

Social impact

The Chairs' perspective

January 2024

Contents

Introduction.....	01
The Chairs' view	02
Social impact: the wider context	04
What is business doing?	05
• Taking investors on the journey.....	06
• Managing potential trade-offs	07
What has been achieved so far?	08
• Adapted Board agendas	08
• Progress with Diversity, Equity and Inclusion	09
• Measurement of social impact.....	10
• Response to the cost-of-living crisis	10
Advice for new Chairs	11

Introduction

I'd like to thank the Chairs from across UK business, who shared their views about the role of the Chair, in their organisations' drive to make a positive social impact.

Around 20 FTSE 100 Chairs participated. These Chairs also bring experience from a wide range of other roles across the private and public sectors. Although this document is based on their views, their individual contributions are confidential.

There is an increasing call for 'big business' to provide leadership in the ways in which they benefit their people, customers and communities. In our conversations with Chairs, they reflected on their response to this expectation, in the face of increasing disruption, uncertainty and economic pressure.

We also wanted to explore Chairs' understanding of business's role in society, and their sense of responsibility to drive positive action. We encouraged them to share their experiences and their motivations.

I hope that the comments in this paper will give you a sense of what the Chairs of other organisations are thinking. There is a broad consensus about the imperative for Boards to maintain a focus on social impact, as an integral part of organisational strategy and purpose. Most of the Chairs we spoke to were keen to emphasise that this isn't a new phenomenon, but a continuation of business's responsibility to make a positive impact for their people, clients and communities.

If there is anything in this paper that you would like to discuss further, please contact me or your regular Deloitte contact. We shall be delighted to hear from you.



Kirsty Newman
UK Market Chair

The Chairs' view

The business environment has been tough for a number of years now. Covid was followed by war in Ukraine, a global energy crisis, high inflation and interest rates, and disappointingly low economic growth.

With the need for companies to protect profits and investor returns in difficult circumstances, it is perhaps appropriate to look at how attitudes towards the role of business may be changing.

Here, we look at the views of UK Chairs about the social impact their companies are making in challenging economic conditions – the 'S' in ESG.

We found that the Chairs we spoke with were pleased to have an opportunity to discuss this issue. Many were passionate about it, and spoke of their commitment to social impact, when closely aligned to the purpose of their organisation.

What we heard ...

This comes from the heart

"It's really important that we have the words and the music. We have the numbers, we publish the targets, but what are the principles that underlie them?... I want to feel proud of what we do."

"I wouldn't want to work in a business where the values are just pasted onto the website. I want to know: what's the manifestation? How do the values live in the business?"

"If your purpose and strategy are interwoven with your values and your corporate mission, it doesn't conflict with shareholder value creation over the long term."

"We did a lot of work to connect our social impact to the core mission of the business. We knew it would get more buy-in from our own colleagues and our shareholders, and I don't think there's anything cynical about that."







Social impact: the wider context

Social issues have been on the radar of business leaders, for some time. These include economic inequalities, education and skills, diversity, social justice and digital inclusion.

Since the Covid pandemic however, the focus appears to have sharpened, in recognition of cost-of-living concerns. Although the social impact made by companies affects wider communities, suppliers and customers, the first concern of organisations appears to be the wellbeing of employees. Chairs are aware of a greater public expectation, brought on by the transparency and awareness generated through social media, that businesses should be playing a constructive role in society.

Creating a beneficial social impact may be seen to be at odds with economic and commercial reality. Companies need to be financially sustainable, and there are limits to what they can achieve if they seek to make an impact that is peripheral to their business's mission, in a difficult business environment. Their immediate social concerns tend to be to protect jobs, pay people well and train them in the skills they will need in a changing world of work.

Some Chairs raised the point that their operations are global, and the demands and concerns of the workforce in the UK may not apply to other parts of the world. There was general agreement that the issue of corporate social impact can be complex. And there may be a gap between having good intentions and the ability to turn these into action.

What we heard ...

Expectations are high

"For a lot of good companies, the focus on these kinds of social issues has been around for quite some time. I think good companies have always worried about their employees and doing the right thing and training them properly, and about their suppliers and treating them like partners."

"It started to ratchet up a bit more after the global financial crisis. That was a sort of existential shock, where suddenly there was a real problem everywhere in the world that was affecting people, mostly through no fault of their own."

"Our social impact's always been important, but it's more at the forefront now. I think it's really now all about delivery rather than just strategy."

"When your business understands that doing the right thing is fundamental to your brand and how you work – then when a crisis hits, or when the environment becomes more sensitive, you have a road map, a playbook, and a way to make decisions. It's so embedded that decisions become quite easy."

"Social media has accelerated the news flow, and demands that companies' behaviour is more transparent. There's a heightened level of expectation from society generally on the behaviour of business."

What is business doing?

It was clear from our conversations, that Chairs feel a real responsibility for their companies to contribute to society. They're convinced of the benefits to business from social and economic stability. One Chair made the point that the most meaningful way in which companies contribute to society is by paying their taxes.

Another described the work they are doing in their communities, and the implicit contract that exists between company and community. In one of the poorest areas in the country, for example, the company works with education institutions and the local council to improve social conditions.

For most Chairs across all sectors, however, the main concern is the well-being of employees. They spoke of the idea that 'charity begins at home', with concerns not only for pay and working conditions, but also for workforce diversity, skills training and career development. In making a positive contribution to society, treating employees well is crucial.

What we heard ...

Put people first and the rest will follow

"The first thing is giving people jobs, which gives them wealth, which enables them to live. So the business needs to be successful, to offer good jobs, pay people properly, treat people well, train people well, allow them to move on and up in the organisation. We all know this."

"Business has a big role to play in training and capability building. Given the extent of technology disruption, this is going to be very important for giving people a chance to continue to have a job for the long term."

"We've always believed that our people are crucial to our commercial performance. We treat them well, and not just because it's the right thing to do."

"The only precedent that matters is getting the right people and enabling them to bring the best of themselves to work. Social impact is intrinsic to this."



Taking investors on the journey

From our conversations with Chairs, it appears that social aspects of corporate strategy are a regular part of conversations with investors. The views of investors differ: some prefer the idea of higher returns in the short term. Others accept that in order to prosper over the long term, businesses need to invest in their people. There appears to be an increasing difference of opinion between US and European investors in this area.

One Chair commented that although people at the top of an investment company might support social initiatives, social issues are not mentioned at all, or are mentioned only as an afterthought, by the investment team at the end of a meeting.

In general, Chairs were of the opinion that investors need to understand the narrative explaining the organisation's commitment to social impact and link to business strategy. They might not necessarily all think the same way, but they will buy into a convincing corporate strategy.

What we heard ...

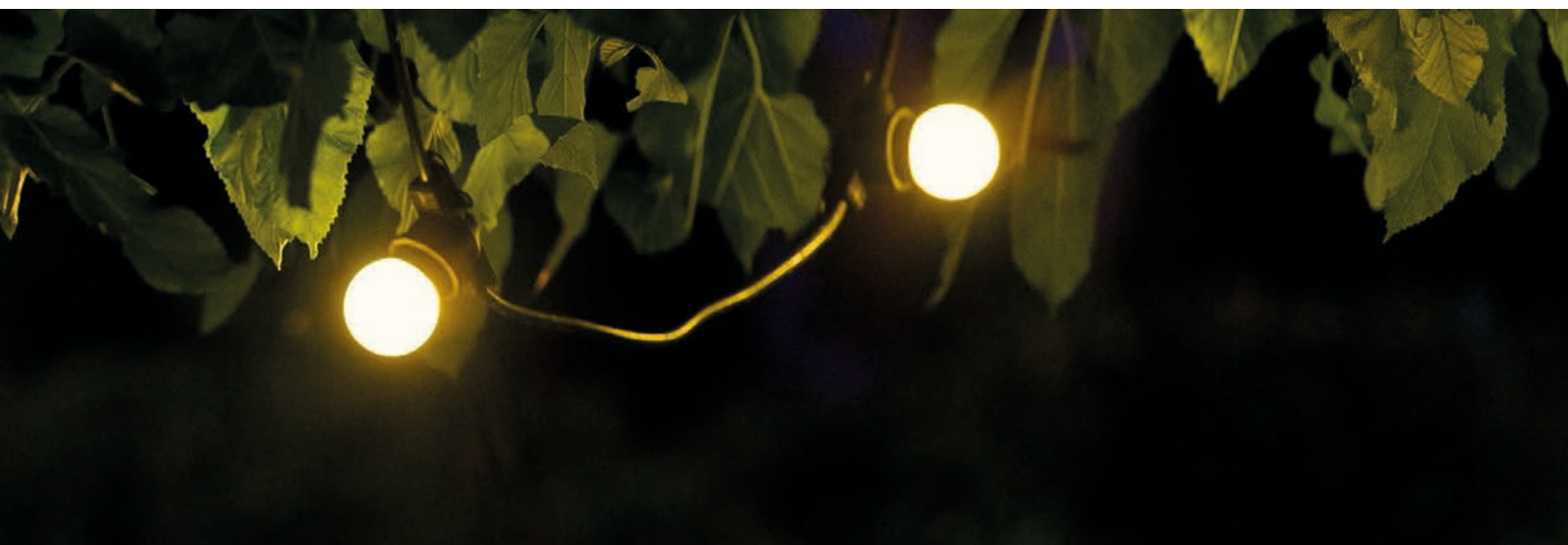
Control the narrative

"No serious investment manager can criticise a clear corporate purpose. If it's meaningful and clear enough, investors will buy into it."

"It appears the enthusiasm for ESG in the investment world has slightly waned or rather the money isn't flowing into them as much as it was, particularly I think in the US."

"There is no doubt that US investors have much less sympathy with this agenda than European investors do. We are constantly challenged by our US active investors as to why we are doing this, which is why we have to base everything on the long-term health of the business. We have to be firm in our resolution, but also very clear in our rationale."

"Investors really want to see concrete, actual examples of what you're doing and how it's working. They're not going to be fooled by just a well-written strategy. They want to see it evidenced and in action."



Managing potential trade-offs

From our conversations, it appeared that trade-offs between financial performance and social responsibility are experienced by many companies. Chairs see their role as helping the CEO to make the right decision and achieve the right balance. They also need to make sure that people understand what the trade-offs are, and why particular decisions have been, or should be, made.

It is not just investors who need convincing. There may well be tensions within the company, between the Board and some of the executive management. Management work to budgets and are expected to meet performance targets, and they may resist proposals that would put them under additional pressure to deliver. The Board's role is to focus on the potential long-term benefits when weighed against short-term risks.

Tension may arise between a CEO who wants to deliver social impacts, at a cost over the shorter term, and a CFO who prioritises financial performance. One Chair commented that it is a role of the Chair to give the CEO support, and sometimes this can mean standing up against pressures within the company for delivering short-term financial performance.

Another Chair commented on different views about the trade-off between financial performance and social responsibility between countries. What seems right for operations in other countries may not be the same as for the UK. If so, how should trade-offs differ between countries?

What we heard ...

Back management to make the right decision

"I don't see a trade off, when you have the mind-set of long term capitalism. The social licence is totally congruent with profitability. You won't be profitable if you don't have that in there. So it's the short-term that's the challenge."

"This is a job for the Chair, to identify the trade-offs. As long as you're making the trade-offs consciously, that's fine. It's unhelpful when they happen without being upfront about it. Without transparency, people can get very negative about decisions."

"We (the Board) basically say to executives that our responsibility towards our people, clients and wider society are really important strategic priorities. My sense is that some of the tension then comes in at a management level, where they are having to deliver on these through a budgeting process."

"I think it's now getting to the stage where we are making real choices between economic outcomes and social outcomes, which I don't think we were in before. And yes, I think you have to ground all your decisions in terms of long-term economic sustainability. That requires a chief executive to be prepared to make those choices."

"The role of the Chair is to give the CEO support. And sometimes to stand up against the financial value aspect that needs to be driven through an organisation. Only really somebody at my level can stand up for this. In a dispute between the CFO and CEO on these matters, I'll tell the CEO that his gut instinct is right."

What has been achieved so far?

Action and change in the business is driven by the Executive. Chairs clearly recognise their responsibility in support and oversight. But what changes do Chairs observe, in what their Boards are doing?

Adapted Board agendas

Social impact is becoming an important part of the Board agenda, influencing the way in which it looks at the business. It seems that Boards are giving more time to strategy and social issues, for example by moving some information items from the regular agenda for meetings to supplementary briefings, in order to allow more time for discussions about strategy and governance.

Some Boards are using the Remuneration Committee to influence Executive actions and behaviour, by signalling the focus on social impact, for example through the LTIP.

A view was expressed that whenever the Executive comes to the Board with an investment proposition, the Board should consider its likely impact on all its key stakeholders, not just on the bottom line.

Some Chairs commented that in appointing a CEO, they have looked for a person with a strong focus on responsible business and with an aim to drive a positive social impact through the business.

Although making a positive social impact is primarily down to Executive-led initiatives, the Board should provide encouragement but also informed challenge, asking about the purpose and effectiveness of what is proposed and what has been achieved.

What we heard ...

Social impact is increasingly central to the Board agenda

"The Board provides informed challenge. It's very easy for people to put up PowerPoint slides to say hey, look at all this good stuff we're doing. The Board needs to keep them grounded and ask: Are we sure? And what difference does it make? Are we doing enough? How can we do more? Largely we provide encouragement and ensure the right kind of emphasis."

"We keep issues like values and culture on the Board agenda. Particularly as you come into year end, tensions rise – so we've stopped trying to squeeze things like briefings on macroeconomic trends, onto the Board agenda. By moving some important topics, we keep time for discussion. The Board also meets more often now."

"Every Board paper has a front section which addresses the nature of the project in terms of which stakeholders are impacted by it. Up front, we remind people of the stakeholder exposure of a particular piece of work ... so social and environmental impacts are baked into the way we think."

"We weren't particularly strong on this before, if I'm honest. You know, we said all the right things and we highlighted all the great charitable contribution and stuff we did. But our new CEO brought responsible business with him.... And that's very much part of our Board agenda now."

"When I was looking for a new chief executive, a real focus on responsible business and purpose was an absolute prerequisite. I wouldn't have taken anybody into this role that didn't have that."



Progress with Diversity, Equity and Inclusion

Every Chair we spoke with was convinced about the benefits to the business of greater diversity within the work force, and many expressed pride in what their company had already achieved.

There was some sense of frustration that progress was not happening faster, but recognition that issues concerning diversity can differ between geographical regions.

Some Chairs spoke about the difficulty in obtaining data on diversities in the workforce. Others felt that there should be greater geographical diversity among Board members, to counter the tendency for the UK to dominate the agenda at their Board meetings.

What we heard ...

There is work still to do on DE&I

"We're making real progress with gender and ethnicity in our leadership, but the challenge is making sure we retain them."

"To make progress on this, there has to be a consequence. The edge is in the KPIs and the LTIP. It's got to be tied to compensation."

"We're very keen on diversity: our company operates in Asia, Latin America, and Europe. You know, we actually ought to have people on the Board that represent that geographic diversity as well as the tiny little UK which tends to dominate the agenda."

"Diversity, equity and inclusion has become much more prominent on our agenda recently. We started with gender and race, and now we understand that inclusivity and equity are about behaviour and fairness. Business is expected to play its part in this."



Measurement of social impact

Many Chairs said that they look for evidence-based data for measuring the social impact of decisions. They are aware that a lack of consistent data for measuring social impact can make it difficult to track, assess and communicate the benefits of initiatives that have been taken. One Chair commented that although it is fairly easy to define and measure financial value and (to a lesser extent) environmental value, it is very difficult to assess the extent to which a focus on social impact drives business performance.

It can also be difficult to predict the outcome from initiatives to enhance social value. The Chair of a global company described the consequences of paying relatively high wages in a poor country. It increased income inequality because their workers were now paid much more than others in the region, and raised the cost-of-living for all. These unintended consequences are part of the complex global landscape that companies are trying to navigate with integrity and fairness.

What we heard ...

Measurement adds rigour

"You've got to measure the outputs as well as just pushing lots of good stuff in."

"We try and measure what we can, but once you go outside of the company, it does become harder. Our supply chains are very long."

"We need hard examples of how our approach, work and messaging have impacted our stakeholders."

"We're actually trying to develop a measure for our social licence. How do you know how well you're doing? And the scoring system will be very different in the different countries we operate in."

"There was a sort of intake of breath when we put 25% of the LTIP measures onto ESG measures. Actually, that was a good thing because we were able to then dive into the detail around the measurability and the commercial pertinence of doing these things. It fostered a very good, real conversation. It's of no value to have the conversation in the ether – you have to be having it right in the detail."

Response to the cost-of-living crisis

We heard from Chairs about their commitment to provide support for people who need it, starting with people in their own organisation. Actions have included giving the biggest pay rises to the lowest-paid people, providing welfare facilities for struggling families, and paying suppliers on time.

What we heard ...

Deliberately do the right thing

"During Covid, we'd spent time thinking 'what really makes a difference'? We concluded that what's in people's pay packets matters most. This gave us a playbook for the cost-of-living crisis, and made decisions much easier."

"We've put tremendous focus on making sure that there are welfare facilities for families who are genuinely struggling."

"Unless you're completely tin-eared, you need to make sure the lowest paid people get the biggest rise, and you pay your suppliers on time. People want to see that in action."

Advice for new Chairs

We asked what advice the experienced Chairs would pass on to new Chairs who are considering how to engage with their business's social impact.

Be congruent with purpose

"It's less about trying to do everything. Instead, go back to what are we trying to achieve here? What's the strategy, in order to make the company successful? How do we make that work for all our stakeholders?"

"Unless it's genuine and it really fits with what you're doing and why you're doing it, you're unlikely to be successful at it."

"Doing things that are adjacent to you, separate from what you really do, doesn't really achieve very much in the end, and just looks like tokenism. In the end that will never be sustainable."

"Everything springs from purpose. If you don't have the whole organisation focused on the purpose and if the purpose isn't really the North Star of the organisation, you need to change it to make it that way."

"Thinking about the business's social impact can intimidate some Boards because it's so unstructured. People shouldn't let that get in the way of thinking about it, because you don't have to think about every single aspect. Have a reason why you want to do something. Link it to strategy and purpose and if you choose to do two things well rather than 100 things, that's better than doing nothing at all."

Be flexible and prepared to change

"It's more important than ever to have a crystal clear strategy of what you're trying to do. And it's more important than ever to stay flexible around how best to deliver that strategy. And to accept you're increasingly in a very fast-changing environment, so that you remain adaptable to shifting as you go."

"Everybody's in transformation now, whether you like it or not, because of what's going on around us. Part of going through a transformation is going looking for the problems and accepting that the set of people you're sitting with, will definitely not have all the answers. And therefore you need to be really open-minded about where you get help and stimulation."

Take this seriously

"If you want to be a good, long-term business, this isn't a sideshow, it's fundamental."

"This really matters and it will help the business. You know you're not doing it just for compliance. You're not doing it to tick the boxes. You actually will motivate your employees better. You will engage with customers better if you push this agenda."

"As a minimum, you absolutely have to make sure you're doing no harm. Start by managing risk and managing your reputation and doing no harm. You can then move to thinking about how you can create some benefits and move to creating solutions."





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