

**Ms. Diane Giard, Senior vice-president, Quebec  
and Eastern Ontario Region, Scotiabank  
Remarks**

**“Creative initiatives for the social responsibility  
of businesses”**

**Board of Trade of Metropolitan Montreal  
Thursday, March 13, 2008**

## **SLIDE 1 (Cover)**

Good evening/day everyone and thank you \_\_\_\_\_ for that kind introduction.

I would also like to thank the Montreal Board of Trade for inviting me to speak about Corporate Social Responsibility, its importance in today's society, and why Scotiabank has taken such an aggressive approach in adopting CSR policies and practices.

## **SLIDE 2 Definition**

So, what is CSR?

Over the past decade, the term CSR has become more common in boardrooms around the world. And as more and more organizations become engaged, there is now a need to not only formally define what it is, but also how to measure it.

One of the most widely accepted definitions was created by something called the Dow Jones Sustainability Index, a socially responsible investment fund.

They define CSR as “a business approach that creates long-term shareholder value by embracing

opportunities and managing risks deriving from economic, environmental and social developments.”

Every organization has adopted its own set of CSR priorities to address their own geographic and sectoral considerations. For example, Scotiabank is an international financial institution operating in over 50 countries with more than 60,000 employees, so some of the issues that we think are important, may not be for other companies or sectors.

For example, oil and gas companies have a greater interest in how to improve their extraction process whereas, as a financial services company, we would focus on our retail products and lending policies. Janitorial or cleaning companies need to focus on the kinds of products they use and how they dispose of them. Companies that produce plastics need to evolve to use materials that contain more recyclable material.

Regardless, companies at all levels – local, national or international still share common issues and opportunities.

### **SLIDE 3      Evolution of CSR**

Today, more and more companies are becoming increasingly aware of CSR. But why? What has changed?

Traditionally, customers, employees and society's views and expectations of companies were fairly narrow. Their function was to create jobs, maximize profits, follow the law, and donate a small amount of profits to charity.

But today, the landscape is different. Globally, citizens are more concerned about how a business operates. They want to know how the company treats its employees, if they are minimizing their impact on the environment, and if the company is committed to giving back to the community. The expectations around what role companies should play are changing for many reasons:

- Consumers have more options, and are more vocal and active about those choices.
- People recognize that important societal issues- such as poverty and climate change- cannot be solved by government alone. They realize that these issues are best addressed when individuals, corporations and governments work together.
- And let's not forget about the media. The internet, blogs, Youtube, newspapers, television and magazines are now focusing on companies' environmental and social behaviour. Think of companies in the retail clothing industry whose suppliers in Mexico had dangerous and unfair

working conditions, and think of the impact it had on their reputation. Or more recently, all the negative press about unsafe toys manufactured in China.

## **SLIDE 4      The Business Case**

So why should a company bother to try and meet these expectations? Or in other words, what is the business case for engaging in CSR?

Companies can't operate without a supportive context: They rely on employees to do a good job, customers to buy their products and services, and shareholders to invest in them. Companies that identify and address the issues of these stakeholders as part of their business strategy will succeed.

Let's look at each of these groups a little more closely.

### **Employees**

We know that satisfied employees are motivated employees. They are more productive, healthier, provide better service to customers and are more inclined to better perform in their jobs. A satisfied employee also means that they are more likely to stay with an organization for a long period of time.

According to public opinion research conducted by Decima Research and sponsored by Scotiabank, six out of ten employed Canadians would consider leaving their jobs if their employers demonstrated poor CSR practices.

One of the trends Scotiabank's Human Resources leaders have noticed is a greater interest of potential recruits in our company's CSR record and practices. In fact, we use our CSR report on campuses as a recruiting tool. This increased interest is in part because many business schools now include CSR in their core curriculum.

A true testament to Scotiabank's success in attracting and retaining employees can be seen in our most recent award from the Globe and Mail. This year, Scotiabank was once again named as one of Canada's 50 Top Employers by the Globe and Mail Report on Business Magazine. We moved up from 44<sup>th</sup> place last year to 19<sup>th</sup> place this year. What's even more rewarding is that it's our employee feedback that plays a major role in determining the final results.

The bottom line – our work in these areas is increasing our status as a global employer of choice. And that gives us a competitive edge.

## **Customers**

Customers are increasingly taking CSR into account when making purchases. According to our survey, 26 per cent of Canadians always or often take CSR into account when making purchases, and the figure goes up slightly here in Quebec, at 28 per cent. Thirty-seven per cent of Canadians also said they would share information with friends, family and co-workers if they heard something negative about a company's social, environmental or governance practices.

While CSR may not be the only factor consumers take into consideration when making purchases, it can certainly provide companies with a competitive edge and act as the differentiator.

## **Shareholders**

For public companies, maximizing profits for shareholders has always been the main objective and concern. However, there is a growing acceptance that intangibles - factors such as reputation, environmental policies, and corporate governance - can have a significant impact on company competitiveness, profitability and share price. In practice, this still means promoting maximum returns, but within an acceptable risk framework, and ignoring vocal, media savvy stakeholders is a very real risk.

The biggest movement in this area is among institutional investors who invest in pension funds. They are beginning to make concrete asset allocation

decisions that are not only based on financial criteria, but also take into consideration environmental, social and governance criteria as well. Examples include the Canadian Pension Plan Investment Board, the California Public Employees' Retirement System and ABP, the Dutch government employee pension fund. Socially Responsible Investment funds are also taking off, and we are seeing more and more of these funds being created here in Canada.

## **Regulators**

Government regulators are looking for more transparency from companies in terms of social, environmental, governance and reputational risk reporting. Strong CSR practices and reporting help garner good will and trust with regulators. For the financial sector, Canadian banks meet every year with one of our regulators – the Financial Consumer Agency of Canada - to review the quality of our Corporate Social Responsibility Reports.

This issue is particularly relevant for multinational companies. Foreign ownership can create certain local tensions, which in turn can stir nationalist sentiment causing a backlash against global companies and pressure on local governments to take a hard line against those companies.

The role of CSR is to help reduce and eliminate this perception by investing in community

projects and contributing to economic development -- often referred to as having a “social license to operate.”

**SLIDE 5      What does CSR mean to the Financial Sector?**

On the screen is a chart that outlines the key CSR issues for the financial sector. As you can see, for Banks, CSR is a broader concept than making donations to charities- which traditionally was considered the main focus of CSR.

Some of these issues span across industries like employee issues for example. Employee satisfaction, training, health and safety and ensuring a diverse management team and workforce are issues of the utmost importance. For example at Scotiabank, increasing the number of women in senior management positions is one of the strategic objectives for the Bank. Our Advancement of Women strategy has produced results. In 2004, 23.5% of senior management positions were held by women, and today, the number has increased to 31.5%. In recognition of our efforts in 2007 we received the Catalyst Award- an international award that recognizes innovative approaches in business to address the recruitment, development and advancement challenges faced by women.

Equally important is corporate governance, which includes issues such as Board independence, having systems in place to ensure and monitor ethical conduct, and having a robust reporting on financial, environmental, social and governance issues.

For Scotiabank, and all banks in general:

We have a responsibility to ensure that we protect confidential information about our customers; we must make a reasonable effort to offer accessible services to people with disabilities; and to provide basic banking services to low income individuals and families.

We can make an effort to reduce our own impacts on the environment by lowering our energy consumption and paper use and require the same standards of our suppliers. We can also offer products such as environmentally responsible investment funds that help our customers protect the environment.

Scotiabank recently launched a unique mutual fund product in Canada- the Scotia Global Climate Change Fund. This fund will match strong financial performance with environmental criteria. The investment strategy is long term and is designed to leverage the technologies and environmental practices that will help mitigate and adapt to the implications of climate change. The fund is a wonderful example of the positive role financial

institutions can play in promoting and rewarding sustainable behaviour.

And finally, banks are regarded as an important source for supporting charitable causes and supporting employees through donations and time. In 2007, Scotiabank contributed more than \$43 million to community causes around the globe. I should add that we have a very generous employee donation matching program. More than 1,900 fundraising activities received over \$5.8 million from the Team Scotia Community Program, and employees spent more than 360,000 hours volunteering and fundraising through our formal community programs.

Internationally, we are a strong supporter of microfinance- which provides small loans to people who would not otherwise have access to credit. What is interesting is that over 70% of microfinance loans go to women. These loans – as small as a couple hundred dollars - create new opportunities for local entrepreneurs and economic independence for themselves and their families. We currently have microfinance operations in three countries – Jamaica, Guyana and Chile.

## **SLIDE 6 CSR at Scotiabank**

So how does Scotiabank define CSR?

We start from the perspective of our stakeholders and define CSR as “the way we interact with our stakeholders to meet our social, economic, environmental and ethical responsibilities.”

Scotiabank’s approach to CSR is to manage reputational risk and leverage CSR opportunities - and to do this in a way that balances the interests of all stakeholders. We focus on the key CSR areas of the financial sector that were on the chart from the previous slide. While there isn’t enough time to go through all of our policies and programs, if you are interested in additional information, I would invite you to read our 2007 CSR report.

## **CSR Structure at Scotiabank**

The creation of a CSR department at the Bank occurred in 2004, when the company’s leadership recognized that there was a growing external concern about CSR-related issues, creating a need to improve the ways that the Bank measured its activities. In addition, there was a recognition that the Bank would benefit if we shared the results of our activities with our various internal and external stakeholders.

As a result, Scotiabank decided to centralize our expertise and strategy development by creating a separate CSR department led by a VP of CSR. A CSR Advisory Committee was also created with

senior representation from across the key areas of the organization.

As plans developed, we began to recognize the need to measure our activities and create benchmarks, so that we could measure our success annually. We determined that by measuring our activities, we would be able to demonstrate the impact of these good practices on the various business areas, including employee retention and the costs of savings associated with adopting better environmental practices.

We capture all of our data and successes in an annual CSR report that is shared with employees, customers and shareholders. We also have a Strategic Plan that sets out specific goals and implementation plans to achieve which has CEO approval.

### **Examples of Ongoing CSR Objectives at Scotiabank**

I thought I would share with you two case studies that highlight the benefits of CSR projects. Both are related to our Bank's commitment to reduce our impact on the environment.

First, energy consumption.

Climate change, which as you know is directly related to the amount of energy we use, is currently the #1 issue of concern in Canada and many other countries. Polls even put it ahead of health care in terms of priorities, which is surprising given that healthcare usually tops Canadian polls.

Although the Bank has for many years sought to find ways to minimize our consumption, we never measured our consumption in Kilowatt hours - only in dollars. So- our first step was to set up a process for measuring our energy use across our branch network in Canada. In 2006, we created an energy measurement pilot project. The pilot involved the capturing of consumption data for electricity, heating oil, propane and water in Ontario, and was eventually rolled out across Canada.

A number of different areas across the Bank, from operations to real estate, had to work together to change our systems in order to centralize and collect the data. As a result, we are now able to identify ways to reduce costs. While it seems like common sense, CSR got us thinking about doing things differently and better.

Another area that we look at that has positive results environmentally and financially is our paper consumption.

Banks use an enormous amount of paper – it's the nature of our business -- from statements and marketing materials that we send to customers, to all the copy paper we use internally. And along with energy, it's our biggest environmental impact.

We created a working group made up of our sourcing people, our supplier relationship managers and the big paper users across the Bank, to look at the amount and kind of paper we use. Again, we started by quantifying the challenge, and an environmental paper policy is now in the works which will include guidelines on the environmental qualities of paper we purchase, such as recycled and certified content, and will set reduction targets.

As with energy, one of the additional benefits of this working group is that it brought together people within the organization who have never worked together. Bringing people together and sharing best practices has been one of the best internal benefits of our CSR initiatives. It's amazing how people working on common goals can energize an organization and generate great ideas.

## **SLIDE 7 Lessons Learned**

So what does a top-notch CSR Strategy look like?

I would like to share with you some of the lessons we've learned over the past four years since

formalizing our CSR strategy. I would like to add that none of these lessons would have come to fruition without the support from the Executive. Without their support, any CSR strategy, no matter how well thought out, will likely fail.

- *Link CSR strategy to your core business and values*

Companies should act on social or environmental issues that intersect with their particular business - whatever the company knows best and is good at. This type of focus will allow for the creation of shared value, with benefits to both society and to the corporation. Examples include pharmaceutical companies discounting or giving away drugs in countries where there is extreme poverty, mobile phone companies giving away cell phones in poor, remote communities or helping micro-enterprises set up mobile phone-use companies. In this way, much needed products or services are provided to those in need, and they can easily tie into brand recognition.

- *Integrate CSR into performance objectives and business plans*

CSR should not be something that project managers and employees have to do in their free time -- it should be integrated into their work plans and be a part of their objectives. If this is not the

case, it will fall to the bottom of the “to do” list and not get done in a timely manner or in some cases at all.

- *Stay focused*

Because CSR is such a broad topic, there is a tendency to spread company resources too wide and too thin. It’s important to create a sound strategy, and stick to it. Of course, it is important to remain flexible, but a well tailored strategy should be adhered to within reason.

- *Measure the value of CSR initiatives to build the business case internally*

Any new initiative in a company needs to get buy-in from internal groups. There are dozens of ideas and projects that compete for limited time and resources, and those that have a compelling and demonstrable benefit are the ones that get chosen.

- *Engage in strategic stakeholder dialogue to get feedback and improve performance*

Getting feedback from stakeholders early on is key for three reasons. First, half of the issue in stakeholder dialogue is simply talking and listening to them. You will find that simply listening goes a long way. Second, stakeholders have a host of good ideas and may have expertise in certain areas

where the company has little. Finally, it can be a method of ensuring that expectations are kept reasonable.

- *Build momentum through internal and external communication*

Good corporate citizenship is something to be proud of and employees will respond very positively. Although it is dangerous to boast, it is important to recognize and take credit for taking a leadership role and achieving results on particular projects. These achievements can be communicated to employees and highlighted in innovative ways. For example, our International Banking division created an annual “CSR award” for the country that has made the most progress in adopting and implementing CSR measures. Many consumers and shareholders too will have more confidence about companies with sound environmental and social records.

## **Conclusion**

CSR issues are becoming more and more high-profile. In turn, companies are increasingly being questioned by stakeholders about what they are doing to address these issues. And this is a trend that I see as growing.

I encourage all of you to think about where your company is on the CSR continuum. Whether there is room to leverage opportunities from increased stakeholder engagement. And if a succinct CSR strategy can be tailored to the strengths of your company.

From my experience, employees will respond with enthusiasm and commitment. I can also attest to the fact that it will create new ways of saving money and mitigating risk.

I hope that some of the experiences that I have shared with you about our approach and goals at Scotiabank have inspired you. I look forward to your questions.