

# **noranda**

**Address to the  
Canadian Club of Toronto**  
*“Business Accountability: Shareholders,  
Stakeholders or Society?”*

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President  
Noranda Inc.*

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*Royal York Hotel  
Toronto  
Monday, September 29, 1997*

(Please check against delivery)

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All of this has been done on the basis of the interest of the individual business or of generally improving the climate for doing business in this country.

I am not apologizing for this kind of activity. But I do believe that with such a posture goes a responsibility. Business can choose to be a spectator or, even worse, a passive critic as society develops. Or business can choose to play an active, positive role – to be part of the solution, not part of the problem.

As the questions I stated at the outset suggest, there are two different views on the role that business should play.

First, from Al Dunlap, former Scott Paper CEO and now Sunbeam CEO – author of “MEAN Business”:

*“The most ridiculous word you hear in the boardroom these days is “stakeholders”. Stakeholders! Whenever I hear that word, I ask “How much did they pay for their stake?”*

Second, from Charles Handy, the management thinker and writer. Not as prolific as Peter Drucker, but very insightful, innovative and influential:

*“I see the company as operating in a bounded space ... surrounded by competing pressures from financiers, the employees, the customers, the suppliers, the community – the so-called stakeholders. Within that ring, I want to see the development of the ... corporation whose principal purpose is to fulfill itself, to grow into, develop to be the best that it can be.”*



For Handy, profits are a necessary, but not sufficient condition of success.

I fall into the Charles Handy school of thought, which targets the creation of wealth in the broadest sense. There is a striking difference between just making money and creating wealth.

Neil Shaw, Chairman of Tate & Lyle expands on the notion of creating wealth when he says:

*“What defines business success? There is growing evidence that the answer depends not only on bottom-line profits, but also on the value-added a business creates. Adding value depends on creating positive relationships with people – employees, customers and suppliers as well as other stakeholders in a wider community. Through community involvement, businesses can build their reputation with all these groups as well as develop the skills and experience of their employees and create a more economically prosperous and vibrant society.”*

From everything we know, the population at large is also of the Handy & Shaw school. Surveys in North America and the U.K. consistently show that a large majority consider social responsibility a key element in their judgment of a company. Further, they state that people’s judgment of a company on these dimensions affects their buying decisions in a significant way. What kind of marks does the general population give to business? An Angus Reid poll taken earlier this year showed that 45% of Canadians thought corporations were becoming “less responsible”. As a business person, I find this statistic disturbing. I see many businesses, including mine and a number of those represented here today, working hard to become

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“more responsible”. I have to conclude, however, that the work of this group alone is not enough and that we are not telling our story very well.

What is needed at this time is first of all an understanding of what business is actually doing. Then we will be in a position to discuss not whether business has a responsibility to community or social responsibility, but how that responsibility is to be met. The Imagine campaign of the Canadian Centre for Philanthropy, of which I am Chairman, has set itself the task of initiating and facilitating the discussion.

My fundamental hypothesis is that if the Canadian business community can come together in a commitment to making a difference in building the society of the next millennium, then Canadian corporations will be able to make a meaningful difference in shaping a society that is better for all of us – business, employees, the environment, our communities.

Where is the evidence that this vision is not just a pipe dream? We need only to look at United Way. United Way campaigns across this country provide critical funding to our social service support structure. Last year, the United Way of Greater Toronto raised \$52.1 million to support 205 essential health and social service agencies in our community. Over 80% of that money came from businesses and their employees. Business, labour, and the public and not-for-profit sectors have come together in United Way for years in a strong joint commitment to making this community a better place – and it has worked.

But if the business community doesn't come together to define its social responsibility and then to act on that definition, I fear we will not achieve that better society. That statement gives you an indication of the importance I attach to the impact of business in today's world.



I want to emphasize that in defining social responsibility we start with the need to be competitive on a global basis. Without that essential competitiveness, a business is not in a position to make any meaningful contribution to society. My company, Noranda, is a prime example. We are in the natural resources businesses – mining and metals, forest products, oil and gas. Businesses that are critical to Canada's economy.

Fundamentally, Noranda's businesses are price takers – prices for our products are set on international markets. We can't compete on the basis of price. We must compete on the basis of the quality of our assets and our cost competitiveness. When prices for our products are up, our operations need to be industry leaders in profitability. When prices are down, they can't be the marginal producer whose costs are so high that they can't survive. Our businesses must be globally competitive.

At Noranda we know that our fundamental social responsibility is to be profitable, which enables us to provide challenging, well-paid jobs and the opportunities for development for all employees. To quote Robert Goizueta, Coca Cola's CEO in that company's 1996 Annual Report: "We work hard to remember that the wonderful things our company is capable of – serving our customers, creating jobs, positively impacting society – happen only as long as we fulfill our vision of creating value for our shareholders." In fact, I am going to make the case that "positively impacting society" is an integral component of creating value for shareholders.

Having said that, now let's look at the issue of "positively impacting society".

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I think we have to ask ourselves where our society is heading and what the responsibility of business is.

We are increasingly becoming a society of haves and have-nots. We have a country where 52% of individuals and 13% of families earn less than \$20,000 per year. A country where, despite our apparent economic success, unemployment rates remain stubbornly high, with unemployment for youth particularly troubling – twice the level of the general population. And for those workers 25 to 30 years of age with jobs – their real earnings have fallen 20% relative to those of mature workers since 1974. Food banks are accepted as a necessity in this city. And in our streets the plight of the extreme have-nots is increasingly visible to us all. We are not used to seeing so many people living in the streets, so many people asking for money. If you are like me, you find it profoundly disturbing. The real danger is that we become “used to” seeing these people, accept it as a fact of life, and we stop being disturbed.

Our social safety net, designed for another economic era, no longer works, and it is being cut apart every day. And, of course, as a country, we risk being pulled apart – polarized – at a time when we should be recommitting to each other.

Is this our vision of the society we want to develop? It’s not my vision and I’m pretty confident that it’s not the vision of most of my business colleagues.

I like the vision expressed by Judith Maxwell, former head of the Economic Council of Canada and now President of the Canadian Policy Research Network. She talks about building a “resilient society” in which costs are still important but the dominant theme is investing in human capital.



The responsibility for social well-being is shifting away from a total dependence on the state to a combined responsibility for individuals, families, employers and the state. As we look ahead, social capital is the foundation of economic success in the civil society.

I like the way Judith Maxwell characterizes the evolution over time of the definition of the three classical factors of production:

*We've moved from land to the quality of the environment. We've moved from labour to human capital, including technical knowledge, problem-solving skills and autonomy or empowerment. We've moved from capital to social capital in the community and society in which the firm operates. Social capital includes institutions, patterns of behaviour, and the trust and reciprocity that enables us to solve problems, adapt and grow.*

I consider it to be a self evident truth that a business' success is ultimately dependent on the success, strength, and optimism of the society in which it operates.

I consider it a responsibility of business to take an active role in shaping that society.

Business can, by its actions, be one of the key contributors toward the evolution of our society in a direction that will benefit every stakeholder.

The broad support for business, the "public trust" which is critical to our ability to operate and compete, is enhanced if business is perceived as having a genuine concern for society and making a positive contribution. We will, ultimately, "do well by doing good". This is the "bottom line" of

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social responsibility for business: it's good for business. And good for shareholders.

In January 1993, 25 of the UK's top companies came together under the leadership of Sir Anthony Cleaver, Chairman of IBM UK. The objective was to develop a shared vision of tomorrow's company. The aim was specific and practical: to stimulate competitive performance by provoking business leaders to think about the sources of sustainable business success. It was born out of a concern for the global competitiveness of UK businesses.

The key phrase that came out of this work was that "to achieve sustainable success, tomorrow's company must take an inclusive approach". They concluded that internationally competitive companies will be those which maintain their "license to operate" by securing high levels of support from all those with whom they interact directly or indirectly. They stated very directly that an exclusive concentration on any one stakeholder will not lead to sustainable competitive performance. They further concluded that it is therefore not necessarily in the best interest of shareholders themselves to be singled out in this way.

If business accepts that it has a multi-stakeholder responsibility, a responsibility to create social capital, what sort of things can business do to create that capital? I believe there are at least three areas of potential focus: employees, the environment and the community.

First, employees. We must invest in them as individuals, in their development. In today's world, the quality of our workforce is an essential component of any organization's competitive advantage. We can't guarantee jobs for life, but we should guarantee personal growth and the



attainment of skills and aptitudes critical to success in the future, whoever their employers may be. We can't promise employment, but we should be able to promise employability. We can make work and life transitions easier: job to job, employer to employer, full-time employment to retirement. We can create a "family friendly" workplace which will help to ease the day-to-day stress many of our employees feel and at the same time give a strong boost to the "readiness for education" of our employees' children.

Second, the environment, which is particularly critical to a company like Noranda. We need to make the principles of sustainable development a fundamental part of our business strategies and day-to-day operations. Sustainable development is a very broad concept which highlights the need to look at the economic, environmental and societal aspects of a business together. The trustees of the New York State pension fund have stated: "When corporations treat the environment badly, they treat their investors badly." To return to a theme, sustainable development is good business and socially responsible. We also need to be open about and accountable for our environmental performance. At Noranda, we are proud to have been leaders in this country and in the world with the Environmental Annual Reports which we began publishing in 1990. And finally, we need to invest in the research that will enable us to ensure that the massive environmental-related expenditures that companies make are directed to finding solutions to real, not perceived problems.

Third, the community. As a total business sector, we have to give more money. A recent Goldfarb poll found that 10% of Canadians believe that corporations are currently most responsible for community service charities. The recent funding cuts from all levels of government have created huge and unrealistic expectations that business should or must pick up the slack.

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In fact, business contributes less than 2% of the total expenditures in this sector.

Many corporations are already doing their fair share. That's not enough – all businesses must do their share. We must find new ways to support and work with the voluntary and charitable organizations that are struggling to meet community needs as governments cut back. An important part of this contribution must be financial. The Imagine program has set a target of a minimum of 1% of pre-tax profit as the benchmark for corporate giving. Today, over 436 companies have committed themselves to this target. While we can be proud of this progress, the reality remains that the majority of Canadian companies have yet to reach this modest benchmark. That's just not good enough.

We must do more, however, than simply just give money. We must get involved in and work with the community to solve community problems. I know from working with many of these community organizations that the sharing of our other resources, particularly our people, is of enormous value.

We have to encourage our employees to volunteer and make it easier for them to volunteer. This is a definite “win/win”. The personal development that comes from a good volunteer experience ranks right up there with what we can accomplish through the training and development programs that we spend a lot of money on.

As I look back, some of the highlights of my career in terms of development and sense of satisfaction have come from volunteer work. And that's not just at the level of working on or chairing Boards. I have been involved for the past four years in designing and delivering a four-day program on organizational culture and change to teachers, department heads, vice



principals and principals from across the Greater Toronto Area at the Learning Partnership's "Summer Institute". This sort of volunteer work brings with it a very different kind of learning, personal development and feeling of having made a valued contribution. Just as in my business life, I find that I am always learning in my interactions with the not-for-profit sector. And that learning is of great value in my business life.

We should also encourage, support and seek partnerships with organizations which need our help, whether they be schools or social service organizations. Sharing a joint commitment and making a joint effort with another organization to achieve an important societal goal has tremendous benefits for all parties to the partnership. And we are fast learning that the complexity of many of today's problems requires the differing resources that only multi-sectoral partnerships can bring to bear if we are to be effective in our efforts. The projects of The Learning Partnership between business and all 17 School Boards in the GTA, of which The Summer Institute is an example, are strong evidence of what can be achieved when we work together.

We need to work to find and support new forms of school to work transition. We cannot allow the Catch 22 of employment for young people to continue: "I can't get a job because I have no experience." "If I don't get a job, I can't get the experience."

Career Edge, the national program to provide internships for graduates of high school, college or university that has been developed and implemented entirely by the private sector is an example of which I am extremely proud. In this one-year-old organization, we have placed 600 interns, of which 84% became fully employed either during or one month after completing the program.

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Are there other ways in which we can meet our broad responsibilities and play our role? Of course there are. In the last two years we have had over 160 outstanding examples of innovative business community partnerships submitted for the Imagine New Spirit of Community Partnership Awards. And I know there are many more wonderful stories to be told – a lot of good things are happening.

But more has to happen.

Business must be prepared to talk openly about its responsibility for making more happen. The members of the business community must debate these issues, both within their own community and with the other constituencies or stakeholders in our society. Business must seek some form of consensus about the role its members will play in contributing to the evolution of our society and about the resources it can and will make available. Only in this way can we address, in a transparent fashion, the conflicting and often unreasonable expectations which currently exist. If we achieve this consensus then business can play a meaningful and constructive role. A role that is good for business and its shareholders and for our many stakeholders.

I started today with two questions: Is the responsibility of the corporation limited to shareholders? Or do we have a responsibility to a broader constituency? The questions were stated as if they were mutually exclusive.

In fact, I hope it is clear to you now that I believe that a company has a responsibility to a broader constituency than its shareholders – because a company can meet its responsibility to create value for its shareholders only by seeing the world in this way.



Business is a critical element of society. It inevitably has a great impact on how society develops. It has a responsibility to play that role with high ethical and moral standards, with consciousness and with purpose.

Thank you.

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