Corporate Canada must practise sustainable finance

By Erica Barbosa and Brian Gallant June 27, 2021

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The pandemic has heightened awareness of the fact that the continuing crises of climate change, inequality, and lack of social cohesion are interconnected and must be addressed collectively. Economic thinkers from Mariana Mazzucato to Mark Carney agree that capitalism can no longer leave its damage for government and philanthropy to fix.

The need to change the economy's direction toward an inclusive, equitable, and sustainable future is behind increasing interest in environmental, social, and governance (ESG) investing and reporting. To safeguard our collective future, corporate Canada needs to collaborate with community and public sectors to reshape markets in the public interest.

In a recent federal government report, The Future of Business in Society, Coro Strandberg, co-founder of the United Way Social Purpose Institute (SPI), writes, "All signs point to successful businesses embracing a stronger role in creating value, not just for themselves and their shareholders, but also for society and stakeholders, (so that) nature is replenished, and people and communities thrive."

While the United Way's conventional role is to channel donations from companies to community organizations, the SPI offers help in the other direction, by helping companies embed social values in their governance, business practices, and reporting.

Too few of Canada's corporate CEOs are paying attention. Fewer than half of respondents to the 2021 PwC CEO survey plan to spend more on meeting ESG criteria over the next three years. More than two-thirds have yet to factor climate change into their risk-management strategies.

Of 3,000 Canadians surveyed by the Canadian Centre for the Purpose of the Corporation, 85 per cent agreed that business should put shareholder interests on par with those of communities, employees, customers, and the environment. Furthermore, 75 per cent want capitalism reformed to be more inclusive, sustainable, and fair — or be replaced.

ESG criteria provide starting points for this shift, but merely managing risk isn't enough.

"The key is to define a company's social purpose, align ESG activities around it, and engage with government and community partners around bold goals," Allyson Hewitt, who coordinates the Business for Purpose Network at Toronto's MaRS Discovery District, told us.

The 17 UN Sustainable Development Goals (SDGs) are scientifically validated, widely endorsed, and bold goals for humanity to strive for. In many countries, they're shaping public policy, investment, and civic engagement in systemic change — but not yet in Canada.

According to John McArthur, director of the Centre for Sustainable Development at the Brookings Institution and an authority on SDGs, Canada is struggling to reach many SDGs: "The country's corporate leaders need to play a much bigger role in helping to drive change," he told us. Canada needs a corporate or tri-sector council on SDG implementation.

But not all CEOs are out of step; some are leading the way:

Advancing economic reconciliation

Reconciliation with Indigenous peoples includes making amends for the withdrawal of economic rights under the Indian Act. In co-operation with non-profit SHARE (Shareholder Research for Research and Education), the National Aboriginal Trust Officers Association, and the Atkinson Foundation, TMX Group — which owns the Toronto Stock Exchange — has made a landmark commitment to redress this wrong. Working with the Canadian Council on Aboriginal Business, TMX will set new targets for board and employee diversity, and augment efforts to raise capital for Indigenous businesses.

Investing in employee equity

Non-profit Social Capital Partners (SCP) recently made it possible for 1,200 employees of U.S. firm Taylor Guitars to buy the company in a $100-million ESOP (Employee Share Ownership Plan) deal financed by the Healthcare of Ontario Pension Plan. As SCP founder Bill Young told us, "ESOPs enable wage earners to build equity and help ensure that good jobs stay in communities. Given how ESOPs have flourished in the U.K. and the U.S., their potential in Canada is enormous."

Co-creating systemic change

The Transition Accelerator is a charity that creates values-based consortia to decarbonize Canada's economy in the energy, transportation, and building sectors. It does so by bringing together academics, businesses, communities, and governments. CEO Dan Wicklum told us: "Centring social values in Canada's transition to net zero is in the best interests of society. This, in turn, requires collaborative investment by philanthropy, the public sector, corporate finance, and capital markets."

We can, and must, do better. An economy that benefits everyone, including future generations, is within reach, if only the private sector works with community and public-sector stakeholders to build it.

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