

## CSR and Values-Driven Decision-Making

BOYD NEIL

Vice President, National Practice Director Corporate Communications  
Hill and Knowlton Canada

**N**orth American CEOs are apparently still ambivalent about the influence of responsible corporate behaviour on the reputation of their companies. This is one of the findings of a recent survey of global CEOs conducted by research firm ORC International and sponsored by Hill and Knowlton and Korn/Ferry International. According to the 2003 Corporate Reputation Watch Survey, only 26% of North American CEOs believe that corporate social responsibility initiatives contribute significantly to corporate reputation.

This is either naiveté on the part of CEOs in the United States and Canada...or a consequence of the heavy weighting of American CEOs in the "North American" survey cohort. American CEOs are much preoccupied with issues of corporate governance, having been hit by major scandals in accounting methods, lack of Board oversight, executive malfeasance and the mandating by the Sarbanes-Oxley Act of new standards of Board conduct and control. The fact that North American CEOs identify the major corporate governance steps they have taken as "reviewing auditor/ accounting relationships" (70%) and "enhancing in-

ternal controls" (72%) suggests they have turned inward to manage reputation.

Although separate data for Canadian CEOs can't be disaggregated from the Corporate Reputation Watch findings, I would argue our CEOs probably tilt

**Having been leaders for many years in managing tough stakeholder relations, Canadian natural resource companies have become leaders in developing and managing community-based social responsibility programs.**

more in favour of their European colleagues when ranking the impact of corporate social responsibility on their reputation. Many of the strongest Canadian-headquartered companies are in the natural resource sector. Having been leaders for many years in managing tough stakeholder relations with aboriginal peoples and local communities affected by resource extraction and transportation issues, Canadian natural resource companies have become leaders

### In this issue:

- **CSR and Values-Driven Decision-Making**
- **Editorial**
- **Sarbanes Oxley: Any Prospects for Improved Corporate Ethics? A Response by Robert Yalden**
- **Director's Biography: Michael Davies, QC**
- **Speakers' Corner**
- **Retailers are Advancing Responsible Trade**
- **Upcoming Events**
- **Recent Events**

CONTINUED FROM PAGE 1

---

in developing and managing community-based social responsibility programs.

Such Canadian resource companies as Nexen Inc., Suncor Energy Inc., Domtar Inc. and Alcan Inc. are recognized globally for their commitment to socially responsible behaviour. Mining company Alcan, for example, partnered with companies in India and Pakistan to develop a cost-effective method for removing arsenic from drinking water that is now in demand in eight other developing countries.

Even our leading financial services companies such as Royal Bank of Canada, the Bank of Nova Scotia and the Canadian Imperial Bank of Commerce have kept pace with their natural resource colleagues in committing to responsible behaviour. As Gordon Nixon, CEO of the RBC Financial Group said in an interview published this year in the Canadian CSR magazine *Corporate Knights*, "Corporations who focus too much on the shareholders and disregard the communities, employees and clients pay a very heavy price."

In particular, some Canadian CEOs are beginning to recognize the relationship between values-driven decision-making and the strength of their reputa-

tion in the marketplace. As Canadians David Ticoll and Don Tapscott argue in their new book, *The Naked Corporation*, there are four values that form the basis of trust: "Honesty, accountability, consideration and transparency – together constitute what we call the New Business Integrity and the foundation of the open enterprise."

If ethics is the means of choosing between competing moral or economic values, then these values act as basic ethical guideposts for making business choices. They engage such standards as respect for others, being open about the impact of business actions, making "clear commitments to distinct stakeholders and (abiding) by them," (Tapscott and Ticoll), discharging executive duties with integrity even when short-term financial performance could suffer, governing the corporation in the best interests of employees, customers, stakeholders and shareholders, willing problem identification and willing problem resolution.

By applying these and similar values to business decisions it will be much easier to defend those decisions in the court of public opinion should that ever become necessary. And that will help ensure that a company's reputation stays strong.

**There are four values that form the basis of trust:  
"Honesty, accountability, consideration and transparency – together constitute what we call the New Business Integrity and the foundation of the open enterprise."**

---

## EDITORIAL

**Dear Paul, Dalton  
and David...**

SALLY GUNZ

**Dear Paul, Dalton and David:**

First, by way of introduction, I am a teacher. I'm writing because I need help. Quite simply, I am at a loss as to what to tell my students.

Let me back up. I spend a good deal of time teaching my students about professional values. I also believe it is important that they, as future accountants, learn about the regulatory regime they will work within. So, we talk about securities regulations and companies' regulations and even, at times, the provisions of the Criminal Code of Canada. I believe in regulation. I believe in the rule of law and I try to teach my students that compliance is both important "as the right thing to do" and because there are clear repercussions if they don't.

So why am I writing? Because I am increasingly finding that my students fall into two camps: either they are just plain confused (often the younger ones) or they are becoming jaded and cynical (generally the older ones). And I don't know how to respond any more. The standard line I hear is "Who up There Cares?". More to the point, my "repercussions" argument doesn't wash. They read about all the recent financial scandals both here and the US and what do they hear from Canadian regulators?: in their opinion, almost nothing.

There is real irony here. One of the themes of my courses is Canada isn't the US. Don't get the law mixed up. How right I am! I find my students don't bother to look up what Canadian regulators are doing by way of enforcement any more because, however unfair this might be, generally they don't believe they will find anything. My students believe that if it isn't happening in the US then it isn't happening in North America.

Which leads me to the point of my letter: how should I respond? Increasingly I am having difficulty finding any satisfactory answer. Certainly I know of activity on the regulatory front and I am fully aware that prudent practices are inevitably time consuming. But comparisons are invidious. Take one recent example. Front and centre in all the December news – Hollinger. Before the end of 2003 we saw the first stages of apparently hard nosed investigations by US regulators. Those with possible answers were beginning to feel some real heat, and publicly. There were no comparable public signs of action in Canada for the longest time. It may be that there is an agreement that the US takes the lead here. It may well be that Canadian regulators are in fact equally active behind the scenes. But the impression – and here impressions are very important – is that Canadian corporate offenders will feel no real pain.

So why do I write to you? Because I think this matters. It troubles me that we are producing a generation that sees our regulators as ineffectual. The Canadian reluctance to cart off CEO's in hand cuffs has appeal. But caution can also be interpreted as inaction, or, worse. Without a clear exposition of why Canadian regulators do not appear to take the types of action we see in the US, there is inevitable cynicism about one set of rules for the corporate elite and another for welfare cheats or shop lifters (and I fully understand that the SEC itself has its fair share of critics for its perceived timidity). We have bred a generation that has seen too often the joint reassurances of business and politicians fail them. For the most part they want a role for regulation, but, sadly, they have little faith that violations will lead to enforcement.

As an educator I have some limited opportunity to dispel their disbelief. How should I respond?

# Sarbanes Oxley: Any Prospects for Improved Corporate Ethics?

A RESPONSE BY ROBERT YALDEN

Partner, Osler, Hoskin & Harcourt LLP

**While Sarbanes does not tackle the broader question of the role of ethics in business, it is part of a context that is now seeing healthy and much needed dialogue about ethical standards**

**I**n the last issue of *Management Ethics*, Seymour Trachimovsky set out a lively argument concerning the U.S.'s Sarbanes Oxley legislation and its Canadian counterparts. He suggested that the compliance costs that the legislation imposes are significant and that it is far from clear that in requiring CEOs and CFOs to certify the accuracy of their company's financial statements this legislation will put an end to misleading financial practices – let alone lead to meaningful transformation in corporate ethics.

The legislation was designed to address the complete breakdown in accountability in a number of companies that until the late 1990s were viewed as "high-flyers". There is little doubt that the turn of the century was witness to a range of alarming practices. Senior managers ensured that boards of directors were fed a minimum of information about dubious accounting strategies. Intense pressure was exercised on auditors to bless these strategies, lest they lose prestigious and lucrative auditing mandates. Rich compensation packages were awarded to senior executives notwithstanding that in several instances their companies were on the verge of imploding.

Sadly, this was not the first time in recent memory that corporate governance systems proved incapable of anticipating, let alone preventing, troubling practices. When the press baron Robert Maxwell fell mysteriously to his death from his yacht in 1991, a tangled tale emerged of missing pension fund assets that led to considerable outrage in the U.K. and to the adoption of new corpo-

rate governance practices. The U.S. had also seen its own scandals – with junk bond fuelled companies collapsing at the end of the 1980s and considerable energy poured into analyzing how to rectify deficient corporate governance practices. Yet in spite of these efforts, the cycle repeated itself a decade later.

This time, however, Congress has got into the game. But with the initial burst of enthusiasm for the strong medicine that Sarbanes Oxley represents now behind us, the many patients to whom it has been administered are not only beginning to learn whether it is having the desired effect but also whether it is producing unanticipated side-effects.

The costs of compliance are meaningful and in some respects quite unforeseen: director and officer insurance rates for U.S. and Canadian companies subject to the legislation are skyrocketing; numerous companies have had to create and staff new positions solely dedicated to ensuring compliance with the legislation's complex provisions; and senior management has had to devise and implement detailed strategies for ensuring that they can show that they diligently verified the accuracy of financial information released to the public.

Is the cost worth it? Early reports suggest that boards of directors and audit committees have reacted in different ways ranging from virtually no change at all to significantly longer – sometimes painful – meetings with boards and audit committees engaged in excessive micro-management. Still others have found an appropriate middle ground: with audit

committees acting in a measured fashion, while ensuring that auditors are freed from some of the more disturbing pressures to which they were subject in the 1990s. The result has been more open and honest discussion about the appropriateness of the way in which management wishes to describe the state of the company's financial health.

In assessing whether Sarbanes will at long last prove the panacea that will put corporate behaviour back on the straight and narrow, we would do well to consider, however, just how much we can expect legislation to transform corporate behaviour. There is no doubt that Sarbanes has given rise already to significantly improved practices. But an in-

creasingly substantial body of literature suggests that there are limits to what law can accomplish in efforts to resist harmful pressures. Without there being a more fundamental shift in the "culture of the boardroom" and the "culture of senior management", this literature suggests that it is only a matter of time until we witness the next round of scandals. So it is to these thorny issues of corporate culture that attention is now turning.

For those concerned with ensuring that sensible discussion about ethics finds its place in this debate, the climate in North America has rarely been more receptive. It is true that Sarbanes does not tackle the broader question of the role of ethics in business. But it is part of a con-

text that is now seeing healthy and much needed dialogue about ethical standards. As a recent page long article in the Financial Times of London observed: "In the year just ending, questions of honesty, integrity, transparency and public trust have moved to the top of the business agenda".<sup>1</sup> The challenge, then, is an exciting one: how best to find ways to feed constructive initiatives into an environment that is more prepared than it has been in some time to discuss ways in which to improve sensitivity to ethical issues in the often rough and tumble world of North American capitalism.

<sup>1</sup>S. London, "Climate Change: corporate scandals push the need for ethical standards to the top of the business agenda", Financial Times, December 31, 2003, p. 9

## INTRODUCING THE DIRECTORS OF ETHICS CENTRE CA: MICHAEL DAVIES, Q.C.



*This is a continuing series of short biographies of current Board Members. Last issue the focus was on Christina Donely. We now turn to other members of the Executive Committee – in this issue, Michael Davies.*

It is a pleasure to introduce the newest member of the Executive Committee. Recently retired Vice President and General Counsel, General Electric Canada Inc., Michael was appointed a Vice Chair of the Ethics Centre at the Annual Meeting, 2003.

After spending a year as law clerk to the Chief Justice of the Supreme Court of Ontario and three years in private practice following graduation with honours from Osgoode Hall Law School in Toronto, Michael joined the Foundation Group of Companies as General Counsel in 1963. In 1970 he became General Counsel of Metro Centre Developments, a consortium of Canada's two railway companies. In 1977 he joined Canadian General Electric Company (now GE Canada) as Associate General Counsel, and from 1987 until April 2002 (when he retired) he was Vice President, General Counsel and Secretary of GE Canada and GE Capital Canada.

Michael is extraordinarily busy in a volunteer capacity. He

was one of the founders and is currently a director and Vice-Chairman of the Canadian Chapter of Transparency International. He is also Chairman of the Bribery and Corruption Committee of the Canadian Council for International Business and in that capacity has, for the past six years, been an active member of the ICC Commission on Anti-Corruption and of the Business and Industry Advisory (BIAC) Task Force on Corruption & Bribery to the OECD Working Group on Bribery in International Business Transactions. In the recently published ICC Corporate Practices Manual "Fighting Corruption", Michael was the author of the chapter on "Whistleblowing" as well as another chapter on the role of agents and international sale representatives. For four years up until the summer of 2003, Michael was Chairman of the Transparency Committee of the Pacific Basin Economic Council (PBEC). He has also spoken extensively on corporate compliance programs and the essential ingredients for them to be effective.

In 2002, Michael became a director of the Canadian Centre for Ethics & Corporate Policy and was appointed a Vice Chair at the last annual meeting.

## SPEAKERS' CORNER

**There were two outstanding talks in the late Fall in addition to the Seminars on Whistle Blowing conducted in conjunction with the Sheldon-Chumir Foundation. We summarize these talks for those unable to attend.**

### CHALLENGES TO ACTING ETHICALLY IN A GLOBAL MARKETPLACE

Eric Siegel

*Executive Vice-President, Medium & Long Term Financial Services,  
Export Development Canada  
October 9, 2003*

Mr. Siegel focused on those parts of his responsibilities that include the assessment of ethical risks. He is a member of Export Development Canada's (EDC) Risk Management Committee and has considerable insight into the ethical challenges associated with participating in the global marketplace. He identified four primary areas of focus: the environment, human rights, corruption and transparency. EDC has chosen to respond to the challenges it faces by adopting the principles of Corporate and Social Responsibility. Specifically, it believes that "Corporate social responsibility is more than just compliance with legal standards -it is the practical integration of core values such as honesty, respect, fairness and integrity into policies, procedures and day-to-day business practices." The biggest challenge Mr. Siegel identified is keeping pace with the rapidly changing international standards and voluntary codes (for example, the Equator Principles of the international banks). Further, there is a growth in very well informed NGO's that are increasingly shaping international public opinion and Canadian corporations ignore these at their peril. The EDC has assumed an active role in improving environmental practices. It works closely with the Government of Canada in the field of human rights and it has implemented an anti-corruption program. It works with the NGO's to improve practices and has implemented a more transparent reporting process. The old days of assuming engaging in ethically responsible practices would place business at a competitive disadvantage are gone. The trend amongst all major participants in international trade is to improve practices and, increasingly, to apply the principles of Corporate and Social Responsibility.

### PRIVACY: WHAT YOU DON'T KNOW AS A DIRECTOR CAN HURT YOU

Ann Cavoukian, Ph.D

*Information & Privacy Commissioner/Ontario  
November 20, 2003*

The timing of Dr. Cavoukian's speech was particularly significant, coming shortly before the January 1 2004 implementation of the federal privacy legislation in Ontario. Dr. Cavoukian provided a compelling case for the importance of sound privacy policies that went far beyond the legal. She relied on actual incidences of corporate breakdown and consequent reputational damage. She cited studies showing the financial cost of lack of consumer trust, particularly in the field of on-line commerce. Where consumers lack trust they simply provide inaccurate information and/or disengage from the business relationship. Clearly the pressure for good practices comes both from consumers themselves and from international and national governments. These are issues that cannot be ignored and will not go away. Dr. Cavoukian argued that "a proactive approach to privacy will save time and money by: avoiding law suits initiated by customers, shareholders and business partners; inquiries and complaints from customers; investigation or audit by Privacy Commissioner; inefficiencies resulting from poor information management practices and the retention of inaccurate, incomplete, out-dated information; failure/delay in the roll out of a new product or service due to privacy concerns; retrofitting or redesigning a product or services to address privacy concerns." Directors must assume responsibility for compliance and in this regard they might turn to the resources of the AICPA amongst others (see Privacy Framework Exposure Draft June 3, 2003 : [www.cica.ca/privacy](http://www.cica.ca/privacy)). Dr. Cavoukian concluded her speech by reminding the audience that concern about privacy is still in its infancy. Business would be foolhardy to believe anything else.

## Retailers are Advancing Responsible Trade

**I**n today's global economy, Canadian shoppers have a huge variety of goods to choose from. Responsible trade, the practice of sourcing goods that have been manufactured under legal, decent and humane working conditions, is becoming increasingly important to Canadian retailers and consumers. Retail Council of Canada (RCC) is committed to advancing responsible trade, and has convened an advisory council, Canadian Retailers Advancing Responsible Trade (CRART), to provide industry leadership and serve as the voice for Canadian retailers on the subject.

Council members represent a variety of perspectives related to responsible trade. CRART is comprised of leading Canadian retailers, experts in the fields of human rights and international trade law, and also has two members who represent Canadian youth. EthicsCentre CA brings its expertise in corporate ethics to CRART through the appointment of Ellen Mary Mills, Executive Director, as a founding member of the council.

CRART is chaired by The Honourable Barbara McDougall, who has held several federal cabinet posts, including Finance (Minister of State); Privatization; Employment and Immigration; and External Affairs. Mrs. McDougall is currently President and CEO of the Canadian Institute of International Affairs. "The creation of this council is an important step in promoting responsible trading practices in Canada," said Mrs. McDougall. "The retail industry has already taken great strides in this field and we look forward to reaching out to other stakeholders."

CRART serves as an advisory body to RCC's Board of Directors, meeting on a quarterly basis, and provides a mechanism through which interested parties can come together to expand their knowledge base and share information about responsible trade. In addition, the council will work to raise awareness among retailers and promote the adoption of RCC's Responsible Trading Guidelines.

CONTINUED ON PAGE 8

*Chair, The Honourable Barbara McDougall and founding members of the Advisory Council, Canadian Retailers Advancing Responsible Trade*



CONTINUED FROM PAGE 7

The Responsible Trading Guidelines reflect four fundamental human rights as articulated by the International Labour Organization, including the prohibition of forced labour, child labour and discrimination. The right to freedom of association is also protected where lawful.

These guidelines serve as a benchmark for companies. Many leading retailers in Canada, including Hbc (Hudson's Bay Company), Sears Canada Inc. and Wal-Mart Canada Corp., have already either adopted the guidelines or are enforcing the same standards through their own codes and buying practices. These retailers spend millions of dollars annually on factory auditing programs to ensure that their vendor codes of compliance are being upheld. RCC and CRART encourage all retailers to adopt or adapt the guidelines and implement them according to their business needs and practices.

To learn more about responsible trade and CRART, visit [www.retailcouncil.org/crart](http://www.retailcouncil.org/crart) or send an e-mail to [info@crart.org](mailto:info@crart.org).

## UPCOMING EVENTS

### ETHICS CENTRE CA SPRING LUNCHEON SPEAKER SERIES

#### MONDAY APRIL 26

12 Noon  
The Ontario Club  
5th Floor  
30 Wellington St. West

#### The Business of Sustainability and the Role of Social Responsibility

##### Dan Gagnier

Chair of the Strategic Advisory Group on Social Responsibility for ISO and Senior Vice President, Corporate and External Affairs, Alcan Inc.

## RECENT EVENTS



On Monday, March 8, we were honoured to have Auditor General of Canada **Sheila Fraser** as our luncheon speaker.

Sheila Fraser believes that Canadians deserve the highest standards of accountability and ethics in the federal government's conduct of public business. Since 1995 the Office of the Auditor General has conducted four major reviews of values and ethics initiatives.

In her speech to EthicsCentre CA, entitled "**Ethics and Accountability in the Federal Government: Room for Improvement?**" Ms. Fraser discussed the findings of her latest review and called on the government to take specific actions to strengthen ethics and accountability.

This event, which was sponsored by the Canadian Institute of Chartered Accountants, was Sheila Fraser's first Toronto appearance since the tabling of her recent report and was quickly sold out. Her speech was most informative and was followed by a lively question-and-answer session.

**managementethics** is published quarterly by EthicsCentre CA. We welcome appropriate announcements, letters to the editor, short articles of 300 to 1000 words (which will be subject to usual editorial processes) and suggestions from readers.

**managementethics** is edited by Sally Gunz.

You can reach us at:

#### EthicsCentre CA

360 Bloor Street West  
Suite 408  
Toronto, Ontario  
M5S 1X1

Phone: 416-348-8691

Fax: 416-348-8689

E-mail: [info@ethicscentre.ca](mailto:info@ethicscentre.ca)

Web site: [www.ethicscentre.ca](http://www.ethicscentre.ca)

Charitable registration number:  
12161 1932 RR 0001

Back issues of **managementethics** are on-line at the Centre's web site.

The opinions expressed in

**managementethics** do not necessarily represent the opinions of EthicsCentre CA. This newsletter may be reproduced without permission as long as proper acknowledgment is given.

Printing: Courtesy of The Canadian Institute of Chartered Accountants

Layout and design: Avril Orloff

**ethicscentre.ca**  
Canadian Centre for Ethics & Corporate Policy

