SOCIAL IMPACT

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Social impact is the way any organisation affects the communities in which it operates. An organisation which does not consider its social impacts and social values risks compromising its sustained long-term success. This chapter provides a toolkit for the board's leadership and governance of social impact.

What are social impacts? Social impacts include those which simply protect an organisation's basic licence to operate – paying fair taxes, meeting minimum standards for wages, ensuring human rights and healthy and safe working conditions – and those which confer a licence to lead – actively contributing to social mobility in recruitment, remuneration and promotion, paying a living wage promoting and supporting mental health and well-being, adopting science-based targets¹ for carbon reduction, setting targets for procurement spent on small and medium-sized businesses in supply chains, removing unconscious biases from machine learning/artificial intelligence systems.

Social impact matters to society and all the communities in which an organisation operates: from the communities producing the raw materials

¹ <https://sciencebasedtargets.org/companies-taking-action/>.

used in products and services through to the way those products and services are consumed and waste is disposed of. Organisations support and enable the livelihoods and success of every individual and organisation with which they are involved. Their collective success enables a society's success. Social impact is not incremental or incidental to it. Societal impact is integral to business and organisations whether it is recognised or not. Businesses can only provide returns over the medium and long term if the societies in which they operate prosper.

The social impact of any organisation matters and can be a risk or an opportunity. The risks include reputational risk, regulatory threat, and financial performance. The opportunities include strengthening reputation, brand, market share, and sustainable and profitable growth by meeting the growing expectations of different stakeholder groups.

The close interrelationship between business and society and their respective health becomes particularly clear at times of crisis. During the 2020/21 lockdowns of communities due to the coronavirus pandemic, people needed reliable and safe local food supplies, deliveries, and accessible healthcare. Nice-to-haves and luxuries became just that, and staying overnight or flying to another country was largely no longer possible. The status of certain workers became “essential,” no longer just “unskilled.” Many people lost their livelihoods; most economies went into recession, and sociopolitical and geopolitical tensions increased. Thousands of businesses failed, while thousands of lives were lost.

It is the responsibility of the board to lead on social impact and to assure investors and wider society about progress with managing the risks and opportunities from the social impact of the organisation. In 2013, Tomorrow's Company and the City Values Forum developed a guide and toolkit for boards of financial services companies.² This publication drew on the lessons learned from the financial crisis of 2008. It was revised and republished in 2016 as “Governing Culture” for the Financial Reporting Council's Culture Coalition. What follows applies the Guide's Toolkit to the board's leadership and governance of social impact.³

2 “Governing Values: A Guide for Boards of Financial Services Companies.” www.tomorrowcompany.com/wp-content/uploads/2016/05/Governing_Values_a_guide_for_boards_of_financial_services_companies_L_53c3dae25207e.pdf.

3 “Governing Culture: Risk and Opportunity. A Guide to Board Leadership in purpose, values and culture.” www.tomorrowcompany.com/publication/governing-culture/.

Leading boards focus their agenda on six priorities

1. Inspiring with social purpose and values
2. Aligning strategy with social purpose and values
3. Promoting and embodying social purpose and values through board leadership and composition
4. Guiding decisions with social purpose and values
5. Encouraging and rewarding desired behaviours
6. Ensuring that progress is being achieved

Here is a set of questions for each priority area for the board to consider in relation to its organisation's social impact:

Inspiring with social purpose and values

It starts with purpose. Purpose is an expression of why an organisation exists. In this chapter, purpose is renamed “social purpose” simply for emphasis.

The best organisations have only one purpose and it is a purpose that answers the questions “Why do we exist?” and “What value do we create for society that justifies our licence to operate?” Purpose includes the social impact the organisation wants to have on the lives of everyone in its ecosystem. A clear, inspiring social purpose gives meaning to people and their work. It improves morale and decision-making throughout the business. By anchoring behaviours and communication in this social purpose, businesses can build trust and loyalty with key stakeholders and over the long term provide investors with a financial return.

- What is our shared understanding of the social impact of our business?
- What are the risks and opportunities?
- What does, or might, our business do that benefits society or protects society from harm in the communities in which we do business?
- How might the UN's Sustainable Development Goals⁴ help us identify our social impacts?
- How well does our purpose describe the way we wish to create value for and protect society? Which different stakeholder views have been taken

4 www.unglobalcompact.org/sdgs/about.

into account in setting the social purpose? Have these been considered in the round? How satisfied are we that the value we are promising to society meets its reasonable expectations?

- How do our values support our social purpose and the long-term sustainability of our business? Whom do we value – individuals, local communities, governments, other businesses, especially our suppliers and distributors – in our business operations and who gets left out?
- How authentic, aspirational, and inspiring is our purpose to attract and retain the people we need for our future success? How clear are we in our narrative about any current or future vulnerabilities which could undermine the narrative? What about our suppliers, customers and investors now and in the future? How well do our purpose and narrative inspire trust and loyalty?
- How are we monitoring society's changing expectations of our business, our sector, and the wider business community?

Aligning strategy with social purpose and values

Boards set the direction. In doing so, they seek to use strategy as a galvanising force to align everyone around purpose and commercial goals. Strategies succeed when supported by aligned behaviours, culture, and values. As Peter Drucker, the management guru, is reputed to have said, “Culture eats strategy for breakfast.”

- To what extent are our strategy and commercial goals consistent with our social purpose and values? What are the barriers, enablers, risks, and opportunities?
- How might we adapt our strategy to create greater shared value between the people and communities we impact and our investors?
- What are the values and culture we will need to ensure everyone in our business works towards the strategy consistent with our social purpose?
- What resources, capabilities, and consistent behaviours does our business need to deliver our strategy? What opportunities are there to reskill and develop our people and strategy instead of making people redundant? What training and development would help our people behave more consistently with our social purpose and values?

- What are the strategic goals, social impacts, and timelines against which the board can measure progress towards our strategy consistent with our social purpose and values?

Promoting and embodying social purpose and values through board leadership and composition

Social impact starts with leadership from the boardroom. As was seen in the UK Brexit referendum, most boards and senior leaders lived in a social bubble and were out of touch with the experiences of wider society. It is the responsibility of the board to ensure it is listening to and responding to the reasonable expectations of all stakeholders on social impact, including investors. The “Social Board,”⁵ a paper by Acre Resources, offers a menu for board directors to connect with society:

- Who leads on social impact in the boardroom and owns it across the business? What roles do the chair and CEO play in promoting and embedding our social purpose and values?
- How well does the board reflect wider society? How does the board listen to the voices in the different communities in which we operate? How does the board collectively and individually engage with the communities in which we operate?
- Have we explored the added value of a public interest non-exec, a stakeholder advisory board, a next-generation shadow?
- What are we doing to ensure there is a pipeline of diverse talent from senior leadership through the executive board to the board?
- How well does each director understand the needs and expectations of our people and the communities we work within? When did the board last review employee engagement, customers or suppliers’ attitudes, or those of the wider communities we work within?
- What values and behaviours are most commonly exhibited in our boardroom meetings and in the communication of our decisions? How safe is it for anyone to raise any issues relating to our social purpose or values in the boardroom or throughout the organisation?

5 www.acre.com/thought-leadership/the-social-board.

Guiding decision with social purpose and values

Everyone in a business – employees and contractors – makes decisions every day that can detract from, or add to, our social impact and shareholder value

- How do we ensure that board decisions are consistent with our social purpose and values as well as our strategy?
- How do we make sure that the right people are taking critical decisions across the organisation at the right level, at the right time, and consistently with our strategy, social purpose, and values?
- Where does ownership of social impact sit across the organisation? How well is it owned by every colleague who makes those critical decisions?
- How do we help our people use our social purpose and values to guide their decision-making? How do we test the resilience of their decision-making when faced with conflicting interests? What training and development might be needed especially for new recruits, newly promoted employees, and new contractors?
- How confident are we that our people will speak up when those around them do not make decisions consistent with our social purpose and values? How confident are we that our “Speak Up” channels are working effectively?

Encouraging and rewarding desired behaviours

This is really the “brass tacks” of social impact. How does social impact show up in all the processes, policies, and routines of the business operations?

- How do we encourage and reward behaviour aligned with our social purpose and values? Are relevant key performance indicators built into performance review processes from the chair to the most junior employee and contractor?
- Do the other directors and I practice what we preach? Do our actions and communications reinforce our leadership on social purpose and values. For example, do we promote volunteering days throughout the organisation – and how do board members get involved?

- When I walk out of this board meeting, could I explain the social impact of our decisions to any one of the people I know in the business, to our clients and suppliers, or to my friends and family? What will my board colleagues say? Will our formal communication be consistent?
- Who gets hired and promoted, and who gets left behind? How well does our remuneration system reward those who proactively contribute to achieving our social purpose and strategy?
- What sanctions do we use when behaviour is not aligned?

Ensuring that progress is being achieved

The key theme is transparency – businesses need to be honest and truthful about their impact, and describe not just what they're doing right but also what they're learning and what needs to change. They need to be clear about where progress isn't sufficient and what they're going to do about it. Historically, businesses have focused on telling only the positive story and demonstrating compliance.

Transparency around impact can have big impact on trust. Boards not only lead on the social purpose, culture, and values of a business and set the direction through the strategy; they also have a responsibility to assure themselves on behalf of investors and society that the business is walking its talk.

The expectations of business are changing rapidly towards greater transparency around environmental, social, and governance reporting; impact investing demands for specific SDG-related measures; and government legislation and regulations around specific social impacts such as human rights, bribery and corruption, and minimum wages.

There are proposals in the UK for boards to produce a public interest statement and to report annually on progress with assurance of its achievements through an external auditor.

- How do we ensure that all the people on whom the business relies to create value, inside and outside the organisation, are making decisions aligned with our social purpose and values?
- How does the organisation measure and report on its social impact? What about goals and ensuring that progress is being achieved?

- How far might external or internal audits be helpful to provide external assurance?
- Where insufficient progress is being made, how is this addressed?
- Where social impact risks are expected, what mitigating actions can be taken?

“Governing Culture: Risk & Opportunity,” City Values Forum and Tomorrow’s Company 2016. It was prepared for the FRC’s culture coalition to provide a guide to board leadership on purpose, values, and culture.