Doing the right thing - a bottom-line issue

From environmental concerns to defective products, businesses ignore ethical issues at their peril

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The last thing executives at Scotiabank need is an environmental group complaining about the amount of paper the bank consumes or a shareholder backlash over loans to a client who manufactures defective products.

The same goes for the bosses at the Liquor Control Board of Ontario, which sells products that can be detrimental to public health in containers that have the potential to use up valuable landfill space.

To ensure they meet their civic responsibilities, the two organizations are among an increasing number of Canadian businesses that include environmental, health, social and ethical concerns in their risk-management agendas.

"These are major issues that can show their face in a number of ways that can have severe reputational or operational impacts on an organization," says Kim Brand, senior manager of corporate social responsibility at Bank of Nova Scotia in Montreal.

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"The risk is that the public can turn against you, as can investors," adds Alex Browning, the LCBO's chief financial officer.

"If you pick up negative press, eventually you are fighting more battles than you would if you were more sensitive to public sentiment ... and it all affects the bottom line," he says.

Twenty years ago corporate performance was measured primarily by financial data, says Cathy Cobie, co-leader of the Canadian assurance and advisory services group at the Toronto office of accounting firm Ernst & Young. But increasingly, companies' ethical and environmental performances are scrutinized by financial analysts, investors, employees and other stakeholders whose views can affect profits and share prices, says Ms. Cobie.

With environmental issues at the top of the public agenda, many companies now report publicly on their environmental activities, recognizing that news about progress, or lack thereof, on such a hot-button issue can have a significant impact on corporate performance.

The proof, Ms. Cobie says, can be found in the results of a survey earlier this year by investment bank Goldman Sachs, which found that large ethical companies outperformed the MSCI World Index by an average of 25 per cent.

"Investors are not looking strictly for financial numbers ... it is quite clear that non-financial issues can have a significant effect on brands ... and can present fairly significant risks to overall business sustainability," says Chris Ridley-Thomas, a senior principal in the sustainability practice at KPMG in Vancouver. "This is a critical element of the risk management of a business."

As a result, more Canadian companies are setting up corporate social-responsibility departments, or assigning staff to handle environmental issues, or ethical issues such as the treatment of staff or its relations with the local community.

And to ensure their message gets out, many companies use annual reports, financial statements, special corporate responsibility reports and their websites to spell out exactly how they are managing the risks associated with non-financial matters.

Since Scotiabank's corporate responsibility (CR) department was established three years ago, Ms. Brand and a colleague have worked with the bank's credit risk management team and other departments to ensure it meets a variety of social and environmental responsibilities.

On the environmental front, the CR department helped develop an energy-measurement system that enables Scotiabank to report on its greenhouse gas emissions and come up with ways to reduce them. The same reporting system keeps tabs on the bank's use of paper.

The CR department is also helping to identify other opportunities for the bank, such as helping customers become "green" citizens with loans geared toward environmentally friendly home renovations and fuel-saving vehicles. Ms. Brand says her department is also looking at how the bank can set up investment funds that focus on clean technology and renewable energy.

Scotiabank also has a "reputational risk" committee, comprised of high-level executives, which ensures that loans are not made to companies whose poor practices, environmental or otherwise, could harm the bank's reputation.

To ensure all stakeholders are aware of its efforts, the bank prepares an annual corporate social-responsibility report that is available in branches and at its annual meeting.

"The key is to be transparent so stakeholders can see how you formulate issues and how you perform.

Research shows that banking customers take this into account, especially when shopping for investment vehicles," says Ms. Brand. "It makes good business sense."

The LCBO, meanwhile, has designated a staff member to develop and oversee an environmental strategy and ensure its performance stands up to stakeholder scrutiny.

The strategy includes initiatives to use fewer glass containers and plastic bags and help save wetlands and clean up rivers. An executive group ensures the LCBO adheres to its long-standing mandate to control the sale of alcohol, which includes selling safe products and keeping them out of the hands of minors, says Mr. Browning.

The liquor board's social responsibility actions are noted in its annual report, and messages about responsible drinking are delivered in its Food & Drink magazine, distributed in LCBO stores, says Mr. Browning.

Many companies also hire accounting firms to provide advice on dealing with complex risk-management issues. KPMG, for example, offers services to help companies incorporate environmental and social issues into their risk management strategies.

On the environmental side, it helps companies develop climate-change policies and responses to requirements of the Kyoto protocol.

Ernst & Young's environment and sustainability services team works with companies that have corporate responsibility strategies as well as those developing new ones, Ms. Cobie says.

E&Y's services include advice about how a CR strategy should become part of day-to-day decision making and how to engage stakeholder groups. It also advises companies on how meeting their social responsibilities can also improve their operations.

"The key message is that companies should focus on [corporate responsibility] to support their long-term sustainability," says Ms. Cobie.

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