May 13, 2014

Re: Industry Canada’s CBCA Consultation

Please find my submission to this consultation below.

Best regards,

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Principal,
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Coro Strandberg is Principal of Strandberg Consulting, a leading national corporate social responsibility and sustainability strategist and advisor. In 2012, Coro was recognized as one of the first Clean50 honourees in Canada for her contributions to clean capitalism. www.corostrandberg.com
Submission to Industry Canada

Canada Business Corporations Act Consultation

Introduction

Industry Canada’s discussion paper on the Canada Business Corporations Act (CBCA) consultation invites stakeholders to submit comments as to whether additional measures to promote CSR objectives are warranted in the CBCA. This submission responds to this request.

Background

I have been working in the CSR field for over 25 years and was the Chair of the board of directors of Vancity Credit Union when it released the first third-party verified CSR report in Canada in the late 1990s. Since then I have seen the rise of CSR reporting around the world, with CSR reporting rates now exceeding 70% according to KPMG 2013 research into practices of 4,100 companies. This number rises to over 80% in Canada. CSR reporting is now standard business practice. As well, there are now international guidelines on what constitutes CSR, the ISO 26000.

CSR reporting guidelines exist

Guidance exists for CSR reporting, the most popular of which is the Global Reporting Initiative. Most companies follow these global standards when reporting.

Governments increasingly requiring mandatory CSR reporting

More and more governments are requiring mandatory CSR performance disclosure, as found by this international 2013 inventory of CSR reporting regulations. For example, S. 417 of the UK Companies Act stipulates that large public companies must report information about environmental matters, the company's employees and social and community issues to the extent necessary for an understanding of the development, performance or position of the company's business. In 2013 the European Commission adopted a proposal for a directive to make non-financial reporting mandatory for all European Union companies employing more than 500 employees. Companies concerned will need to disclose information on policies, risks and results as regards environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, and diversity on the boards of directors.

There is a Canadian precedent for CSR reporting in the Bank Act requirement that large financial institutions publish Public Accountability Statements. Banks are meeting this requirement through publication of CSR reports.

CSR oriented companies create shareholder value

There is a considerable and growing body of scientific research which reveals that companies which pursue CSR improve shareholder value, for example this Harvard Business School study which provides evidence that High Sustainability companies significantly outperform their counterparts over the long-term, both in terms of stock market as well as accounting performance.
**Investors need CSR information**

Increasingly investor shareholders are seeking data on the social and environmental performance of corporations to inform investment decisions as CSR reports help investors make better judgments about a company's performance. To date asset managers representing over $34 trillion of assets, or 15% of the world’s investable assets have signed on to the UN-backed Principles for Responsible Investment, committing to consider CSR/ESG (environmental, social and governance) factors in their investment decisions. Investment research and advisory service providers are increasingly seeking ESG disclosure from Canadian corporations to overcome a key hurdle in evaluating the material impacts of environmental, social and governance risks to shareholder value.

**Third party verified disclosures increase quality and credibility**

Since the first third-party assured reports of the late 1990s, third party verification of CSR reports has grown globally, driven by a desire to enhance report quality and credibility – and thus usefulness for decision-makers. However, North America has a low rate of independent assurance of CSR reports compared to other regions, according to this recent global study. There are global guidelines for third party CSR reporting, the most popular of which is ISAE 3000, developed for the use of financial auditors when assuring non-financial information. With investors, employees, customers, suppliers, communities, regulators, media, boards and other company stakeholders increasingly relying on corporate CSR claims, there will be a need for independent verification of corporate CSR disclosures. Non-verified disclosures could otherwise result in the misallocation of resources and poor decision-making.

**Report or explain approach**

While in spite of the foregoing arguments some might still argue that CSR reporting should remain voluntary, a recent Accenture-UN Report of 1,000 CEOs reveals that “83% believe that government policymaking and regulation will be critical in harnessing sustainability as a transformative force”, and that 55% seek regulation and standards and only 21% of CEOs prefer voluntary measures. Further, the “report or explain” method proposed below leaves CSR reporting as a voluntary option.

**Recommendation**

Based on the foregoing rationale, I recommend that Industry Canada amend the CBCA to require large companies over 500 employees to disclose and assure their CSR performance information and data using a report or explain approach.

I further recommend that these companies report on the age, gender and ethnic diversity of their Boards and management teams and their approach to managing diversity in the organization.

My final recommendation is that companies be required to report on the board’s understanding of the company’s CSR risks.