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Corporate Social Responsibility in Canada
The 2009 Ivey-Jantzi Research Report

ISSUE DATE: MAY 2009

Corporate Social Responsibility in Canada
The 2009 Ivey-Jantzi Research Report

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A special word of thanks to Jantzi Research Inc.
and the Research Network for Business Sustainability
for their assistance in developing this report.

THIS REPORT IS BEING DISTRIBUTED ONLY AS A PDF DOCUMENT.

This report is the result of an ongoing collaboration between the Richard Ivey School of Business (Ivey) and Jantzi Research, an independent investment research firm located in Toronto, Ontario. It is the second edition of the Ivey-Jantzi Research Report. It examines the corporate social responsibility (CSR) of Canadian firms and highlights trends across Canadian industries in 2008. The intent is not to reward or rebuke performance, but to help companies understand overarching trends in order to better inform their own policies and initiatives.

Firms listed on the S&P/TSX Composite Index are scored on over 100 proprietary indicators in six categories: **community and society, corporate governance, customers, employees, environment and human rights.** Scores are weighted to reflect the importance of each indicator for a particular industry. Data are drawn from a number of sources including the media, company reports, questionnaires, stakeholder organizations and the Canadian government.

Each year, the Ivey-Jantzi Report will highlight an industry of importance. This year, the report includes a special section on the performance of firms within the financial industry.

Why measure CSR?

Canadians increasingly expect firms to look not just at shareholder returns, but also at the needs of all their stakeholders, including employees, neighbours and customers. Jantzi Research measures how well Canadian businesses are meeting these expectations by reviewing policies, management systems and programs, and then evaluating their impact on various stakeholders. Scores for each of these six categories add up to the firms' overall corporate social responsibility (CSR) score.

As socially responsible investing (SRI) becomes increasingly popular, individual and institutional investors are looking for tools that help them evaluate a firm's environmental, social and governance (ESG) performance. Jantzi's CSR ratings complement traditional measures of performance, such as profitability and market share, to help investors decide if a company is doing "good" in addition to doing well, and identify aspects of ESG performance that may be material to a company's financial performance.

Centre for Building Sustainable Value at the Richard Ivey School of Business

Ivey's Centre for Building Sustainable Value strives to stimulate research that simultaneously builds business and social value. The Centre ensures that research has an impact on education and practice and provides practitioners and students with the knowledge, tools and capabilities to effectively manage both private and public interests through organizational actions.

The Centre is also home to the Research Network for Business Sustainability www.sustainabilityresearch.org which connects over 300 Canadian researchers to more than 1000 practitioners worldwide. Additionally, the Centre hosts a number of learning events, produces the annual Corporate Social Responsibility in Canada report, and offers several programs that encourage researchers and practitioners to visit the Ivey Business School.

For more information visit: **www.ivey.ca/centres/building**.

The Year in Review

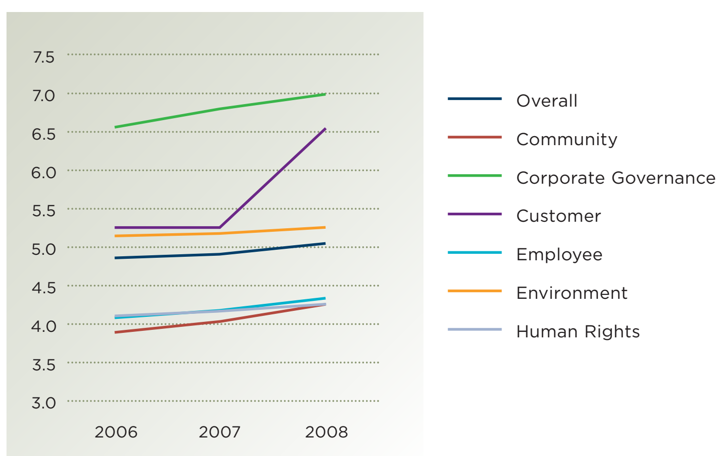
The CSR[1] bar has been raised. In 2008, Canadian companies improved in all reporting categories. Overall, social performance climbed steadily last year, driven by 79 per cent of firms.

Corporate governance has remained a top priority. Although firms started out with already high scores in this category from 2007, they managed to make further incremental increases in 2008.

There are also strong indications that Canadian companies paid more attention to their customers in 2008 than in the two previous years. Perhaps firms are beginning to understand the importance customers have on their overall CSR performance. This is in sharp contrast to almost no change in the same category between 2006 and 2007.

Figure 1

CHANGES IN AVERAGE CSR SCORES 2006 TO 2008



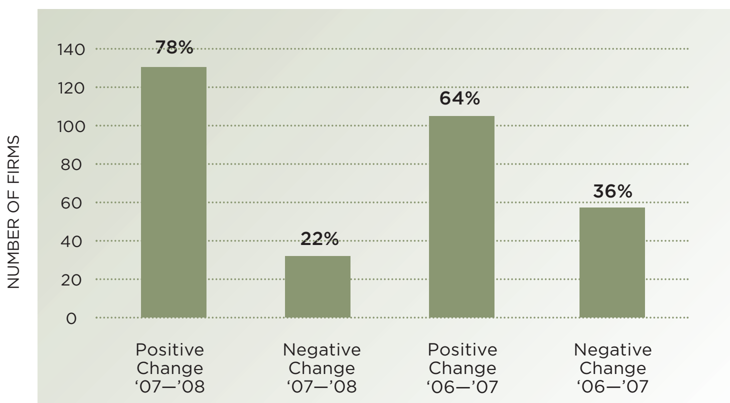
[1]CSR refers to Corporate Social Responsibility throughout the report.

Across all categories, companies are investing in, formalizing and communicating their CSR initiatives more than in 2007. There could be several reasons for this, including increasing pressure to be transparent and the need to keep up with peers. Some firms may also be looking to reap the reputational benefits from disclosing CSR initiatives. Regardless of the reason, corporate social responsibility in Canada is trending upward.

This year's report shines a spotlight on the financial industry. In 2008, Canadian banks were paying significantly more attention to their CSR performance.

Figure 2

NUMBER OF FIRMS WITH POSITIVE AND NEGATIVE CSR CHANGES



Spotlight on the financial industry

Economic events leading up to the Fall of 2008 have put the spotlight on the financial industry. It has become of special interest to many observers and is the focus of this year's report. Jantzi's CSR metrics may offer some insights into why some companies in this sector are faring better than others during the current economic crisis. This year's research shows banks have been paying significantly more attention to their CSR performance, while companies in the insurance industry had much lower results over a wider range. See Figure 3.

WHY THE STRIKING DIFFERENCE IN CSR SCORES WITHIN THE SAME INDUSTRY?

Each category is comprised of detailed indicators that are weighted depending on the actual exposure to the indicator for each industry. The indicators for banks, diversified financials, and insurance firms are similar enough to make direct comparisons in three categories: community & society, corporate governance and the environment.

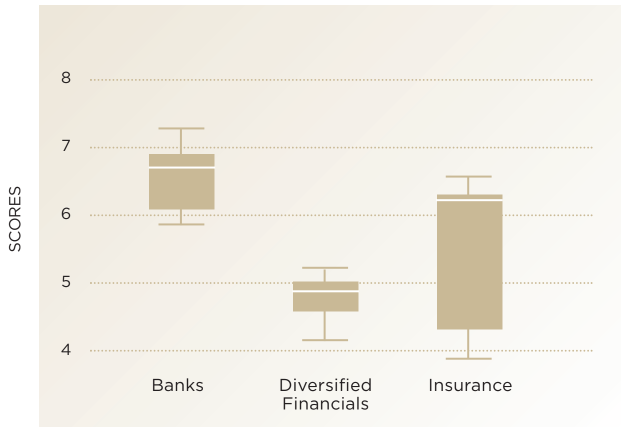
The **community & society** category shows banks leading with an average score of 6.90 out of 10, while diversified financials firms are clearly lagging with an average score of 3.97 (see Table 1). Insurance companies had an equally high score of 6.13, but with a wide range in performance. The range of scores is so high that some insurance companies even scored on par with the best performing diversified financials. The underlying cause seems to be differences in community involvement, public reporting and charitable donations.

Scores in **corporate governance** are high for all three groups at around an average of 7 (see Table 2). However, there is a noticeable difference in the range of scores. Banks operate within a narrow range while diversified financials and insurance firms show much larger variance, with some companies earning quite low scores.

Banks are outperforming diversified financials and insurance companies in the **environment category** (see Table 5). This is due in large part to public reporting and management systems, especially the presence of an environmental policy, where on average banks scored 5.6, insurance companies 3.1, and diversified financials 0.4.

Figure 3

RANGE OF OVERALL CSR SCORES IN THE FINANCIAL INDUSTRY IN 2008



HOW TO INTERPRET THE GRAPHS IN THIS REPORT:

Each box in the graph contains the scores of the middle 50 percent of firms – known as the inter-quartile range (IQR).

The middle line in each box indicates the median or midpoint value. When that line is not centered vertically in the box, the grouping of data points is skewed.

The ends of the vertical lines represent the maximum and minimum data values and will extend up to 1.5 times the IQR. Solid dots beyond these lines are considered outliers.

CSR by Category

In 2008, firms improved in the six categories that generate the overall CSR score – community & society, corporate governance, customers, employees, environment and human rights – indicating the CSR bar has been raised.

Firms have been paying the most attention to corporate governance. Yet from 2007-2008 this category saw only slight improvements, suggesting firms may now be turning their attention to other areas of social performance. The customer category has been propelled to the forefront this year, a strong indication companies are increasing their activities in this area. But perhaps the most surprising score was in the environment category. It saw only modest gains despite heightened media attention around climate change over the last few years.

The table below lists the average scores from 2006 to 2008 as well as the changes in overall scores in each category. Look for additional details and analysis on specific categories on the following pages.

Table 1

CHANGES IN OVERALL AVERAGE SCORES FROM 2006 TO 2008

Category	2006	2007	2008	Percentage Change 2006-2008	Percentage Change 2007-2008
Overall CSR	4.79	4.88	5.08	6.8%	4.4%
Community and Society	3.86	4.00	4.19	12.3%	6.5%
Corporate Governance	6.58	6.83	6.99	7.7%	2.7%
Customers	5.22	5.26	6.59	27.4%	26.3%
Employees	4.09	4.18	4.30	6.1%	3.5%
Environment	5.12	5.18	5.29	3.7%	2.3%
Human Rights	4.12	4.16	4.20	3.7%	1.9%

COMMUNITY AND SOCIETY

KEY POINTS

- ☐ Community and society scores are on the rise
- ☐ Increases are driven by higher community engagement and reporting

Community and society scores across all firms climbed steadily over the past three years. Improvements point to an awareness that companies must earn their licence to operate. With public trust in corporations at an all time low, firms may be ramping up their efforts at community engagement in an attempt to increase their reputation.

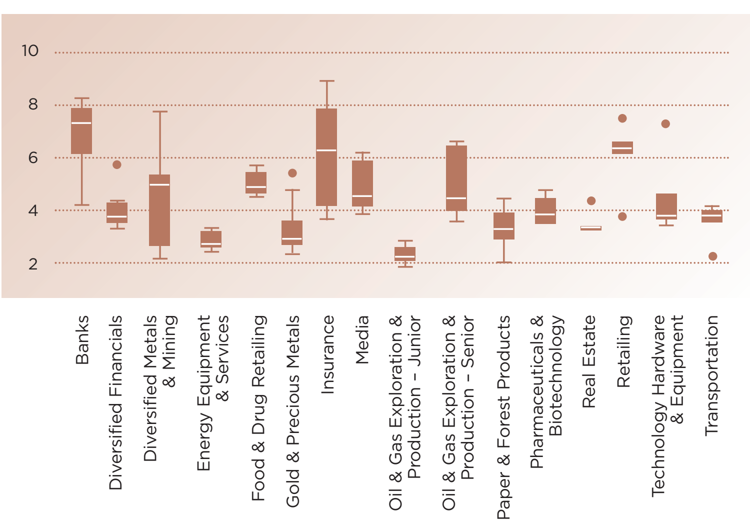
Reporting was also up in 2008. This increase is significant, as reporting increases transparency but also opens companies up to public scrutiny. One caveat is that absolute scores for reporting remain low, suggesting firms have some distance to go in this area.

Senior oil and gas companies had higher community scores compared to junior oil and gas firms. Higher community involvement may be due to the extra resources available to the larger petroleum producing companies, or to the increased pressure imposed on them because of their sheer size. As smaller firms and concern about CSR issues continue to grow, it will be increasingly important for companies to become more engaged with the local communities they impact.

See Table 1 in the appendix.

Figure 4

RANGE IN COMMUNITY AND SOCIETY SCORES IN 2008



CORPORATE GOVERNANCE

KEY POINTS

- Most industries continue to make small improvements to the already high scores from 2007
- Banks continue to top the charts while insurance is still in decline

Despite modest gains, the corporate governance category continues to top the charts with elevated scores across most industries. Banks have improved upon high scores from last year, while the insurance industry continues on a two year decline.

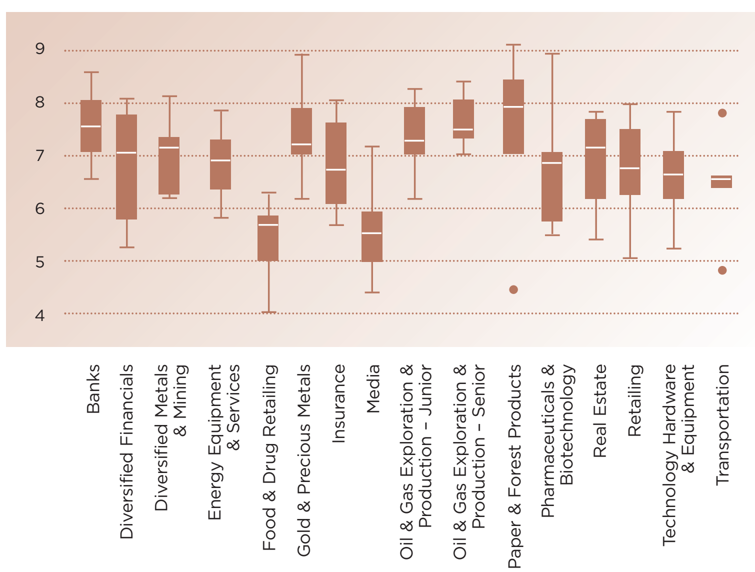
Companies that have raised their scores in this category have increased the number of formalized, public statements, such as codes of conduct and social responsibility principle documents. These documents, which are often publicly available, point to higher corporate governance standards.

One specific area in decline is compensation to the highest paid executives. This decline is interesting in light of the amount of public scrutiny and media attention some companies are receiving in this area.

See Table 2 in the appendix.

Figure 5

RANGE IN CORPORATE GOVERNANCE SCORES IN 2008



CUSTOMERS

KEY POINTS

- Firms are starting to understand the impact customers have on their overall CSR performance
- A gap is emerging between low and high performers

Not all industries are rated on the customer category by Jantzi, but for those that received a score, the results are strong and dramatic. The strong up-tick in scores reflects improved performance on policies and systems as well as fewer controversies.

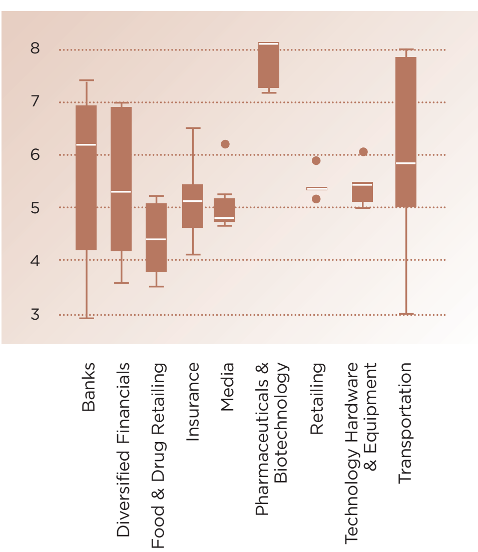
The difference in scores across industries in this category is increasing steadily, meaning a gap is emerging between low and high performers. Firms may indeed be taking different approaches, or the differences in the scores could be a reflection of the delayed impacts of past actions.

There are strong declines in illegal and controversial business practices and visible improvements in the overall impact firms are having on their customers. Firms were also rewarded for the stronger formalization of their practices in the form of codes and policies.

See Table 3 in the appendix.

Figure 6

RANGE IN CUSTOMER SCORES IN 2008



EMPLOYEES

KEY POINTS

- The numbers show firms are still struggling with diversity
- Only small improvements in the number of female executives
- Formalizing practices could potentially improve scores in this category

Despite the attention diversity has seen for many years, the ratings show that firms are still struggling with this aspect of CSR. Overall, changes in this category across industries are modest. There was almost no change in the number of women sitting at the board level and only a small improvement in the number of women among senior officers.

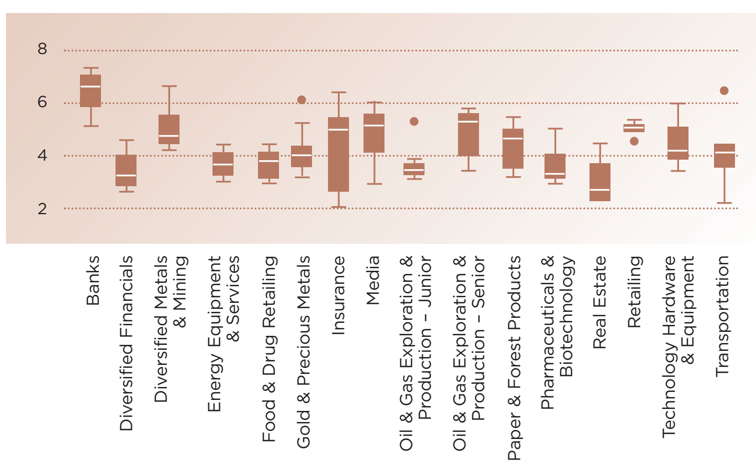
However, banks continue to lead the way with higher scores compared to other industries. This may be due to the increase in formalized employee-related programs and systems as well as clearer performance objectives and targets. Visible differences in the range of scores indicate that, while some firms have more common approaches, others are highly varied in their actions and results.

Fewer strikes and lockouts suggest that union relations have improved in this category, but the data also show health and safety records have been getting worse. Formalizing practices could potentially improve scores in this category.

See Table 4 in the appendix.

Figure 7

RANGE IN EMPLOYEE SCORES IN 2008



ENVIRONMENT

KEY POINTS

- Environment scores remained steady, with only minor improvements
- Management systems improved while the environmental impacts of products and services worsened

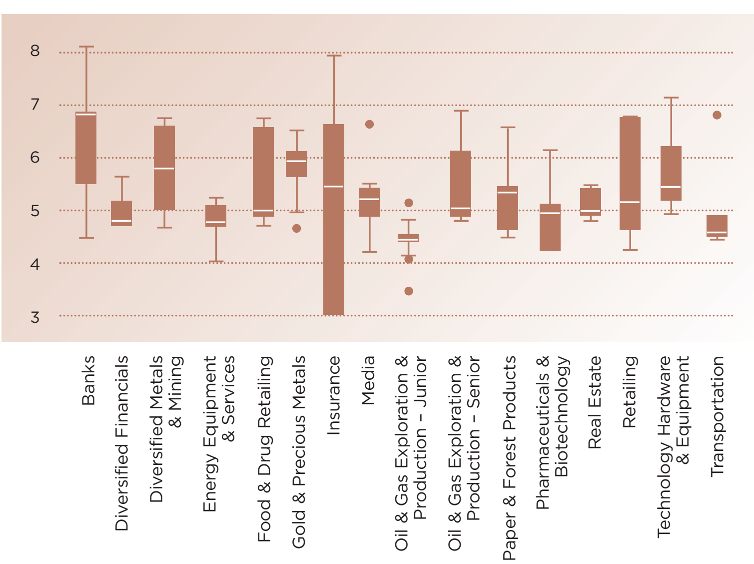
The average environment scores across all firms exhibited little improvement over the past three years. Nevertheless, some companies have improved their policies and have placed greater emphasis on public reporting and employee engagement regarding environmental issues. Firms that want to improve their environmental scores may begin by reporting and measuring their environmental impacts.

Overall, firms performed poorly on the environmental impacts of their products and services. These low scores were especially notable in the oil and gas industry. However, some oil and gas firms were able to distinguish themselves through initiatives such as investments in renewable energy.

See Table 5 in the appendix.

Figure 8

RANGE IN ENVIRONMENT SCORES IN 2008



HUMAN RIGHTS

KEY POINTS
- ☐ Human rights scores have only improved slightly
- ☐ This increase was driven by more attention to policies and reporting

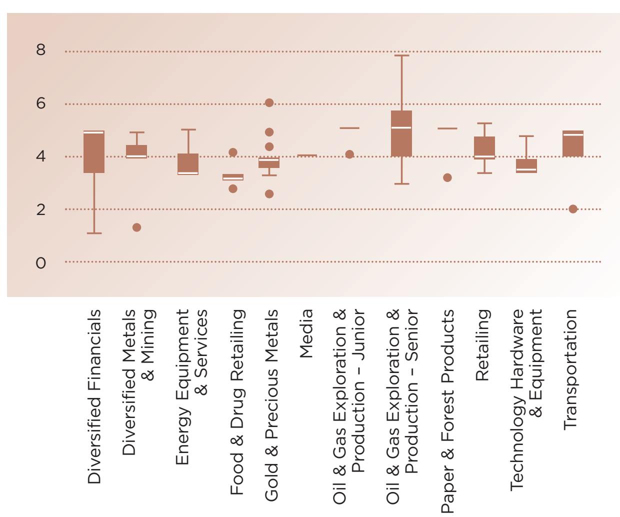
The average human rights score across all companies only improved slightly. One reason for this moderate improvement may be that human rights issues in firms have only gained significant attention in the last few years. The Canadian Government organized a series of roundtables in 2006 to address the governance gaps that exist when Canadian firms operate abroad. As the regulatory environment changes, we may see increases in human rights scores, especially in the area of reporting.

In general, there were improvements in human rights policies and codes of conduct. Firms also paid more attention to their public reporting and supply chains. There were decreases in impacts and initiatives. Therefore, while intentions improved, actual outcomes appear to have worsened. It is worth noting that improvements in policies and codes may translate into better human rights practices in the future.

See Table 6 in the appendix.

Figure 9

RANGE IN HUMAN RIGHTS SCORES IN 2008



Research Methods

Jantzi Research publishes ratings and rankings on the environmental, social and governance (ESG) performance of publicly-traded companies on an ongoing basis. Firms are scored on over 100 proprietary indicators in the areas of community and society, corporate governance, customers, employees, the natural environment and human rights.

The scoring scheme is based on best practices, which, in many areas of ESG performance, vary from industry to industry. The weighting assigned to each indicator is intended to reflect the exposure and therefore the importance of the indicator for a company's industry. Weighted scores are aggregated over four levels from the most detailed up, over the six broader categories, all the way up to the overall CSR score.

Jantzi Research assigns its scores based on data drawn from a number of sources including the media, company reports, questionnaires, stakeholder organizations, and government sources. Poor ESG disclosure often has a negative impact on ESG scores.

Direct comparisons are most valid within specific industries since companies in a grouping are assessed based on the same weighted scoring scheme. Comparisons across industries and across indicators should be made cautiously.

Appendix

Table 1

COMMUNITY & SOCIETY

Industry	2006	2007	2008	Change 2007 to 2008	Change 2006 to 2008	Number of firms in Industry
Banks	6.43	6.71	6.90	12.9%	5.3%	8
Diversified Financials	3.15	3.37	3.97	29.3%	21.1%	8
Diversified Metals & Mining	3.32	3.62	4.29	30.7%	21.1%	7
Energy Equipment & Services	2.32	2.70	2.97	29.8%	11.7%	8
Food & Drug Retailing	5.23	4.84	5.05	-1.5%	6.6%	6
Gold & Precious Metals	2.94	3.04	3.26	14.9%	8.8%	13
Insurance	5.10	5.29	6.13	33.4%	26.3%	7
Media	4.66	4.50	4.87	6.1%	11.5%	8
Oil & Gas Exploration & Production Junior	1.92	2.26	2.28	18.9%	1.3%	17
Oil & Gas Exploration & Production Senior	4.10	4.52	4.99	24.8%	13.3%	7
Paper & Forest Products	3.22	3.26	3.23	3.7%	1.5%	7
Pharmaceuticals & Biotechnology	4.13	3.93	3.93	-1.6%	0.0%	5
Real Estate	3.31	3.26	3.24	-1.0%	-0.5%	10
Retailing	5.57	5.61	5.89	11.0%	6.5%	5
Technology Hardware & Equipment	4.08	4.08	4.26	6.5%	2.8%	6
Transportation	3.46	3.64	3.54	1.6%	-3.6%	5

Table 2

CORPORATE GOVERNANCE

Industry	2006	2007	2008	Change 2007 to 2008	Change 2006 to 2008	Number of firms in Industry
Banks	6.99	7.22	7.58	8.4%	5.0%	8
Diversified Financials	6.60	6.25	6.76	4.3%	8.4%	8
Diversified Metals & Mining	6.65	6.81	7.06	8.0%	4.6%	7
Energy Equipment & Services	6.33	6.63	6.84	8.2%	3.8%	8
Food & Drug Retailing	5.83	5.41	5.44	-6.1%	1.0%	6
Gold & Precious Metals	6.60	7.00	7.38	12.8%	6.4%	13
Insurance	7.14	7.08	6.81	-3.3%	-3.6%	7
Media	5.06	5.62	5.55	12.8%	-1.4%	8
Oil & Gas Exploration & Production Junior	6.12	7.14	7.38	21.6%	3.7%	17
Oil & Gas Exploration & Production Senior	7.04	7.42	7.66	9.9%	3.6%	7
Paper & Forest Products	7.18	7.42	7.53	4.0%	1.0%	7
Pharmaceuticals & Biotechnology	5.97	6.50	6.80	15.5%	4.5%	5
Real Estate	6.09	6.99	6.91	17.2%	-1.0%	10
Retailing	6.67	6.87	6.69	0.3%	-2.5%	5
Technology Hardware & Equipment	6.31	6.45	6.58	7.1%	3.6%	6
Transportation	6.11	6.09	6.41	4.9%	5.6%	5

Table 3

CUSTOMERS

Industry	2006	2007	2008	Change 2007 to 2008	Change 2006 to 2008	Number of firms in Industry
Banks	4.82	4.83	5.67	17.7%	17.3%	8
Diversified Financials	4.74	4.71	5.45	15.0%	15.6%	8
Diversified Metals & Mining	6.20	6.20	8.20	32.3%	32.3%	7
Energy Equipment & Services	5.15	6.24	8.30	61.2%	33.1%	8
Food & Drug Retailing	3.69	3.67	4.38	18.8%	19.3%	6
Insurance	4.73	3.90	5.15	8.9%	31.9%	7
Media	5.69	5.69	5.00	-12.2%	-12.2%	8
Paper & Forest Products	5.00	4.88	8.33	66.7%	70.7%	7
Pharmaceuticals & Biotechnology	7.03	7.03	7.79	10.8%	10.8%	5
Real Estate	5.00	5.00	7.06	41.2%	41.2%	10
Retailing	4.12	4.17	5.37	30.3%	28.6%	5
Technology Hardware & Equipment	6.46	6.46	5.41	-16.3%	-16.3%	6
Transportation	5.21	4.93	5.91	13.4%	20.0%	5

Table 4

EMPLOYEES

Industry	2006	2007	2008	Change 2007 to 2008	Change 2006 to 2008	Number of firms in Industry
Banks	5.83	6.06	6.50	11.5%	7.1%	8
Diversified Financials	3.55	3.12	3.38	-4.7%	8.3%	8
Diversified Metals & Mining	4.59	4.91	5.06	10.3%	3.2%	7
Energy Equipment & Services	3.44	3.76	3.79	10.3%	0.9%	8
Food & Drug Retailing	3.92	3.88	3.64	-7.1%	-6.0%	6
Gold & Precious Metals	4.08	4.13	4.21	3.2%	1.8%	13
Insurance	4.13	4.10	4.20	1.5%	2.5%	7
Media	4.64	4.69	4.80	3.4%	2.3%	8
Oil & Gas Exploration & Production Junior	3.46	3.67	3.72	7.4%	1.2%	17
Oil & Gas Exploration & Production Senior	4.72	4.96	4.82	2.2%	-2.7%	7
Paper & Forest Products	4.36	4.38	4.49	3.0%	2.4%	7
Pharmaceuticals & Biotechnology	3.81	3.77	3.78	-0.8%	0.3%	5
Real Estate	2.57	2.69	2.94	14.4%	9.3%	10
Retailing	4.53	4.52	4.89	7.8%	8.1%	5
Technology Hardware & Equipment	3.84	4.07	4.48	16.8%	10.1%	6
Transportation	4.07	4.18	4.17	2.6%	-0.2%	5

Table 5

ENVIRONMENT

Industry	2006	2007	2008	Change 2007 to 2008	Change 2006 to 2008	Number of firms in Industry
Banks	5.53	5.61	6.34	14.8%	12.3%	8
Diversified Financials	4.88	4.90	4.92	1.1%	0.7%	8
Diversified Metals & Mining	5.77	5.89	5.79	1.6%	-1.5%	7
Energy Equipment & Services	4.86	4.74	4.78	-0.8%	0.9%	8
Food & Drug Retailing	5.07	5.07	5.48	8.7%	8.9%	6
Gold & Precious Metals	5.59	5.61	5.75	3.3%	2.5%	13
Insurance	4.21	4.23	5.03	15.6%	15.1%	7
Media	5.10	5.17	5.22	2.8%	1.2%	8
Oil & Gas Exploration & Production Junior	4.39	4.43	4.44	1.2%	0.3%	17
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Real Estate	5.02	5.08	5.08	1.1%	0.0%	10
Retailing	5.18	5.13	5.46	5.1%	6.6%	5
Technology Hardware & Equipment	5.48	5.58	5.78	6.0%	4.2%	6
Transportation	5.08	5.03	4.87	-4.2%	-3.3%	5

Table 6

HUMAN RIGHTS

Industry	2006	2007	2008	Change 2007 to 2008	Change 2006 to 2008	Number of firms in industry
Diversified Financials	4.00	3.83	4.08	1.5%	11.2%	8
Diversified Metals & Mining	3.82	3.75	3.82	0.1%	1.8%	7
Energy Equipment & Services	4.44	3.65	3.65	-15.7%	0.0%	8
Food & Drug Retailing	3.39	3.43	3.33	-0.3%	-1.0%	6
Gold & Precious Metals	4.15	3.99	4.07	-1.0%	2.9%	13
Media	3.20	3.20	4.00	25.0%	25.0%	8
Oil & Gas Exploration & Production Junior	4.88	4.88	4.94	1.5%	1.5%	17
Oil & Gas Exploration & Production Senior	4.44	5.13	5.03	16.7%	-2.0%	7
Paper & Forest Products	3.81	4.74	4.74	34.7%	0.0%	7
Retailing	4.06	4.18	4.14	1.7%	-1.2%	5
Technology Hardware & Equipment	3.05	3.22	3.62	21.8%	16.0%	6
Transportation	4.33	4.57	4.17	-2.9%	-10.4%	5

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