The Conference Board of Canada
Insights You Can Count On

Review Autumn 2007

Corporate Social Responsibility Review

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Preface

Corporate Social Responsibility Review

This is the second publication of the *Corporate Social Responsibility Review*. As mentioned in the inaugural issue, the *Review* is intended to bring together the perspectives of a cross-section of leading thinkers and practitioners on Corporate Social Responsibility (CSR). These articles range from theory to practical applications and examples of CSR.

We are seeing compelling signs and testimonials that the business community in Canada and around the globe is becoming more committed to corporate social responsibility. Corporate leaders are embracing the notion that their actions are having an impact on society. These actions are ensuring sustainable development, allowing corporations to remain in business and profitable while respecting areas such as the environment.

Over the past 15 years, The Conference Board of Canada has helped Canadian businesses to find their footing in CSR. Through our research, we publish strategic insights and develop practical tools to assist companies implement CSR. Through our Annual Corporate Social Responsibility Conference, executive networks, and The Directors College, we also bring together senior leaders from the private, public, and not-for-profit sectors to explore the changing role of business in society.

This issue consists of four articles:

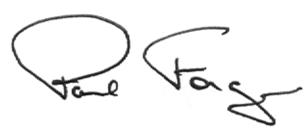
Doug Miller, President of GlobeScan, focuses on the evolution of the sustainable development concept, from its origins in the Brundtland Commission through to the increased gap between public expectations of CSR and public perceptions of corporate performance in this area.

Bruce Simpson, a senior partner in McKinsey & Company's Toronto office, writes on how companies embed CSR within their business strategies. He presents examples of good corporate citizenship from well-known companies, such as Alcan and Barrick Gold Corporation. Environmental issues require CSR strategies built, not just from a local perspective, but also from a global one; unless companies take action, regulators will impose conduct on their own terms.

Linda Coady, Stephanie Snider, Ann Duffy, and Ruth Legg are associated with the Vancouver 2010 Olympic and Paralympics Winter Games. This article demonstrates how the non-profit sector can and should apply CSR toward sustainable development. It goes on to suggest the importance of dialogue with all stakeholders to ensure we understand and manage expectations. Their challenge is the same that many organizations face: find credible measurement tools to ensure transparent reporting.

Dr. Randall Gossen, Vice-President, Safety, Environment and Social Responsibility with Nexen Inc., writes that conducting business in a responsible manner is a priority at all employee levels at Nexen. He goes on to provide Nexen's Five Elements of Corporate Social Responsibility. This article clearly demonstrates that Nexen is "walking the talk" when it comes to constructive dialogue with its stakeholders.

These articles offer the reader excellent insight into how collective efforts toward a common goal can achieve sustainable results. I trust you will enjoy these articles as much as I did.



Paul Forgues
Senior Network Manager
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By Doug Miller

Sustainability and Business

Where Has It Been? Where Is It Going?

The Brundtland Legacy

It can be argued that the term "sustainable development" is one of the most successful and lasting concepts ever coined—and the 1987 Brundtland Commission (the originator of the term) one of the most influential world commissions ever.

More than concepts such as the "conserver society" before it and "corporate social responsibility" after it, sustainability has somehow struck a lasting chord.

In a global survey[1] of civil society leaders conducted by GlobeScan in 2004, we were struck by the extent to which sustainable development (SD) had established itself as the common framework for thinking and action by civil society leaders.

More recently, GlobeScan's October 2006 survey of its authoritative panel[2] of SD leaders across Organisation for Economic Co-operation and Development (OECD) countries shows that sustainable development is even more influential in organizational decision-making today than it was 10 years ago.

At the same time, 74 per cent of our SD leaders say progress in achieving sustainable solutions is not happening fast enough to avoid dire planetary consequences. Most believe that business will have a key role to play in achieving such progress.

Business Engagement on SD

While business was initially slow to engage in sustainable development, it has arguably become one of SD's major torchbearers today.

Through the 1990s, there were only a few pioneering companies and executives interested in SD—Stephan Schmidheiny, who launched the Business Council for Sustainable Development (BCSD) in 1991, and David Buzzelli of Dow Chemical come most to mind. In 1995, BCSD fused with the World Industry Council for the Environment (WICE) to form the World Business Council for Sustainable Development (WBCSD) which has been a major driving force behind corporate involvement ever since.

. . . for capitalism's sake, a more systemic re-alignment is no doubt called for—one that would bring along the laggards as well as the leaders.

But it wasn't until the dawn of Corporate Social Responsibility (CSR) at the turn of the century that broader business engagement really took hold and straddled all three pillars—social, environmental, and economic—of SD.

For a number of years, CSR has been all the rage among business leaders on both sides of the Atlantic.

In August of 2001, I was invited to visit an innovative U.S. firm that had grown quickly to become the 85th largest company in the world and was taking the energy business by storm. The company was setting out to grow—just like it did with all other aspects of its business—a CSR initiative into a market-leading activity so innovative that it could become its own profit centre.

They liked what we had to offer. Within a month, they had us under contract to survey their stakeholders around the world to help identify CSR initiative areas that would most differentiate them. Then, just as we were starting fieldwork, we read in the newspaper that we didn't have a client anymore.

The company was Enron—and the rest, as they say, is history.

The fact that the company that has become emblematic of capitalist greed and corporate irresponsibility was in the process of embracing CSR is enough to validate the view of many non-governmental organization (NGO) leaders who say CSR is nothing more than corporate public relations.

But this would miss the larger significance and impact of the Enron/Arthur Andersen/WorldCom/Parmalat phenomena in fundamentally changing the exercise of entrepreneurship for at least a generation.

I'm not suggesting that, following these shameful examples of corporate malfeasance, greed is dead; but capitalist greed is definitely out of favour. The recent philanthropic initiatives of Bill Gates and Warren Buffet (and Ted Turner before them) are good examples of how some business leaders are working to right the balance. But for capitalism's sake, a more systemic re-alignment is no doubt called for—one that would bring along the laggards as well as the leaders.

GlobeScan's tracking research reveals just how significantly the business environment has changed over the last half-decade. Asked in 1999 and again in 2005 about the factor most influencing their impression of companies, representative national samples of 1,000 Americans are much more likely to volunteer CSR factors today than six years ago, putting these factors well ahead of brand image. (See Chart 1.)

This remarkable triumph of substance over image, also seen in Canada and Western European countries, has changed almost everything about running companies today.

Multinational companies recognize that existing global governance mechanisms are not dealing with the increasing array of transboundary challenges impacting their businesses.

Although ex-Enron CEO Ken Lay died before he could serve his prison sentence and pay his debt to society, I must point to his contribution to the world. While a pariah to many, Mr. Lay did more than any other individual to help cause this fundamental shift in public views that will continue to drive corporate behaviour for at least another decade.

The Business Case for SD

When I was working at 3M Company in 1969, the head of human resources at 3M Canada defined the role of business in society very simply: "Business makes money; government spends it."

This very much parallels the way business has thought about broader ecological and societal services for the last 20 years—it largely externalized these aspects from its decision-making and assumed that governments were looking after them. But this simplistic view is fast fading in today's world of failed states, climate instability, the HIV/AIDS pandemic, and looming water crises in many countries.

Multinational companies recognize that existing global governance mechanisms are not dealing with the increasing array of transboundary challenges impacting their businesses. Proactive corporate SD initiatives can help ensure that the political, environmental, and social preconditions for doing business continue to be available. This "risk reduction" business case is proving convincing to a number of companies.

The public understands how dire our problems are, and when they look around for the strongest hands to solve them, they see large companies as having the capacity and efficiency for putting solutions on the ground. In other words, it's "all hands on deck" and any strong set of hands that doesn't step forward will be severely judged. Just watch this play out over the next few years on climate change, where I predict we will witness the "outrage" factor most notably illustrated in Peter Sandman's famous "Risk = Hazard + Outrage" equation.

In managing inevitable future situations of reputational harm, companies that have built a buffer zone of goodwill bounce back faster.

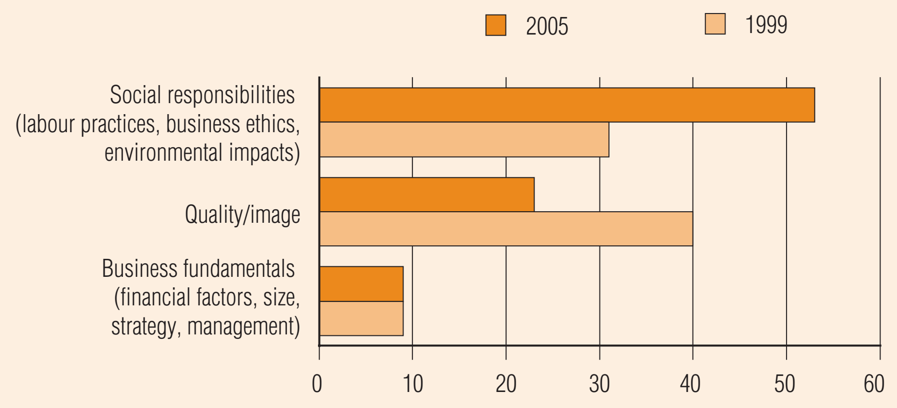
There are three specific elements of the business case for SD that have been well established through GlobeScan's research.

The human resources area is one, especially for industries where attracting and retaining the best and brightest employees is paramount (e.g., finance, IT). Companies are finding that their CSR/SD record is a major point of differentiation for job applicants and a major motivator for existing employees. In our surveys of corporate employees, a consistent 8 in 10 report feeling more motivated and loyal the more socially responsible their company becomes.

The second element might be called "the best defence is a good offence." In managing inevitable future situations of reputational harm, companies that have built a buffer zone of goodwill bounce back faster. This view is now widely acknowledged, according to a recent survey by Weber Shandwick/KRC[3] Research of 950 CEOs across 11 countries. Seventy-nine per cent of responding CEOs said that a strong CSR record enables a company to recover reputation faster, post-crisis. (There is evidence that this is currently working in BP's favour following its devastating Texas plant explosion and Alaska pipeline corrosion problems.)

Chart 1—Most Important Factors in Forming Impressions of Companies

(unprompted, United States 1999–2005)



Note: Views of representative national samples of Americans (n = 1,000) conducted by GlobeScan.
Source: GlobeScan.

Finally, sustainability has become a point of competitive advantage for certain leading companies—when they do it right. GE is probably the best case in point. When GE launched its "Ecomagination" initiative in 2004, it branded a set of its technologies with sustainability benefits (such as wind turbines and super-efficient aircraft engines, etc.) which in that year posted sales of US$6.2 billion. Two years later, sales of its green technologies had doubled to US$12 billion. And GE's order book is continuing to grow.

Whither CSR?

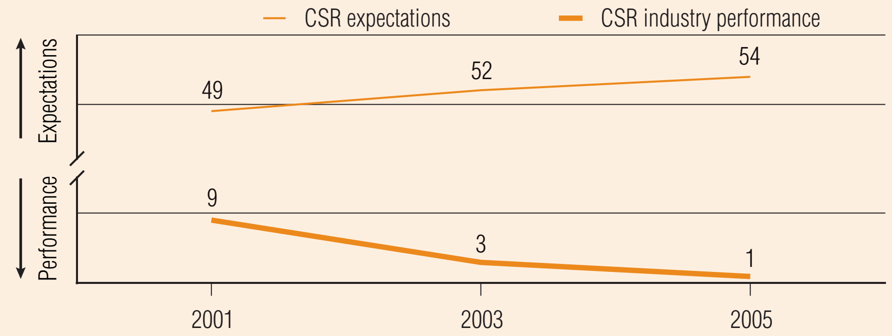
The future for SD is bright. This is so for two reasons. First, the business case for SD has been fairly well established. Second, environmental and social concerns continue to be prominent in society. However, the same cannot be said for business initiatives branded as CSR.

CSR, as currently practised, is in serious trouble. By this I mean first-generation CSR conducted as a voluntary add-on activity of business, mainly aimed at incremental improvement of internal business indicators such as CO_2 emissions, recycling rates, employment equity, and even philanthropic giving and relations with host communities.

Our research shows that, while some of the best corporate work has been done over the past decade, the perceived performance of industry on CSR has not kept pace with public expectations.

Chart 2 shows what we call the "accountability gap." The top line is a composite measure of public expectations of business engagement on 13 specific areas of responsibility. It shows an upward trend from 2001 to 2005. (Our 2007 results will be in soon.) The lower line is a composite net score of the public's rating of the CSR performance of 11 different industry sectors. It shows a deteriorating view over the period. Based on over 21,000 interviews with the general public across 21 countries, it's a compelling picture.

Chart 2—Societal Expectations on CSR vs. Industry CSR Performance Ratings
(average of 21 countiries, 2001–05)



Note: Views of representative samples of citizens of 21 countries (n = 21,000) conducted by GlobeScan.
Source: GlobeScan.

Many companies will continue to lag behind on CSR . . . and a number of NGOs are also preparing major "name and shame" campaigns. It won't be pretty.

Failure to begin closing this gap with more impressive actions leaves industry vulnerable to the rising call by NGOs for corporate accountability mechanisms, including legislation, mandatory reporting, third-party verification, and so on.

What is clear is that things will not continue on the present course for long. CSR will go in one of two directions (or, more likely in today's world, in two directions at the same time)—more mechanisms of accountability and governance over corporate behaviour (especially aimed at minimum standards), and/or what I call "next-generation" corporate initiatives.

Many companies will continue to lag behind on CSR, increasing NGOs' success in campaigning for governments to introduce more coercive accountability measures. The government of India, for example, has recently made it compulsory for listed companies to report on their CSR programs annually. A number of NGOs are also preparing major "name and shame" campaigns. It won't be pretty.

At the same time, however, I predict the emergence of what can be called "Version 2.0" CSR initiatives moving out from strong internal programs to take on much more visionary global SD objectives. These initiatives will capture people's imagination and forcefully demonstrate that business can be very much part of the solution to global challenges, such as meeting the UN Millennium Development Goals.

The business case for these next-generation initiatives will be based on the need for a more certain business environment than governments are providing today. Already we're seeing coalitions of major companies asking European governments to set aggressive long-term targets for carbon emissions so that industries have the certainty they need to make 30-year investment decisions.

A growing number of executives are recognizing that the only way to predict the future with enough certainty is to help create it by adopting ahead-of-the-curve policies and initiatives.

At the end of the day, SD will be the carrying theme for these new-generation initiatives not only because of the business case but because, unlike CSR, sustainability has the benefit of the laws of physics on its side.

Doug Miller
President
GlobeScan Incorporated
(Formerly Environics
International)

Doug Miller is President of GlobeScan Incorporated (formerly Environics International), a global research and strategy consultancy with offices in Toronto, London, and Washington. Specializing in tracking and advising on issues and their impacts on reputation, GlobeScan counts many of the world's major companies and institutions as clients, including Amnesty International, the BBC, Chevron, Coca-Cola, HP, Nestlé, Oxfam, Pfizer, Vodafone, and the World Bank. Mr. Miller has presented GlobeScan's public opinion and stakeholder research on global topics at major public forums, including the World Economic Forum, the World Social Forum, United Nations headquarters, the Prince of Wales' International Business Leaders Forum, and World Trade Organization ambassadors.

1 "What Global Leaders Want: Report of the Third Survey of the 2020 Global Stakeholder Panel" is downloadable from www.2020Fund.org/.

2 This hand-picked panel of 2,000 experts and stakeholders across mainly industrialized countries includes SD leaders from business, government, academe, NGOs, think-tanks, consultancies, and journalists. About 300 of them answer each of our online surveys.

3 The November 15, 2006 release of the findings of this survey can be found at www.webershandwick.com/newsroom/newsrelease.cfm/contentid,14604.html.

By Bruce Simpson

Elevating Our Vision of Social Responsibility

CEOs in today's globalized, fiercely competitive environment could be forgiven for thinking at times that they have been cast back into an Hobbesean existence—one that is "nasty, brutish, and short," as the 17th century British philosopher Thomas Hobbes put it. To survive—to fend off takeovers, to make those numbers—some leaders may be tempted to ignore the link between corporate objectives and society's needs.

Not so in Canada. Our corporate DNA has long had a dominant strand of social responsibility, with a stakeholder culture far stronger than in many other countries. Even so, that alignment between far-sighted business practices and enduring social ideals has remained largely implicit. I believe this has to change. The challenges Canadian corporations now face from foreign competitors—and the challenges Canada itself faces from increased demands for its natural resources—require a stronger, deeper, and more explicit social contract: that is, a commitment by business to conduct its pursuits in a way that is consistent with widely shared social priorities. After all, these challenges also offer opportunities.

As three of my colleagues wrote last year in *The McKinsey Quarterly*, "Companies must see the social and political dimensions not just as risks—areas for damage limitation—but also as opportunities. They should scan the horizon for emerging trends and integrate their responses across the organization, so that the resulting initiatives are coherent rather than piecemeal."[1]

A commitment to protecting our environment and creating a prosperous, healthy society can, in fact, enhance a company's competitive advantage and even its sustainability. This may not be conventional wisdom. Yet most companies whose stocks are publicly traded—typically, more than 80 per cent in the United States and Western Europe—do look beyond the next three years of expected corporate cash flows to determine values.

A proactive approach can create shareholder value in three key ways:

1. by attracting, motivating, and retaining the best employees;
2. by avoiding operational and reputational risks and crises; and
3. by identifying and capturing new opportunities that respond to the needs of society and the pressures of the environment, as well as realize commercial gain.

Attracting, Motivating, and Retaining Talent

In the war for talent, a corporation's commitment to social responsibility is increasingly important in attracting the best and the brightest. Today's generation on campus is more and more interested in social issues—and what companies are doing about them. At McKinsey, for example, 50 per cent of our applicants from leading business schools tell us that our work in the non-profit and NGO sector was a key factor in sparking their interest in our company. Our young recruits are passionate about making a difference, and they want to know how they will be able to fulfill that aspiration at work.

In addition to attracting talent, companies with a mission and purpose that go beyond delivering bottom-line numbers have more motivated staff and higher productivity. Focusing on corporate social responsibility—or Business in Society (BiS), as we refer to it at McKinsey—is pivotal. The traditional focus on performance is no longer enough to get the best from employees or to retain them.

Where will we find these workers? And how will we keep them? The answer . . . lies in pursuing a thoughtful BiS approach.

This commitment also entails challenges. For example, the projects to develop Alberta's oil sands must manage the conflicting demands of corporate objectives, broader social and environmental needs, and the pressures to find and retain talent. The world's thirst for oil seems unquenchable as alternatives are still uneconomical. Exploration, development, and production costs are skyrocketing. And skilled oil workers are becoming harder to find. Already, Alberta's unemployment rate is less than half the national average and the oil sands' workforce will likely need to triple to over 100,000 by 2012.

Where will we find these workers? And how will we keep them? The answer, I believe, lies in pursuing a thoughtful BiS approach. Canada has some less-tapped sources of talent in its Aboriginal and other under-represented communities. Providing these groups with additional training and development opportunities is a win-win proposition for all. Several oil sands players are already doing this. These communities are benefiting in myriad ways—and so, too, are the oil sands. This expanded workforce lessens the need for businesses to bring in workers from outside. That means lower costs.

To retain workers, employers will need to make the environment more attractive, and this can entail a huge investment. Yet, how much of this investment should be the responsibility of the employers, and how much the responsibility of government? For example, who should bear the major cost of improving Fort McMurray's infrastructure which is struggling to accommodate the city's explosive growth and its residents' needs? How to decide and agree on such divisions of responsibility is one of the key challenges in BiS. In cases like Fort McMurray, employers will need to work closely with the government to improve the infrastructure if they are to maximize returns on their huge capital outlays for exploration and development.

Educational, wellness, and other BiS initiatives have made a striking difference in developing countries . . . and could be equally compelling in large metropolitan areas, such as Toronto.

Equally important, employers will need to ensure that these investments are aligned with their BiS strategies *and* that they meet the particular needs of the local communities.

Alcan, for example, has long recognized that being a successful global metals and mining company requires striving to ensure the sustainability of the communities in which it operates. It makes visible and meaningful contributions to their economic, social, and environmental well-being. Alcan takes a three-pronged approach that:

- carefully considers the social, economic, and environmental impact of its activities in the context of its stakeholders;
- engages and partners with an increasingly diverse range of stakeholders in traditional and innovative ways to provide valuable insights into business opportunities and risks; and
- examines points of leverage in business processes to ensure its decisions and actions are consistent with a sustainability-driven concept of value.

This approach has had a positive social and environmental impact in the many geographical areas in which Alcan operates (including Canada) and has been a source of pride for its employees. This was evident in the last corporate survey. Seventy-nine per cent of employees felt that Alcan's commitment to corporate sustainability was important to them personally *and* to the company's business success.

Other companies' BiS initiatives have made a striking difference in developing countries. In some of these countries, retaining talent means focusing on keeping people alive. In Africa, Canadian mining companies such as Barrick Gold Corporation face the tragic situation of having up to 30 per cent of their workforce infected with AIDS. Barrick tackles this head-on through educational and other community development efforts, with a focus on high-risk groups. It has also introduced wellness programs and health counselling, and it provides antiretroviral treatments. Many of these benefits are also provided to people in the surrounding communities.

One of the first companies to offer this expensive treatment for its employees was Anglo-American in 2002. Other companies quickly followed suit. Today, the rate of new infections among mine workers is 1 per cent, while the national rate is 4 per cent. At some mines, sick leave has dropped by 69 per cent and absenteeism by 53 per cent. In fact, 97 per cent of the workers being treated are at work today.

These investments clearly are a win-win strategy for companies and communities in remote locations or in developing countries. But is the BiS case equally compelling for firms operating in large metropolitan areas such as Toronto? I would argue it is.

Through their employees, these companies can benefit a number of community initiatives and reap the rewards of a motivated workforce that is inspired by contributing to causes deeply meaningful to the workers. What is important, however, is that these commitments are linked to the organization's noble purpose.

Investments in the local infrastructure . . . are as much a business imperative as they are a social priority—and they help make the implicit social contract explicit.

For example, every year, every McKinsey office devotes an entire day to reflecting on our values. This year, the Toronto office members selected from, and spent that day working for, one of six community initiatives—Habitat for Humanity, Covenant House, the Daily Food Bank, Evergreen, Community Living, and ACCES Employment Services. Firm-wide, McKinsey teams have served on initiatives as diverse as the Global Fund to Fight AIDS, Tuberculosis, and Malaria; the Tsunami Relief; the American India Foundation; The Chagnon Foundation; and the Tate Museum.

Investments in the local infrastructure, then, are as much a business imperative as they are a social priority—and they help make the implicit social contract explicit.

Avoiding Operation and Reputational Risks and Crises

A corporation that strategically integrates social responsibility develops an early warning system. Although this heightened sensitivity may not always save a company from social and political pitfalls, it will help management respond more quickly and creatively. For example, food companies monitoring global health trends saw the looming obesity crisis. They responded rapidly, creating healthy products that deflected criticism—and opened new market segments.

Even small BiS investments can have a big impact on the bottom line. A few years ago, a survey done in Indonesia highlighted this. After a garment factory's supervisors received training on how to manage without yelling or threatening, worker productivity increased and major problems decreased. As soon as the employees stopped fearing their supervisors, they felt comfortable enough to alert them to possible problems such as impending equipment breakdowns and shortages of materials.

In some cases, failing to understand or, worse, ignoring a country's needs and desires can result in a company losing permission to conduct business in that country. For instance, exploiting natural resources in environmentally sensitive areas, such as Sakhalin, Alaska, or the Canadian Arctic, can lead to scrutiny and public criticism by NGOs. Maintaining the confidence of such civic watchdog groups is just as important as reassuring government agencies that a firm is following local environmental regulations.

Lack of social sensitivity can also tarnish a company's reputation. In today's Internet-linked world, a company's problems in a remote area can raise difficult questions at home within seconds. Better for companies to proactively monitor and avoid issues than to be put on the defensive later on.

As garment and footwear companies like Nike and other high-end brands have learned, once a brand is perceived as being socially insensitive, even unconfirmed reports of overseas factory workers being mistreated can adversely affect sales in their home markets.

Identifying and Capturing Valuable Opportunities

Being attuned—and selectively responsive—to the demands of society can enable a company to develop an opportunity not available to its competitors. For example, the commercial future of the Mackenzie pipeline project will depend largely on successfully aligning the many stakeholders—business, social, environmental, and political. And a critical element is a BiS program that balances each group's needs.

Each of these stakeholders—be they farmers, food companies, retailers, consumers, or governments—acknowledges their role in "consuming" the land without replenishing the soil.

DeBeers is another example of a company attuned to social issues. Several years ago, the diamond industry came under fire for contributing to civil strife in such nations as Sierra Leone and Liberia by buying "blood diamonds." DeBeers led the way in creating a global certification system that clearly distinguished between warring nations' "blood diamonds" and peaceful nations' "diamonds for development." This enabled consumers to make informed decisions when buying these gems and the industry to charge a premium for diamonds mined in conflict-free areas.

Abitibi Consolidated and others in Canada's forestry and pulp and paper industries have found ways to execute environmentally friendly initiatives and make some of them economically viable. Examples include creating and building whole businesses focused on recycling and removing waste from the business chain.

Other promising ventures are sustainable development partnerships between companies such as Unilever and other stakeholders in the food chain. Each of these stakeholders—be they farmers, food companies, retailers, consumers, or governments—acknowledges their role in "consuming" the land without replenishing the soil. Each year more forests are being felled to provide arable land. These groups are now focusing on reducing the environmental impact by minimizing the use of fertilizers and improving farming techniques and water usage. They are already reaping major environmental benefits with their sustainable commodity programs that have a two-year economic payback.

Canadian mining companies such as Barrick and Alcan know that good BiS and local partnerships are crucial to the winning of permitting rights. In fact, being a good corporate citizen distinguishes them in a world where attractive mineral deposits are becoming scarcer, are often remote, and are controlled by increasingly interventionist local and national governments. Creative BiS policies have enabled them to build the mines they want, and the local communities have greatly benefited as well.

Alcan has developed an expertise in regional industrial development that optimizes the economic spinoffs and benefits in the communities in which it operates. This program, developed in the Saguenay–Lac-Saint-Jean region of Quebec, is being expanded globally, and Alcan will presumably seek to use its expertise to distinguish it as a partner in new project selection.

The CEO's Role

A CEO needs to be fully committed to BiS. A half-hearted or cynical approach won't do. BiS must be a central element of the corporate strategy to ensure it is in sync with the company's other business concerns. That requires a CEO's personal involvement.

Why? Because complex tradeoffs and judgments must be made at the top. Achieving real competitive advantage requires making tough decisions (e.g., forgoing short-term opportunities or incurring short-term costs) that have the potential to create a longer-term advantage, even if they affect the current quarter's earnings. Only the CEO, with the Board's active support, can act as the "integrator-in-chief" on the tradeoffs to improve stewardship of the firm's assets when the benefits are less tangible than the costs.

In today's highly competitive corporate culture, it is often difficult to be sensitive to society's needs and demands. Because the requirements of true social responsibility cut across all functions of a corporation, only the CEO can ensure the coordination of the activities of departments, such as marketing and legal, that normally operate independently.

Because the stakes are high, the CEO has to take a leading role. It is important to participate in the social and political debates shaping the world in which the company operates. It is equally important to understand how social and environmental commitments raise the bar of corporate social performance. The CEO also needs to ensure the BiS approach is reflected in operational execution. However, tilting corporate strategy too much in the direction of every stakeholder's interests in the name of BiS can lead to sluggish progress, disillusionment, and possible paralysis.

Canada represents a great national brand. The question is: How can we leverage this advantage in today's globalizing world economy?

These challenges will become more complex. As Roger L. Martin wrote in "Virtue Matrix: Calculating the Return on Corporate Responsibility" in the March 2002 *Harvard Business Review*, "In a sense, companies are victims of their own good deeds. The more common or required a practice is, the less credit a company will get for it. Simply complying with international labor or environmental standards will never be enough because over the past decade acting in a socially responsible manner has become the *sine qua non* of a global brand. Instead, a firm must show that it is on the frontier of change."

Beyond the individual company, the relatively small size of the leading business community in Canada may make it possible to create a set of norms (not legal rules) that can provide the real quality and depth of meaning in a social contract *and* help renew it in a complex world. This could be a source of advantage, not just for an individual Canadian company but also for the country as a whole. Canada represents a great national brand. The question is: How can we leverage this advantage in today's globalizing world economy?

The Future of Canada

Canadian CEOs, particularly in extractive industries, have a personal reason for ensuring that their firms act responsibly. Today, the very sustainability of Canada's vast natural wealth is at stake. Rapid growth in the world's demand for our natural resources will increase the strain on the environment. Global demand for oil alone, already our country's biggest export, is expected to grow 25 to 30 per cent over the next 20 years.

It is imperative that we demonstrate we can control pollution at home without seriously damaging our financial performance. If we fail to act responsibly, not only will the resulting pollution be in our own backyard, but foreign companies may soon own the bulk of our resources. The great hollowing out of Canadian headquarters is already happening. Why would future foreign owners respect our environment if we failed to demonstrate the business case and track record for doing so before they bought our companies?

On the social side, isn't it possible that Canadian corporations can discover and develop new opportunities to work with Aboriginal and other under-represented groups in our workforce? Better answers here could be within our grasp as the development of natural resources in northern locations increases.

Finally, if we take the lead in proving that sustainability for natural resources and communities should be at the centre of corporate strategy—and if we pioneer ways to protect our environment and communities that are also economically viable—Canadian companies might then become the hunters instead of the hunted in the great global takeover struggle.

A commitment to socially responsible conduct, focusing on the specific concerns of each local community, is an outward reflection of good corporate character. Boldness and a spirit of innovation in BiS bespeaks creativity in a company's overall approach to pursuing its mission—including its creation and execution of sound business strategies.

BiS is thus another arrow in the corporate quiver, benefiting the company by eliciting the best from its workforce and benefiting the community by making investments that strengthen the overall civic environment. By practising enlightened self-interest, adopting a Business in Society approach can create win-win outcomes that underscore a company's own inner values while creating new value for all of society.

Bruce Simpson
Managing Partner
McKinsey & Company
Canada

Bruce Simpson is Managing Partner for McKinsey's Canadian offices. An international, management consulting firm, McKinsey helps companies worldwide tackle their most important concerns. He has particular expertise in change management, operations, and sustainability. He is a member of the global board of McKinsey's Social Sector Office, which includes corporate social responsibility initiatives. He is a member of the board of trustees at Toronto's Hospital for Sick Children. He also serves on the boards of Catalyst, Street Kids International, the Trans Canada Trail, and the Toronto Committee of Human Rights Watch.

1 Sheila M. J. Bonini et al., "When Social Issues Become Strategic: Executives Ignore Sociopolitical Debates at Their Own Peril," *The McKinsey Quarterly*, 2006, Number 2.

By Linda Coady, Stephanie Snider, Ann Duffy, and Ruth Legg

Corporate Social Responsibility for the Vancouver 2010 Olympic and Paralympic Winter Games

Adopting and Adapting Best Practices

The rising popularity of sport and global tourism has motivated many to regard the hosting of major sporting events—such as the FIFA World Cup, the Commonwealth Games, and the Olympic and Paralympic Games—as vehicles for development and transformation.

Notwithstanding the civic and national pride that comes from hosting a sport and cultural festival on the world stage, event organizing committees must be able to manage the impacts and demonstrate that the activities create a wide range of benefits, locally and globally. Hence, sport has emerged as a new platform for the adoption of sustainable development practices and the use of established tools for corporate social responsibility (CSR).

A systems-based approach to the measurement, reporting, and assurance of performance on non-financial indicators is a hallmark of the application of CSR, as is an accountable approach to engaging key stakeholders.

Stakeholder Engagement

The Olympic Games offer a unique opportunity for a diverse array of partners and stakeholders—athletes, governments, corporate sponsors, host communities—to define what matters most to them. A hallmark of the application of a sustainability ethic, in a business context, is the existence of a systemic capacity to identify and respond to the needs and interests of groups affected by the activities of the business in a way that is appropriate to its purpose, structure, and fiscal context.

The Olympic Games have stakeholders who see great potential in the idea of "sustainable Games" that provide a global showcase for solutions to local and global sustainability challenges. The Lillehammer 1994 Winter Games and the Sydney 2000 Summer Games are the best known examples of Games that are widely perceived to have delivered on this potential.

The two long-established pillars of the Olympic Games—sport and culture—were joined by a new third pillar: environment.

Conversely, Olympic Games have stakeholders with legitimate concerns that a global celebration of sport and culture could have unintended impacts and consequences for them. Community resistance to hosting Games, based on cost concerns, has successfully shut them out in the past. We saw this in the case of the 1976 Winter Games, which were slated to be held in Denver, and in Toronto's unsuccessful bid to host the 2008 Summer Games.

In the case of Denver, its citizens voted against the Games *after* the city won the right to host them. The vote arose out of concerns that the impact of hosting the Games would be negative and too large for the community to handle economically and socially. The International Olympic Committee (IOC) had no choice but to send the Games back to Innsbruck, which had hosted the Winter Games 12 years earlier. Similarly, a local campaign in Toronto that argued in favour of "bread not circuses" reduced community support for the 2008 Toronto bid.

Whether the groups involved are for or against the Games, constructive input from stakeholders has always helped shape the Games. The introduction of a self-financing model for operating costs, the development of the Olympic Games Impact (OGI) Research Project, and other efforts to improve tracking and reporting on the difference made by the Games are all changes to the Olympic business model that speak to this influence. The continued expansion of the definition of sustainability in an Olympic context beyond environment, to include the social and economic dimensions of the Games, is another important consequence of the influence of local and global stakeholders.

Sustainability and the Olympic Movement

Environment became part of the Olympic Charter following public pressure and concerns as to how the Games were organized in Albertville in 1992. The Albertville Games were roundly criticized for their treatment of the natural environment in order to accommodate the sport requirements for Games' venues.

Following the Albertville Games, it was clear the environment called for more salient consideration within the Olympic Movement. The Olympic Charter was amended in 1994 so that environmental responsibility and the promotion of sustainable development would be considered at the Games bidding and staging processes. The two long-established pillars of the Olympic Games—sport and culture—were joined by a new third pillar: environment.

The Lillehammer Winter Games in 1994 were considered the first "environmentally aware" Games. Over 20 environmental improvement projects were undertaken by the organizing committee and its watchdog group, Project Environmentally Friendly Olympics (PEFO). The Lillehammer Winter Games were characterized by innovation in a number of different areas, including venue construction, waste reduction, transportation, and the delivery of supplies and services.

In 1995, the IOC established a Sport and Environment Commission. The Commission's role is to advise the IOC Executive Board on how the Olympic Movement should be delivering on the commitments it has made to the environment and sustainable development under the Olympic Charter—and also, the United Nations' Agenda 21.[1]

. . . organizers of the Vancouver 2010 Winter Games and the London 2012 Summer Games want to advance the sustainability cause further in the Olympic context.

The 2000 Games in Sydney were to the Summer Games what Lillehammer was to the Winter Games: a breakthrough in the "greening of the Games." As part of their Environmental Guidelines, the first ever adopted for an Olympic Games, the Sydney organizers made over 100 specific commitments in five key areas: energy conservation, pollution avoidance, water conservation, protection of the natural environment, and waste minimization and management. The effective promotion of public transportation, the focus on energy conservation within the Olympic Stadium, and the cleanup and transformation of the formerly contaminated Homebush Bay area of Sydney into an array of new sporting, business, recreation, and conservation facilities for Games and post-Games use were achievements that set new environmental performance benchmarks for the new Olympic Movement.

Now, organizers of the Vancouver 2010 Winter Games and the London 2012 Summer Games want to advance the sustainability cause further in the Olympic context, much in the way that Lillehammer and Sydney did for environment. The idea, however, is to create value by broadening the Olympic business model to include new elements.

Value Proposition: The Benefits of Applying CSR Practices to Games Planning and Operations

The Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC) has embraced sustainability wholeheartedly, incorporating the concept into its mission, vision, and values. Accordingly, Vancouver organizers are taking an integrated approach to managing and reporting on the social, economic, and environmental dimensions of the 2010 Winter Games.

As with planning in any project, capital investment in infrastructure—including such areas as transportation, technology (communications), and environmental and social improvements—is a worthwhile investment. However, in an Olympic Games context, to what degree they are worthwhile depends on how useful they will be (and to whom) after the Games—and, of course, whether the benefits outweigh the costs.

Navigating these decision-making waters can be difficult for a local organizing committee because the groups that benefit in the long term from enhanced investment in the sustainability attributes of the Games are not always those responsible for making the required short-term investment. Leadership is key, as is the employment of CSR tools that make it easier for decision-makers and stakeholders to understand their choices and be accountable for them.

CSR for Megaprojects

CSR adopted by megaprojects such as Olympic and Paralympic Games arguably requires a customized approach. While it has many public and private sector partners and stakeholders, an organizing committee does not have formal shareholders. Governance at VANOC, for example, is based on a corporate model, even though the organization is actually a non-profit entity that is committed to donating any net profit to amateur sport. Another important difference between shareholder-owned businesses and large public/private projects such as Olympic Games is that the latter have a predetermined, relatively short lifespan—in the case of the Games, typically there is a period of approximately seven years from the time a host city wins a bid to when the actual staging of the Games takes place.

Integrating CSR Into VANOC's Business Planning and Performance Management Systems: Translating Bid Commitments Into Measurable Performance Objectives

As sustainability requirements become more commonplace in the Olympic Movement, organizing committees find themselves struggling to meet higher and higher expectations. Framing bid commitments into measurable operating objectives can help build support while managing sometimes-conflicting expectations. In this regard, VANOC has established the following sustainability performance objectives:

1. Accountability
2. Environmental stewardship and impact reduction
3. Social inclusion and accessibility
4. Aboriginal participation and collaboration
5. Economic benefits from sustainable innovation and practice
6. Sport for sustainable living

VANOC integrated these six broadly based objectives with 10 corporate-wide procedures so that it can engage its workforce, manage the implementation of its sustainability programs and activities, as well as monitor and measure its progress and performance along the way:

1. Sustainability Management Planning Procedure
2. Sustainability Management and Reporting System Roles, Responsibilities and Authority Procedure
3. Sustainability Education Procedure
4. Sustainability Communications, Engagement and Reporting Procedure
5. Sustainability Operating Procedures and Guidelines
6. SMRS Controlled Documents and Records Management Procedure
7. Sustainable and Aboriginal Procurement Procedure
8. Sustainable Licensing Code of Conduct Procedure
9. Monitoring, Measurement, and Corrective Action Procedure
10. Sustainability Checking and Management Review Procedure

Both the performance objectives and the corporate-wide procedures align with VANOC's business-planning and management processes and make it easier to define and report on performance for VANOC's board and external stakeholders.

Table 1—VANOC's Sustainability Policy and Sustainability Management and Reporting System (SMRS)

	Governance and Management Elements	Links to VANOC Business Processes
1.	Corporate Sustainability Policy: Sustainability Management and Reporting System, SMRS	• 6 Performance Objectives • 10 Corporate-Wide Procedures
2.	Cross-Organizational Responsibility for Delivery	• Integration of Measurable Targets and Outcomes in All Business Unit Plans and Corporate Budget • Standard Sustainability Operating Procedures • Link With Master Schedule Tracker
3.	External Board Advisory Committee on Sustainability Performance	Reporting to the Sustainability and Human Resources Committee of VANOC Board
4.	Annual Accountability Report	• 28 Performance Measures • Data Management and Monitoring
5.	External Feedback on Annual Report—Engagement With Partners and Stakeholders	Continuous Improvement
6.	Annual Internal Audit	Key Performance Indicators
7.	Annual SMRS Management Review	Executive Team, Board Advisory Committee
8.	Games-Time Operations Support	Functions and Venues
9.	Third-Party Assurance	2008 and 2009 Reports
10.	Communications	Stories

Source: VANOC.

They are implemented through an organization-wide management system, reporting framework, and ongoing internal and external stakeholder engagement. (See Table 1.) Collectively, these CSR tools define what VANOC has direct influence and authority over and how the delivery of VANOC's sustainability program may create a material impact (positive or negative, financial or reputational) on the whole organization's success.

In selecting its sustainability performance objectives and measures, VANOC was guided by regulatory requirements and its own bid commitments, corporate strategic objectives, and business plan. It was also influenced by commitments under the Olympic Charter and the IOC's Agenda 21. Finally, it incorporated well-known global standards for CSR, including the ISO 14001 Standard for Environmental Management, the AA 1000 for corporate accountability, and the corporate reporting template developed by the Global Reporting Initiative (GRI).

Aligned with several global sustainability initiatives, including the UN Environment Programme (UNEP), the UN Development Programme (UNDP), the Global Compact, and the UN Millennium Development Goals (MDGs), the GRI is an internationally recognized standard for corporate disclosure and reporting on non-financial performance. Based on UN-negotiated values and principles pertaining to human rights, labour, poverty, corruption, environment, and accountability, the GRI equips those companies and organizations attempting to undertake sustainability reporting with a universally applicable template. It also provides stakeholders trying to understand corporate performance on sustainability goals with a universally applicable framework for comparison.

2005–06 VANOC Sustainability Performance Measures

As a means to help the organizing committee meet its sustainability objectives, VANOC reports annually on a suite of qualitative and quantitative performance measures designed to help monitor and evaluate the organization's actual performance against its sustainability objectives. A copy of VANOC's first annual sustainability report, the *Vancouver 2010 Sustainability Report 2005–06*, is available at vancouver2010.com. During the course of its lifetime, VANOC will produce five such reports.

Effectively, in the selection of indicators to report on, what gets measured gets managed. Although the GRI guidelines are drafted broadly enough to cover a wide range of businesses and industries, VANOC has adapted GRI guidelines to include performance measures that are unique to Games and relevant to the organization's business model. By mapping accountability reporting on core performance indicators required for regulatory compliance with the organization's business objectives, VANOC's board of directors and its management team are better equipped to make decisions that would not only improve sustainability performance, but also serve to further core business objectives. That said, VANOC's performance measures are subject to change over time based on operating requirements and ongoing input from Games partners and stakeholders.

The following performance measures formed the basis of VANOC's first Sustainability Report on its activities in 2005–06. Further information on each performance measure can be found in the VANOC 2005–06 Sustainability Report available online at vancouver2010.com.

Environmental Stewardship and Impact Reduction

1. Biodiversity Management
2. Direct Energy Use
3. Indirect Energy Use
4. Total GHG Emissions Generated
5. Waste Management
6. Environmental Regulatory Compliance
7. Environmental Impact Mitigation

Social Inclusion and Responsibility

8. Suppliers and Licensees Screened for Human Rights
9. Application of Barrier-Free Guidelines in Venues and Facilities
10. Sustainable Procurement
11. Addressing Community Impacts
12. Number of People Employed
13. Employee Composition
14. Employees and Collective Bargaining Agreements
15. Workforce Engagement
16. Senior Management Local Profile
17. Occupational Health and Safety
18. Health and Safety Management

Aboriginal Participation and Collaboration

19. Four Host First Nations (FHFN) Protocol Status
20. Building Awareness of Aboriginal People
21. Aboriginal Sport Participation
22. Aboriginal Business Development
23. Showcasing Aboriginal Culture

Economic Benefits From Sustainable Innovation and Practice

24. Spending on Local Suppliers
25. Technology Innovation and Showcasing
26. Ethical Business Practices
27. Economic Value Generation
28. Financial Contribution From Governments

All this work to ensure that actions and results stay aligned with core objectives makes it easier for VANOC's decision-makers to implement sustainability initiatives. In 2006, the VANOC board of directors adopted a Corporate Sustainability Policy that provides the operating framework for the different elements of VANOC's Sustainability Management and Reporting System (SMRS). In this context, the development of a credible management framework is crucial, as management needs reliable information about the organization's sustainability performance. VANOC board committees, such as the Audit Committee and the Sustainability and HR Committees, rely on internal tracking and review processes to support good decision-making.

VANOC's external Board Advisory Committee on Sustainability Performance. . . assists the organization in reconciling the inevitable tensions that exist between short- and long-term objectives.

Further, VANOC has established an external Board Advisory Committee on Sustainability Performance (BACSP). Its mandate is to provide the VANOC board of directors and management team with an independent perspective on the organization's sustainability performance. The BACSP makes recommendations to the Sustainability and Human Resources Committee of the VANOC board. It provides advice to, and acts as a sounding board for, VANOC board members and staff on strategic decision-making regarding sustainability performance. This is an important role that was designed to assist the organization in reconciling the inevitable tensions that exist between short- and long-term objectives.

VANOC's Sustainability Policy, its Board Advisory Committee, and its procedures for annual reporting, auditing and management reviews provide the governance foundation for an integrated and systems-based approach to delivering on the organization's sustainability commitments and objectives.

Implementation Strategies

HUMAN RESOURCES

VANOC has initiated staff training on its sustainability performance objectives and included them in staff recognition programs and corporate incentive and compensation programs.

PROCUREMENT

An important component of VANOC's SMRS implementation strategy entails using purchasing decisions associated with the Games to advance sustainability outcomes. To support this commitment, VANOC developed "Buy Smart," a program and set of procurement procedures designed to ensure that social, economic, and environmental considerations are considered in the procurement process.

STAKEHOLDER INPUT

It is worth noting that consulting with stakeholders does not entail an obligation to agree with or do everything they want. Because the scope of its activities are limited by cost and time pressures, much as some stakeholders might like things to be otherwise, VANOC cannot aim to be "best in class" in everything it does. But, with stakeholder input and support, it can deliver an "in class" performance on all its core requirements, while strategically targeting areas for enhanced performance. Providing feedback to stakeholders—such as community organizations, environmental groups, and others—on the degree to which their input has been taken into account is key to the credibility of VANOC's sustainability management framework. In some instances, the stakeholder dialogue and feedback progress can produce collaborations on shared objectives that are capable of creating more enduring benefits for the many different parties involved.

COMMUNICATIONS

As a means of managing risk to protect reputation, reporting on sustainability can affirm and validate an organization's commitments to sustainable practice. At another level, communicating about what is involved in trying to operate more sustainably creates stories that can inform others. Better understanding can, in turn, lead to a higher level of action and awareness at the personal, community, and national level—elements that are integral to moving toward a more sustainable future, both locally and globally.

Conclusion

Many Games stakeholders believe the Games can help bring about important social, economic, and environmental outcomes provided they are planned, managed, and conducted in a manner that minimizes negative impacts and maximizes positive outcomes. The increasing number of Olympic Games-related initiatives involving reporting, evaluation, target setting, and stakeholder engagement reflect the belief that these CSR tools can help enhance the value of the Olympic brand.

While corporate social responsibility can seem vast in scope, it becomes focused and relevant based on what is of strategic importance to the organization. It is further defined by the needs and interests of key internal and external stakeholders. The Olympic experience suggests that CSR has a place in non-profit ventures and megaprojects with complex partnerships and diverse stakeholders, in the same way that it does in for-profit and shareholder-driven corporations.

Adapting established CSR practices to corporate governance and business planning can help an organization deliver on its core business activities. Effective monitoring and reporting that embraces credible local and global standards can provide credibility.

Finally, it is important to note that the sustainability performance of the Vancouver 2010 and London 2012 Games will inform—but not prescribe—how organizers of the 2014 Winter Games and the 2016 Summer Games develop their sustainability programs. The adaptation and application of core sustainability and CSR principles by the Games will continue to be shaped by the diversity of the Olympic Movement and the varying perspectives of host communities and countries concerning living more sustainably, and what that specifically means in each case.

Linda Coady
Vice-President
Sustainability

Linda Coady has leadership responsibility for managing the social, economic, and environmental footprint of the 2010 Winter Games. Her mandate includes developing new approaches for energy use, green buildings, social inclusion, and corporate sustainability reporting. Prior to joining the Vancouver Organizing Committee (VANOC), Coady was Vice-President, Pacific Region, for World Wildlife Fund Canada. Coady's accomplishments have been recognized with awards from the Forest Products Association of Canada and BC Ethics in Action

Stephanie Snider (Community Relations, Communications), Ann Duffy (Sustainability Management and Reporting) and Ruth Legg (Sustainability Reports) all work for the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games.

1 The IOC adopted its version of Agenda 21 in 1999. Entitled "Sport for Sustainable Development," it calls upon Olympic Games organizers to use the Games to: 1) improve social and economic conditions; 2) conserve and manage natural resources; and 3) strengthen the role of women, youth, and Indigenous peoples. It also established a formal partnership between the IOC and United Nations Environmental Programme to support the pursuit of these goals.

By Dr. Randall Gossen, research by Oliver Jull

Walking the Talk

Why Waste Energy Asking What Corporate Responsibility Means? Calgary-Based Nexen Transforms Today's Sustainability Debate Into Global Action

What are we talking about when we use the words "corporate social responsibility"? What corporate actions contribute to sustainability? Buzzwords abound while corporate understanding and behaviours play catch-up. Nexen's CEO, Charlie Fisher, refers to his organization's efforts in terms of the ultimate goal—sustainability.

"Sustainability is about balancing the interests of multiple stakeholders and finding opportunities for all to benefit in the long term. It begins with ensuring a strong and profitable business, engaging in open and active consultation, and investing in company- and community-based initiatives that build capacity and self-sufficiency. It's a superior way of doing business, and it links us to a sustainable future."

It has been said that governments can grant you the permit to operate, but it is the local community that grants permission.

In a sense, sustainability has long been under scrutiny. The energy sector is highly regulated, with multiple government bodies monitoring industry activity. Nexen views regulatory compliance as critical, but only as a starting point; at the end of the day, the entire industry is going to be judged by its lowest common denominator. When one company fails, all suffer the consequences. Therefore, when industry takes the initiative to "raise the bar," regulators don't have to impose new rules.

Clear regulatory provisions define operator accountabilities. But today, successful operations depend on a "social licence" to operate. It has been said that governments can grant you a permit to operate, but it is the local community that grants permission. True sustainability is marked with a welcome mat and, more often than not, that mat is quickly pulled in if industry is perceived as a bad neighbour.

A Changing Landscape

A strategy that goes beyond bottom-line success recognizes that today's world is much smaller than it used to be. Enhanced communication and transportation mean people are connected to issues far from home while, at the same time, local issues can rapidly escalate into national or even global news.

Today's markets and issues have also been globalized, though the term has a number of nuances. To some, globalization is the liberalization of markets and trade. To others, it means addressing issues such as climate change, poverty alleviation, and human rights. And to others still, it means using international forums to enhance awareness of major issues.

Through this changing landscape, the roles of government and business have shifted. Governments are now more focused on public policy development and enforcement, while providing business the opportunity to supplement prescribed laws and regulations with voluntary initiatives.

At the same time, and partly because of today's shrinking world, there is growing pressure for business to be more responsible and accountable, not only to shareholders but to a broader range of stakeholders, including the workforce, supply chain, communities, non-governmental organizations, governments, and the public.

In the business sector, decisions are made according to the value that they might deliver. But what does "value" really mean? Today it's much more than the traditional measures of asset value, retained earnings, or net income per share—though these are still critically important.

At a minimum, 35 to 40 per cent [of institutional investors] strongly consider allocation decisions based on . . . assets not captured by normal accounting procedures.

A 2003 report by Cap Gemini Ernst & Young found that institutional investors strongly consider non-financial factors in their decision-making. At a minimum, 35 to 40 per cent of their portfolio allocation decisions are based on factors such as brand, reputation, and employee relations—assets not captured by normal accounting methods. Board members and management face new demands to meet these emerging issues and growing stakeholder expectations.

Global Motivation

When new ventures or expansions are contemplated, the oil and gas regulatory process dictates appropriate due diligence. Will local communities or industries such as agriculture be disrupted? Are environmental sensitivities being taken into account? Will a company's presence make existing local conflicts even worse?

Paying attention to sustainability issues is a prudent form of risk management. It helps companies anticipate and address issues before they become a problem. Safe driving programs reduce the risk of personal injury. Likewise, environmental assessments reduce the likelihood of spills, and public consultation increases the likelihood of community support. For example, Nexen's attention to public consultation and potential environmental impacts supported a smooth regulatory approval for a multi-billion-dollar oil sands joint venture.

It's not a question of choosing profitability *or* responsibility. Nexen has been included in the Dow Jones Sustainability Index since 2001—recognition that the company is walking the talk, and demonstrating its commitment to sustainable development. (See Chart 1.)

The growth of socially responsible investment funds over the past two decades has been one of the most obvious manifestations of how investors and society at large increasingly expect companies to behave in more responsible ways. In the United States, socially responsible investments currently account for nearly 10 per cent of total investment assets under professional management, totalling nearly US$2.3 trillion. Canada's Social Investment Organization estimates there are approximately C$65.5 billion in socially responsible investment assets in Canada.

More than 50 percent of graduating MBA students would accept a lower salary to work for a socially responsible company. A positive reputation can also help attract capital and partners, and ease discussions with communities.

A commitment to sustainable development also helps to attract the best employees and business associates. A 1997 study by Net Impact found that more than 50 per cent of graduating MBA students would accept a lower salary to work for a socially responsible company. A positive reputation can also help attract capital and partners, and ease discussions with communities.

For companies with international operations, decentralized business functions, and an empowered workplace, core values and principles clarify business conduct expectations for employees, regardless of location. Companies that demonstrate sustainable development practices that meet or exceed regulatory obligations often are more trusted by governments.

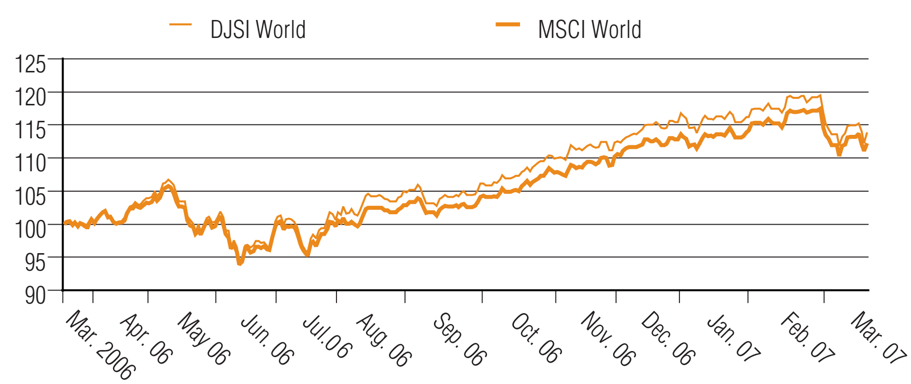
Social Responsibility Is the Means

American economist Milton Friedman once said the only social responsibility that business has is to increase profits for its shareholders. It's a statement that needs to be updated in the context of today's realities and society's changing expectations.

Nexen has adopted the definition of corporate social responsibility developed by the World Business Council for Sustainable Development: *CSR is business' commitment to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life.*

Chart 1—Morgan Stanley/DJSI graph
(index; US$ total return)

The Morgan Stanley Capital International Index is a group of 1,500 stocks in 23 developed countries worldwide with no expressed commitment to sustainability. **The Dow Jones Sustainability Index includes more than 300 global companies that are committed to sustainable development**. It shows a modest advantage in total return. Companies that balance the interests of multiple stakeholders do as well or better than their peers when it comes to financial performance.



Source: Nexen Inc.

Exhibit 1—Five Elements of Corporate Social Responsibility

Nexen has translated this definition of social responsibility into a five-element framework that cuts across all aspects of its operations and encompasses business practices; employee relations; partner, supplier, and customer relations; health, safety, and environmental protection; and community involvement. (See Exhibit 1.)

The code is only words if actions don't match up. All Nexen's employees have the tools…to help them walk the talk.

ELEMENT ONE: BUSINESS PRACTICES

It's critical that employees and stakeholders understand what the company stands for. Nexen's lead role in the development of The International Code of Ethics for Canadian Business helped accomplish that goal. The code clearly articulates a set of beliefs, values, and principles concerning community participation and environmental protection, human rights, business conduct, and employee rights and health and safety. Strong support and leadership from Nexen's senior management is essential in conveying this message to employees.

The code is only words if actions don't match up. All Nexen's employees have the tools—provided through an in-house, mandatory ethics and integrity training program—to help them walk the talk.

Clear structures and accountability are key. The organization sets objectives, measures performance, and is committed to transparent reporting of its results. Performance is verified through third-party, independent mechanisms.

Nexen has developed a two-pronged approach to external reviews. The accounting firm PricewaterhouseCoopers reviews a number of the safety, environment, and social responsibility data and provides advice on the company's data management systems.

In addition, the company recruited an independent multi-stakeholder group to provide feedback on its corporate social responsibility reporting and performance. Members include an environmental lobby group, plus representatives from academia, labour, employees, and communities where the company does business. Both PricewaterhouseCoopers and the multi-stakeholder group provide assurance statements that are published in the company's annual Sustainability Report.

For Nexen, doing business with honesty and integrity is a top priority, even though it occasionally places the company at a disadvantage. The company faces increasing competition, some of it from organizations willing to cut corners. However, in some instances, taking the high road creates opportunities. In Nigeria, for example, one of the company's partners chose to work with Nexen because of its reputation for integrity.

. . . [E]mployees who demonstrate personal integrity . . . serve as a resource for other employees of the organization who may be faced with an ethical dilemma or concern.

An employee opinion survey in 2004 showed that 84 per cent of Nexen's staff believes senior management makes decisions that are consistent with its values. The overarching philosophy of ethics and integrity supports a number of related initiatives:

- A formal ethics policy commits every person in the company—including the Board of Directors—to follow ethical business practices. Fourteen other integrity-related policies were also developed and cover such issues as conflict of interest, insider trading, confidentiality, and human rights.
- The 15 policies, together with The International Code of Ethics for Canadian Business, provide employees with a framework for all business practices—they serve as Nexen's Code of Business Conduct.
- Participating in the company's Integrity Workshop is mandatory. The company is currently in the process of ensuring that 100 per cent of its employees have attended. In addition, an online training module has been developed, which employees are required to review annually.

- Some of the company's international operations are in countries where corruption is common. Internationally based employees receive training on the company's Prevention of Improper Payments Policy, which prohibits paying a bribe or kickback to government officials.
- An Integrity Leaders program recruits employees who demonstrate personal integrity to serve as a resource for other employees of the organization who may be faced with an ethical dilemma or concern.
- An Integrity Hotline allows employees or external stakeholders to anonymously and confidentially report items of concern—including legal or company policy violations, danger to employee or public health, safety or security, accounting or auditing irregularities—or any other integrity-related matter.
- All employees are required to review and acknowledge compliance with the company's Ethics Policy and to report any actual or perceived violations of the policy. Reported violations are reviewed with the Board of Directors and followed up on as appropriate.

ELEMENT TWO: EMPLOYEE RELATIONS

The petroleum industry is highly competitive and Nexen keeps pace with a People Strategy that provides guidance in efforts to recruit, retain, develop, reward, and support employees.

Flexible work arrangements include:

- Flex time—in the Calgary office, core work hours are 10 a.m. to 3 p.m. Employees have the option of selecting their start and end times to meet their personal needs.
- Part-time employment—with company approval, employees can elect to reduce their work hours up to half time.
- Leave of absence—with company approval, employees can take an unpaid leave of absence for personal reasons. Nexen guarantees them their own or a similar position upon their return to work.

In addition to flex time, Nexen gives part-time employment, leave of absence, education assistance, a physical wellness subsidy and an Employee and Family Assistance Program.

Other benefits that have been created to attract and retain people include:

- Education Assistance—the company covers 100 per cent of approved course fees, books and materials, and exam costs.
- Physical Wellness Subsidy—a fitness facility is provided free of cost at the Calgary head office, and employees are reimbursed for certain expenses related to physical wellness activities.
- Employee and Family Assistance Program—support is offered to all employees and their dependents to help resolve personal problems.

ELEMENT THREE: PARTNER, SUPPLIER, AND CUSTOMER RELATIONS

A company of Nexen's size and scope typically spends about $1.5 billion per year. That's a price that wields considerable influence with customers, suppliers, and partners. And that influence is used by Nexen to encourage sustainable development practices.

For example, third-party contractors are hired to drill the company's exploration and development wells. Nexen's contracts stipulate that careful attention be paid to safety and the environment, while respecting local communities. In the past, the company has cancelled the contracts of a number of companies that haven't met these standards.

The company also invites contractors, suppliers, and other external stakeholders to attend its Integrity Workshops. In July 2005, Nexen trained more than 60 offshore drilling contractors and their in-office management staff on its integrity principles. Workshops were held in Lafayette, Louisiana, and in Dallas, Texas.

A member of the International Petroleum Industry Environmental Conservation Association (IPIECA), the company has adopted the organization's guidelines for health, safety and environmental protection in a joint venture situation. The IPIECA guidelines ensure that everyone understands the minimum requirements for preventing pollution and managing safety.

ELEMENT FOUR: HEALTH, SAFETY, AND ENVIRONMENTAL PROTECTION

Employees are clear about the company's safety expectations. In addition to ongoing safety training and communication programs, Nexen provides financial

Integrity in Action

When Calgary-based Nexen acquired a smaller oil company in the 1980s, Nexen also acquired a challenge. The smaller company had abandoned a well-site on a piece of property that was subsequently developed as a residential neighbourhood. Not only had the land not been properly reclaimed to neighbourhood satisfaction by the previous owner, it did not come close to Nexen's company standards.

What to do? Dismiss the issues as ancient history? Write a few cheques to purchase community consent? Deny responsibility and let the lawyers deal with it?

Nexen chose responsibility and action. After an extensive effort over a three-year period, the land was not only successfully reclaimed, the company won an award for its efforts.

incentives to employee groups with excellent safety records.

Nexen's Canadian oil and gas operations have a record of safety performance consistently superior than the average for members of the Canadian Association of Petroleum Producers. (See Chart 2.) Our Yemen operations have a world-class safety record; Nexen is particularly proud of this achievement, since we introduced Yemen's safety culture "from scratch." Our U.S. Gulf Coast operations earned the 2004 Safety Award for Excellence from the U.S. Minerals Management Service.

Reducing impacts on air, water, and land is a critical component of the company's approach to corporate social responsibility. The company's goal is to do business in a way that maximizes the social and economic benefits while minimizing its environmental footprint.

By capturing methane instead of flaring or venting it, greenhouse gas emissions have been significantly reduced and a new revenue source has been created.

At the company's Long Lake oil sands joint venture, 90 per cent of the water recovered in bitumen production will be re-used. And Long Lake is the first oil sands project that will not use surface water in its operations.

Environmental benefits often deliver business benefits. Over the past six years, approximately two million tonnes of CO_2-equivalent emissions have been reduced from the company's heavy oil operations. By capturing methane instead of flaring or venting it, there have been significant reductions in greenhouse gas emissions. In addition, a new revenue source has been created for the company.

Nexen also promotes biodiversity by supporting research on grassland conservation in Western Canada and through a project studying a rare section of high-altitude forest near the Nigeria–Cameroon border.

ELEMENT FIVE: COMMUNITY INVOLVEMENT

Before business went global, community considerations were limited to an organization's backyard. Involvement primarily consisted of signing cheques for local teams, charities, or schools. Today, the company involves the community in decisions regarding issues that affect their lives. The company strives to ensure that communities affected by its presence receive a fair share of the benefits derived from activities. This approach began in the early 1990s when Nexen faced public resistance to planned sour gas operations on the fringes of Calgary.

Through this experience, the company learned how consultation—providing factual information and listening well—can diffuse emotionally charged debates. Today, lessons that the company learned at home about respecting and involving local communities are being applied around the globe.

The company strives to ensure that communities affected by its presence receive a fair share of the benefits derived from activities.

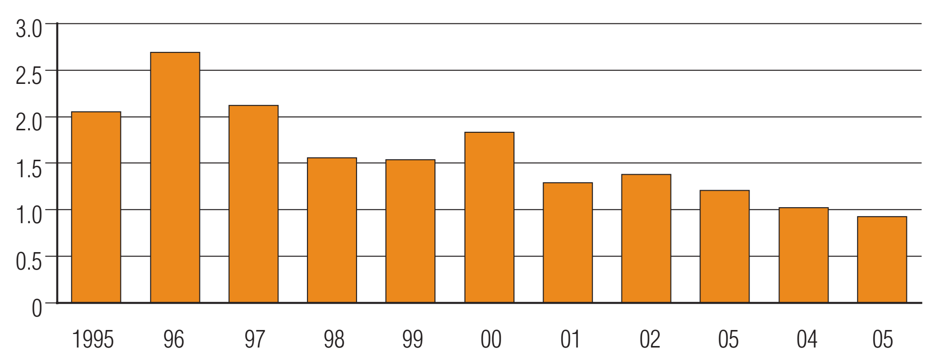
In Yemen, Nexen has invested in the physical infrastructure of the country—including a unique community-based, sustainable water and sanitation project—as well as its human infrastructure.

Approximately 73 per cent of the company's 1,000 employees in Yemen are Yemeni nationals. This is in dramatic contrast to the company's entry into Yemen in the early 1990s when it had few local employees and no pre-existing pool of experienced oil workers to draw from.

Since 1998, the company and its partner have sponsored 80 Yemeni students to come to Canada to pursue post-secondary education with the understanding that they will return to Yemen to help build the future of their country. Many of those students have already built impressive careers based on their studies in Canada. By investing in Yemen's people, the company plans to

Chart 2—Injury Incident Rate: Combined Employee/Contractors
(per 200,000 hours worked)

Nexen has reduced the rate of injuries by 50 per cent over 10 years.



Source: Nexen Inc.

leave a legacy that will last well beyond the lifespan of its oil production facilities.

Operating in Colombia challenged Nexen to find new ways to work effectively with local communities. The country has been locked in a decades-long civil conflict marked by killings and kidnappings. Communities and resource companies can easily get caught in the middle of the conflict.

From the Outside Looking In

Recognition from financial markets, associations, and watch-groups provides Nexen with objective feedback on the accuracy and rigour of its CSR systems. Recent recognition includes:

- Inclusion in the prestigious Dow Jones Sustainability Index for five straight years, as well as in the Jantzi Social Index, Storebrand Investments Best in Class, and Desjardins Environmental Fund.
- Recognition from GovernanceMetrics International and the Canadian Coalition for Good Governance for leading corporate governance practices.
- Recognition for stakeholder engagement in Colombia from the World Petroleum Council and for public consultation on coal-bed methane in Alberta from the Canadian Association of Petroleum Producers.
- Named one of the Top 100 Employers in Canada by Mediacorp Canada in 2004 and 2005.
- Named one of the top 50 Corporate Citizens in Canada by Corporate Knights Magazine from 2003 through 2005.

Nexen's Colombia-based staff approached their role as a corporate neighbour with an eye to the future. In one instance, in 2003, the company employees met with representatives of a rural community to explain some planned oil exploration activities. Community members told the company that the additional traffic would be a concern and that one of the local bridges was badly in need of repair.

Rather than trying to replace the role of government and purchase a new bridge for the community, the company invested its time. Nexen helped community members identify sources of government funding that they could access. Now, the community not only has a new bridge, it also has the knowledge to access federal funds for similar projects long after the company is gone.

A Small Company "Fighting Above Its Weight Class"

Compared to its competitors in the global energy industry, Nexen is a company of modest size. Regardless, it has taken on some fairly large responsibilities in its efforts to improve standards both within and beyond the petroleum industry.

For example, Nexen has been an active participant in the Global Compact Initiative. In 1999, the Secretary-General of the United Nations, Kofi Annan, announced the Global Compact, which seeks to promote responsible corporate citizenship so that business can be part of the solutions to the challenges of globalization. The Global Compact invites companies to adopt 10 key principles around environmental protection, human rights, labour practices, and anti-corruption; and it encourages business to join with United Nations' agencies, non-governmental organizations, labour, and governments to work in partnership to reduce poverty.

If the goal is to balance economic, environmental, and social imperatives, today's business decisions need to carefully balance all three.

Nexen endorsed the Global Compact in 2001. Out of that endorsement came the company's water supply and sanitation project in Yemen. Nexen, in partnership with the United Nations Development Program, the Canadian International Development Agency, and the Yemen government, is investing US$2 million to help a small community gain access to clean water for drinking and sanitation needs. The goal is to reduce the incidence of water-borne disease; promote awareness of water conservation, environmental protection, and sustainability; and help the community develop the capacity to manage resources itself. While the company benefits from its oil operations in Yemen, the country benefits from Nexen's investment in the community.

Five Elements . . . One Goal

If the goal is to balance economic, environmental, and social imperatives, today's business decisions need to carefully balance all three. Superior environmental and social performance help drive superior economic performance. Studies have proven that, in the long term, companies that follow sustainable business practices outperform those with narrower priorities.

Nexen's five-element approach to corporate social responsibility connects sustainability, economic performance, and ethical behaviour. As a profit-driven company, Nexen values results—as well as the means used to achieve them. Being competitive and profitable in a tough business will never come at the cost of the company's integrity.

Dr. Randall Gossen
Division Vice-President
Health, Safety, Environment
& Social Responsibility
Nexen Inc.

With research by **Oliver Jull**
Student, Faculty of Law, University of Calgary

Dr. Randy Gossen has been with Nexen since 1991. He is a leader in the area of public consultation, community affairs programs, and corporate social responsibility. Gossen is an active participant with the United Nations Global Compact and was appointed as a Special Advisor in July 2006. He holds a Ph.D. in Soil Microbiology from the University of Calgary and has 33 years in the oil and gas industry.

Nexen is a Canadian-based, global energy company on a mission to grow value responsibly. We are strategically positioned in some of the world's most exciting regions—the North Sea, deepwater Gulf of Mexico, Middle East, offshore West Africa, and the Canadian Athabasca oil sands. For more information, see www.nexeninc.com.

Printed in Canada • All rights reserved • ISSN 1718-2573 • ISBN 978-0-88763-798-8 *Incorporated as AERIC Inc.

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Publication 08-050
E-copy: $150 • Printed copy: $200

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