CSR AND THE ROLE OF THE BOARD

By Sarah Altschuller

Increasingly, corporate boards recognize that a strong CSR program can be a significant strategic asset. Corporate stakeholders, including shareholders, employees, communities and public officials expect companies to manage, mitigate or prevent the adverse social and environmental impacts that may be associated with their operations.

CSR programs help companies ensure they are responsive to these stakeholder concerns. An effective CSR program is implemented through corporate-level policies and standards and supported by oversight mechanisms, training programs and accountability measures.

Failure to address stakeholder concerns effectively can expose companies to a range of financial and non-financial risks including loss of access to finance, poor employee morale, community opposition and heightened exposure to fines and lawsuits. Adverse impacts, even those that result from a single incident, expose companies to lasting reputational damage. This reputational harm can impair a company's capacity to leverage relationships with key public and private stakeholders and to implement short and long-term business strategies.

LIMITED OVERSIGHT

While directors may recognize these concerns, studies have found that board oversight of social and environmental practices is lacking. A 2010 report, 'Board oversight of environmental and social issues', produced by Calvert Asset Management Company and the Corporate Library, analyzes committee charters at S&P 100 firms.

The report finds that only 65 companies in the S&P 100 have board committees with some level of responsibility for oversight of corporate responsibility concerns. Of those 65 boards, only 27 percent monitor and oversee risk management plans and review the effectiveness of corporate issue identification and management processes.

One of the most notable statistics from the study is the finding that less than 50 percent of those 65 boards monitor and provide recommendations on CSR trends and developments. For the most part, board oversight of CSR issues is focused on corporate compliance. Boards are exercising an oversight role with regard to compliance with existing standards, but are evaluating the capacity of corporate management systems to respond to shifting stakeholder expectations.

UNDERSTANDING TRENDS

The lack of focus on trends is troubling. Understanding key trends is an integral component of effective long-term strategy development and can help ensure companies have the capacity to respond to concerns when they arise. Companies regularly seek to identify trends in consumer preferences and in regulatory environments; they should exercise the same diligence in identifying future stakeholder expectations with regard to social and environmental performance. Stakeholder expectations in the area of CSR frequently ask companies to go 'beyond compliance' with existing legal and regulatory standards. At the same time, these expectations are often predictive of the future content of legal and regulatory requirements.

Shareholder resolutions are a valuable source of information on trends in stakeholder expectations that affect corporate-stakeholder engagements. In *Proxy Preview 2011*, published by As You Sow and the Sustainable Investments Institute, the authors evaluate 359 resolutions filed on social and environmental issues.

The report observes that 'investors now file about 50 percent more shareholder proposals on social and environmental issues than they did a decade ago, with just over 400 in 2010.' In addition, the average overall vote for these resolutions 'climbed to more than 18 percent in 2010, about double the support resolutions received in 2010.' The report notes that only five social and environmental proposals received more than 20 percent of the vote in 2001; in 2010, this number grew to 82.

Another recent report, 'The state of engagement between US corporations and shareholders', produced by Institutional Shareholder Services, focuses on engagement between investors and public corporations in the US. The authors observe that this 'engagement is expanding beyond financial and strategic issues and 'traditional' governance topics to include more environmental and social issues.'

The report finds that both investors and issuers believe 'constructive dialogue' is indicative of a successful engagement, but investors are – unsurprisingly – much more likely to be satisfied with concrete corporate actions. Both sides feel a withdrawn proposal is as much a sign of accomplishment as a proposal with high support votes. Indeed, a resolution that reaches a vote often reflects unsuccessful attempts at constructive dialogue. It is important therefore to ask what needs to happen for these resolutions to lead to the types of discussions and/or actions that each side can view as successful.

THE BOARD'S ROLE

What is the role of boards in responding to these developments? Boards have an oversight role to play in ensuring companies have systems in place to manage key risks, including the potential for reputational harm and legal liability associated with adverse social and environmental impacts. As appropriate to the nature and relative risk profile of a company's operations, boards should ensure they have the information necessary to evaluate the effectiveness of a company's management systems with regard to social and environmental concerns.

Boards can raise questions regarding the processes and criteria by which management personnel evaluate the social and environmental risks that may be associated with particular operating environments or business relationships, including those with host governments and joint venture partners.

Finally, board members should emphasize the importance of ensuring management personnel have the resources they need to respond to shifting stakeholder concerns and expectations in a manner consistent with the company's values and strategic priorities. Boards can provide high-level support for effective engagement with shareholders on social and environmental concerns that could ultimately limit the filing of certain resolutions.

Through an oversight approach that monitors compliance with established standards while also evaluating the potential impact of future expectations, boards have a significant role to play in establishing, and reinforcing, an overarching set of expectations with regard to the short and long-term management of social and environmental risks. ■