"I was part of the installation crew," says Benedek, adding that employees volunteer for the projects, and are then assigned to a role they do not normally perform. Aside from the satisfaction of bringing clean and safe water to the community of roughly 500, Benedek says the experience also benefits the company in

another way. On this trip, he discovered that it was necessary to make the installation of their product simpler for the crews.

"That whole process was very interesting because it taught me a lot about how we could do better serving small communities," says Benedek from his company's headquarters in Toronto. "But what sticks with me most is the quality of our employees. Some of the busiest people in the company volunteered their time and they all got something out of it."

It's an undeniably moving image: a CEO rolling up his sleeves and applying company resources for the public good. But there are those who would listen to Benedek's story and wonder if there isn't a negative impact from what he's doing—that is, how it affects his company's bottom line. Can his company compete with those that preach an undying commitment to a bottom line of dollars and stock price, rather than bringing the less tangible ideas of community and environment into the equation?

Benedek says yes. The company balance sheet shows 47 per cent revenue growth for the third quarter of 2004, the most recent reporting period, and net income of \$10.7 million to date, a 57 per cent improvement over the same period the year before. The company, while certainly not racking up massive numbers, is profitable and growing with a 52-week high share price of \$24.65 on the Toronto Stock exchange as of publication.

ZENON is the exception to the rule: a company that makes a socially beneficial product and operates in a way that incorporates corporate responsibility in both the boardroom and community. "We don't have any illusions that there are any real sustainable corporate organizations right now because the model is not fully developed," says Toby Heaps, the editor of *Corporate Knights*. "But there are companies that are open to changing their orientation to be more a part of the solution and less a part of the problem."

The movement toward corporate social responsibility is not new, but it has gained momentum in light of recent financial disasters such as Enron and the not-too-distant memory of environmental ones, like the *Exxon Valdez*. It has taken hold at both the executive and international levels, as well as at the business schools that work to prepare the business world's next executives and managers.

The creation of truly socially responsible corporations, however, requires a major shift in how companies achieve value themselves, and how the market judges their worth. Charitable contributions have long been a part of the operation of corporations, but true social responsibility takes more than simply giving away money, experts say. The fundamental structure of how a corporation is valued will need to undergo a shift that sees environment and social aspects of a business valued in a similar way to the balance sheet. This requires a massive shift in perceptions and priorities not only for executives, managers and employees, but also with governments, citizens and shareholders.

## A NEW PURPOSE FOR THE CORPORATION

"While business organizations are certainly economic instruments, we suggest that organizations have a range of effects and play a number of roles in society," says Joshua Margolis, a professor at the Harvard Business School (HBS), in an interview on the HBS Working Knowledge Web site.

Margolis and his colleagues at other business schools have called for a re-evaluation of the purpose of the corporation. "Our hope is that researchers and business leaders would engage in a robust discussion of the purpose of the corporation... our working

definition to get the discussion and debate going would be: The purpose of the corporation is to produce and deliver goods and services in a manner that creates value for members of society."

The call for a re-examination of the purpose, and very idea, of the corporation has given rise to new financial models, like the triple bottom line. John Elkington, co-founder of the business consultancy SustainAbility, came up with the idea in his 1998 book, *Cannibals with Forks: the Triple Bottom Line of 21st Century Business*. His consultancy says the triple bottom line "focuses corporations not just on the economic value they add, but also on the environmental and social value they add—and destroy. At its narrowest, the term 'triple bottom line' is used as a framework for measuring and reporting corporate performance against economic, social and environmental parameters. At its broadest, the term is used to capture the whole set of values, issues and processes that companies must address in order to minimize any harm resulting from their activities and to create economic, social and environmental value."

The triple bottom line is an idea that many executives and business scholars are familiar with, but it is far from being implemented into the modern enterprise. There are, however, other areas where business is shifting toward social responsibility.

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ity. The first is through broad commitments to principles and targets for responsibility.

At the World Economic Forum in 1999, UN Secretary-General Kofi Annan asked corporations to join with the UN in the Global Compact, a set of principles (see sidebar) in the areas of human rights, labour, the environment and anti-corruption. There are currently 1,799 companies listed as members. Eighteen of them are Canadian, while 59 are American. Only five participants are from the Global 500 listing of the world's largest organizations.

Another example is Imagine, an initiative of the Canadian Centre for Philanthropy. It has also sought to involve the CEOs of major Canadian companies in order to "promote public and corporate giving, volunteering and support to the community." Imagine counts 585 Canadian companies as members of its initiative. At the core of Imagine is the requirement of companies to dedicate at least 1 per cent of their profit after taxes to community initiatives.

"It's really about a partnership between business and the community, and encouraging companies and their leaders to think about how the value of a healthy community contributes toward their bottom line," says Helen Simpson, Imagine's director of communications. Initiatives like Imagine help drive executives to apply the financial resources of their company to improve the community they operate in, according to Simpson.

But some caution against expecting too much from corporations. Joel Bakan, one of the co-creators of the film *The Corporation* and author of the book of the same name, says corporate social responsibility is "an oxymoron."

"The way a corporation is created and legally put together makes it impossible to be socially responsible," comments Bakan, who is also a professor of law at the University of British Columbia. "It is impossible for an executive or director to say 'We're going to pursue environmental and social values at the expense of shareholders.' That would be illegal."

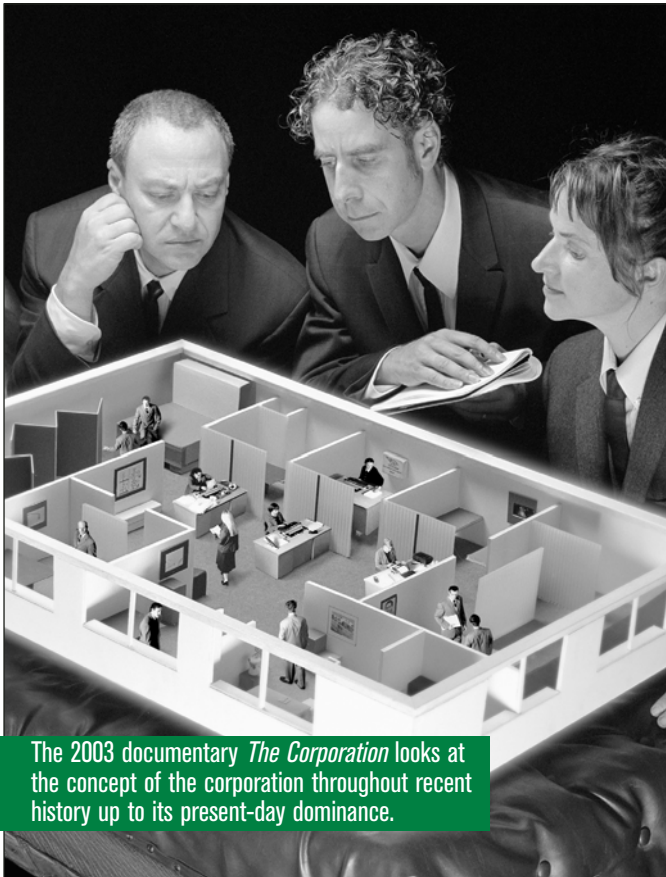
Bakan says the danger of the responsibility movement is that governments and citizens may end up relying on corporations to police themselves, leading to the erosion of protective environmental and social regulations.

"I do think that corporations are trying to find ways to create wealth for shareholders that are also environmentally and socially responsible," he says. "But it is a very limited concept and also dangerous to the extent that it convinces people that we can leave it up to corporations to police their own activities."

## FINANCING A NEW MODEL

One person working to finance a new model of enterprise separate from the existing corporation is Bill Young, a former technology executive who was also an early investor in, and CEO of, software firm Red Hat, which went public in 1999 with a stratospheric public offering, thus ensuring he didn't have to work again. Young is largely considered the face of social entrepreneurialism in Canada. He founded and operates Social Capital Partners (SCP), which invests in "revenue-generating social enterprises that employ populations outside the economic mainstream in Canada."

Young is out to prove that businesses can serve their community as well as their customers. "You can build a business that has a financial mission that satisfies real customers and has



The 2003 documentary *The Corporation* looks at the concept of the corporation throughout recent history up to its present-day dominance.

## PUT YOUR MONEY WHERE YOUR MORALS ARE

Do your investments match your ethics? It is possible to invest your money wisely—and be socially responsible too. Your investments can reflect your values as well as meet our personal financial goals.

Ethical investing offers you the opportunity to gain a healthier return on your money by supporting companies which you feel are of benefit to society and the environment while avoiding those companies whose activities you dislike.

These tips from the Financial Planners Standards Council of Canada (FPSCC) and ADVOCIS suggest a Six Step Financial Planning Process when looking to green up your portfolio:

- Clarify your present situation. Gather all relevant data—assets and liabilities, cash flow, tax returns, securities statements, insurance policies, wills and pension plans. Identify your level of investment knowledge and risk tolerance.

- Set personal financial goals and objectives. Clarify your values and attitudes.

- Identify challenges that can keep you from financial independence.

- Prepare an independent written recommendation and alternative strategies to meet your needs and goals.

- Implement the strategy best suited for you. Work with investment, insurance, legal and tax planning pros to put the plan into practice.

- Review and revise the plan to ensure it is working and is in line with your values.

Socially responsible investing (SRI) sets out certain ethical criteria that a company must satisfy, in addition to its financial merits, in order to be considered for investment. To align your investments with your personal values, use positive and negative screening. For example, funds may seek not to invest in companies involved in:

- The arms trade
- Third world exploitation
- Animal testing (medical and cosmetic)
- Tobacco
- Pornography
- Oppressive regimes
- Environmental destruction
- Nuclear power
- Gambling

They may actively seek out companies which promote:

- Environmentally friendly products
- Education and training
- Health and safety
- Employee friendly working practices
- Open management
- Waste management

Investors don't have to give up performance to have an SRI portfolio. With more than 15 years of Canadian SRI mutual fund history, any concerns of minimal selection and sub par returns have vanished. So far, however, SRI mutual funds have captured only 1 per cent of the Canadian retail market. It is up to you to make socially responsible investing a priority.

a product of value and that also operates with a social mission," he says. "We see the two goals as equally important."

Young says SCP, a not-for-profit entity, has worked with an estimated 30 companies and groups. One of their first orders of business was to run a contest for the best social business plan and award financing to the winner. The winner was Inner City Renovations, which began as a housing advocacy agency in Winnipeg. Through financing from SCP, the group transitioned into actually building homes for low-income people. It now employs 18 people, 12 of whom are aboriginals from inner city neighbourhoods.

"There is a general manager with 20 years' experience in the private sector and three or four grizzled foreman who are on-site trainers, managers and tough lovers, if you like," says Young. "There is a continuum where there are businesses with purely financial returns at one end, and those with purely social returns at the other," he says. "But there are a whole bunch of opportunities along that continuum to think about different ways to structure and finance businesses, and that's where social innovation will come from. There is going to have to be a hybrid model and we have to think about financing social outcomes, positive outcomes."

## GET 'EM YOUNG

With the executive level initiatives and social entrepreneurialism come the business schools where tomorrow's business leaders are being shaped. Kariann Aarup spent years teaching a course in social and environmental issues in business at McGill's Faculty of Management, but found herself at a loss when students asked her how they could put the course material into practice. So, being a MBA herself, she decided to create her own organization, the Community Experience Initiative (CEI), to place business students in paid summer internships with organizations in the non-profit sector. Since 2001, CEI's first summer in operation, it has placed 40 students from 17 different Canadian business schools in 26 different organizations.

"We are working to shorten the gap between the corporate and non-profit sectors by operating at the root of where the next generation of business leaders is learning what it means to be a business person," says Aarup. Her organization has received encouraging support from Canada's leading business schools, as they themselves are working to incorporate social-oriented curricula into undergraduate and MBA programs.

Jay Handelman, an associate professor of marketing at Queen's School of Business, serves as the head of the school's Centre for Corporate Social Responsibility. He says the school is working to have students graduate "with the idea that there is value other than shareholder value—stakeholder value."

Queen's, like most business schools in Canada, is expanding its selection of business ethics and social responsibility courses, along with those focused on corporate governance and accounting.

Handelman also acknowledges a structural challenge for the schools in promoting these values to students. "Business schools themselves are driven by rankings and a lot of the measurements are based on the salaries that our students earn [after graduation]," he says. "If a student gets a job on Bay Street, it helps the ranking; if they join a non-governmental organization, it hurts the rankings."

The majority of students in business programs are more inclined to go after the high-paying corporate jobs and often don't put much thought into social responsibility, according to one student who participated in an internship through CEI.

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"I was a little disappointed by the attitude of some students in the program," says Melanie Derynck, 22, an undergraduate business student at McGill. "There is not that much regard for social issues, which is somewhat understandable since it is a commerce program."

Derynck is pursuing a minor in environmental studies and spent three months working for the Canadian Arctic Resources Committee in Ottawa last summer. She hopes to land a job in the non-profit sector, since that is where she believes she can do the most good, but acknowledges that the job prospects aren't great. It would be easier if earning money were her only goal.

"I'm going to have to somehow feed myself when I graduate," she says. "But my goal is to get a job that I am passionate about in an organization that I'm passionate about."

"I fundamentally believe that doing the right thing is good for business," says ZENON's Benedek. "Corporate social responsibility comes from within, it's not just something that a management committee decides to enforce. It has to be about your suppliers, customers, employees... and the values exhibited by the company."

By example, he explains what happened to the chemical company he worked for back in the 1960s: "They've gone bankrupt."

## THE 10 PRINCIPLES OF THE UN GLOBAL COMPACT

### HUMAN RIGHTS

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

### LABOUR STANDARDS

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

### ENVIRONMENT

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

### ANTI-CORRUPTION

- Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.