
Social Value:
A Primer for Today's
Directors and Executives

In a world where shareholders increasingly expect to hear about corporate citizenship along with corporate financial performance, social value is becoming an important consideration at every level of the organization. To learn more, PJ Neal, who oversees Russell Reynolds Associates' Center for Leadership Insight, talked to two RRA consultants who are at the forefront of helping clients build social value into their boardrooms: Simon Kingston, head of RRA's non-profit sector and global development practice and Shawn Cooper, a member of our global board and CEO practice. The upshot: While social value may start as a broad term, it is incumbent on every organization to define specifically what it means for its strategy and multiple stakeholders.

PJ Neal: What are we talking about when we talk about "social value"?

Simon Kingston: Social value covers a very broad set of things. Some of it is about the good business practices that have created all sorts of beneficial social outcomes for generations. Some of it is accentuated by a crisis of legitimacy in the last 10 years that has prompted the need for corporations to be explicit about the non-commercial value of what they do.

Social value is a bit more integrated than talking about corporate social responsibility (CSR), or Environmental, Social and Governance (ESG) factors; all of which can be turned into compliance exercises. In the end, it is about the ability to describe an approach to the social effect of a business doing what it does, in the markets it operates, with the suppliers it has, and relative to the governments in whose jurisdictions it operates. It's a fundamentally strategic view.

And it's not necessarily entirely new, either. History isn't linear. When we look back on it, we'll see that the primacy of the shareholder, which was a cornerstone of Nobel Prize-winning economist Milton Friedman's work, is a phenomenon of the '60s to the '90s. I think what we're now seeing is the recovery of a much broader view of the responsibility of a capitalist organization. It's not just a responsibility to the shareholder. Clearly, making a return on capital, and returning monetary value to shareholders is a very important part of what a joint stock company needs to do. But, it's not the only thing.

Shawn Cooper: I think the experience of the global financial crisis in 2008 – and the income disparities that became more transparent to the world and in many cases worsened – added momentum to broadening something like CSR, which has been around for a long time, into the concept of "social value".

I would note, though, that some of the acronyms noted earlier by Simon are still in active use today as they can be very industry relevant. For example, "ESG" is commonplace in the investment management industry, representing a standardized framework for evaluating portfolio companies' track record and business plans in terms of responsibility, accountability and sustainability.

PJ Neal: What makes social value an important topic now?

Shawn Cooper: We would be naïve if we did not acknowledge the role of technology in facilitating and raising the level of dialogue and drive for public accountability on all the economic players. Social media has been a greater enabler in exposing issues, facts and lies to sunlight. Social media firestorms stemming from a single photo or poor customer experience has already prompted behemoths such as United Airlines, Uber and Facebook to take a hard look at their policies and practices. There is now so much more information readily available to the public that can be weaponized, and this can have immediate and dire consequences for corporate reputations.



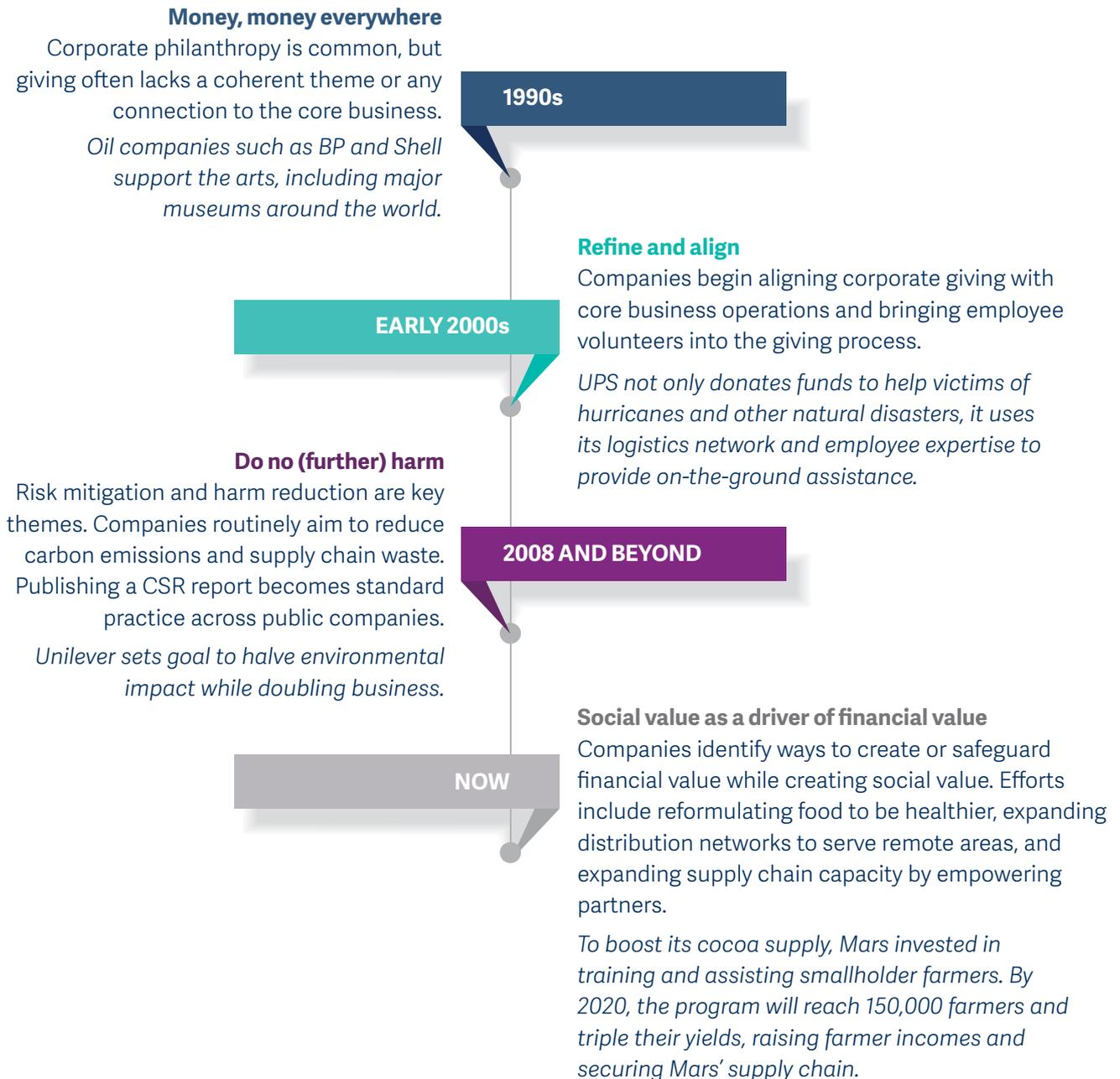
Shawn Cooper



Simon Kingston

Simon Kingston: Yes, there are a number of issues that have become triggers for really public negativity about corporations, including the way in which they choose to organize their tax affairs or executive compensation. More positively, the other factor is that the potentially beneficial role that the private sector can play in delivering public goods is now much more appreciated by other sectors. Both the non-profit sector and governments recognize that we will only come anywhere near to delivering on the UN's Sustainable Development Goals (the agenda for reducing poverty and related disadvantage around the world by 2030) with the private sector at the heart of it, not as an add-on. So, it is a two-way dialogue.

CORPORATE CITIZENSHIP: THE JOURNEY FROM PHILANTHROPY TO SOCIAL VALUE



Shawn Cooper: I'll echo that. The private sector, rather than being viewed as the culprit, is increasingly being viewed as part of the solution. Boards and management teams are coming to the realization, some faster than others, that they have a responsibility for being part of the solution.

PJ Neal: How do you see organizations coming at this issue? Does it vary by the type of company or industry?

Simon Kingston: The language organizations use will betray them – and not necessarily negatively. There are some boards who clearly think about this as a social risk issue, so they're mitigating a risk. And others – the obvious example is Unilever and the way [former CEO] Paul Polman has gone at it – talk about social value as a benefit, as a positive thing they can achieve. Unilever has made a commitment to halve its environmental footprint while doubling the size of its business, for example, essentially decoupling growth and environmental impact.

It's not necessarily our job to say which of those perspectives – risk mitigation or strategic growth opportunity – is superior. The way in which a consumer goods company will define its social value proposition has to be different to the way in which a mining company will, because the social value that you bring to your consumers is different. The potential social impact – good, bad or neutral – of your business, your supply chain, the markets in which you operate, the labor conditions in which your employees work, and all the rest are particular to your industry sector, and the regions in which you operate.

So if you're at a mining company, or an automotive company, talking about social risk is probably the right way to do it. But, if you're in a different industry, at a different point, social value is a more useful and more positive way for the board to focus on it.

Shawn Cooper: As Simon said, some organizations have been inspired by the concept of social value; others are driven by fear. And there's something in between, which is almost like self-preservation. Given the momentum behind social value, if you're not onboard, it is going to have a direct impact on your ability to satisfy customer needs and demands as well as attract top talent.

CEOs, or their boards, used to defend the fact that they would not make contributions to NGOs, or community organizations or movements. I'm not talking about political party donations, just social causes. And their argument was, "We have to return that money to the shareholders, because it's their capital. They have the right to decide how it is spent." And there's some elegance or cleanliness to that argument. What companies have learned, though, is if you are not weaving yourself into the community – be it local or global in nature – and adding value beyond the fact that a stock appreciates and a dividend is paid, there are repercussions for their ability to out-perform in the long term.

This macro trend is not just the product of forces unleashed by millennials. We're working with one of the largest energy companies in Canada to recruit new board directors. We approached the retired CEO of a large investment bank. The response? "Five years ago, if you'd asked me to go on that board, I wouldn't have blinked an eye. But, with the readings that I've done, with what my kids talk about, and with the big issues dominating the headlines, I'm not comfortable going on a board where 50 percent of the company's business is in the oil sands. I'm just not there."

PJ Neal: So, how and when does the topic of social value enter boardroom discussions? Does it align or overlap with other topics, like long-termism and diversity and inclusion, or, is it totally separate?

Shawn Cooper: My experience is they are interconnected. I don't think most directors have a deep appreciation of the taxonomy associated with each of the topics, so they kind of get rolled into one, in many cases. But it's also the danger of it, because it then becomes unwieldy in terms of setting and accomplishing goals.

Simon Kingston: I agree with that. Social value can appear to mean everything. Those conversations need to begin from a place where the board has a really clear view of “What is our overall value proposition?” One part of which is the bit that makes profit, and the other part is the social value that goes alongside it, which is intimately connected with profit and sustains that profit-making into the long-term.

Shawn Cooper: I’m a little technical in terms of governance theory and the accountability of management, but you want to ensure that the CEO owns that responsibility. The board needs to sanction the plan, but the CEO must bring it to the board.

Simon Kingston: Yes, that’s right, the CEO has to be the realizer of whatever the vision is, and the person who owns it. To some extent, though, there must be co-creation. Because there’s a risk that if you get a really charismatic CEO for whom this is really critical, when he or she leaves, the focus on social value might leave with them. The board has to maintain the continuity of an organization’s social value approach, and the collective memory of the strategic purposes.

PJ Neal: Let’s assume we have a CEO who has a strong focus on social value. What changes have to happen on the board for that organization to be more social value minded, if any at all. Or, can an average board evolve?

Shawn Cooper: Boards can evolve, but it depends where your starting point is. Most critical is the chair, because a chair is not only setting the stage for the culture of the board, they’re also the ones that ultimately have the closest relationship with the CEO, providing the airtime or moral support for what needs to be done.

You also need one or two board directors to serve as credible advocates for what the CEO is trying to do. There’s nothing wrong with having, say, a retired CEO of an NGO on the board that champions a social value agenda. But it can’t be about having one “designated hitter.” A critical mass of support must occur more organically. I’m always concerned about a director positioning her or himself as a “resident expert.” Or, the zealot. Over time, she or he can become isolated and ineffective.

Simon Kingston: I completely share Shawn’s view, a token “expert” is not the way to address this. It’s not about saying, “There is something that is called social value awareness, and you can get it from NGOs, and you need to have someone with that background on your board.” It may well be in some instances that there are people who bring experience that’s particular and valuable from specific organizations in the non-profit sector, or global development, or wherever it may be. But more than anything, it’s the quality of the debate and discussion, and the openness to real debate that the chair and those around him or her create on the board that is the key to this.

I do think you will see, over time, a broader diversity of experience amongst board directors as these issues become more important. And importantly, as corporates need to speak a set of languages in their relationships with governments, and in their relationships with civil society that they didn’t have to speak before.

PJ Neal: If you think out over the next three to five years, how will boardroom conversations around social value be different than they are today?

Simon Kingston: I think the idea that corporations not only have an obligation, but actively want to play a role in ensuring that good profitable business also yields good social outcomes is going to become a kind of new normal. And with that, I think they’ll adopt a vocabulary around social value that is still only spoken by a few CEOs today – familiarity with the UN’s Sustainable Development Goals being one aspect of that. That vocabulary will have become useful to them in three to five years’ time – but it will be tailored to their business, and their context.

Shawn Cooper: Three to five years from now, I think the challenge will be implementing the vision and maintaining the authenticity of its aims. If executive or governance leaders think they’re just going to manipulate perceptions to look good in their annual reports or to get BlackRock off their backs, then they have failed.

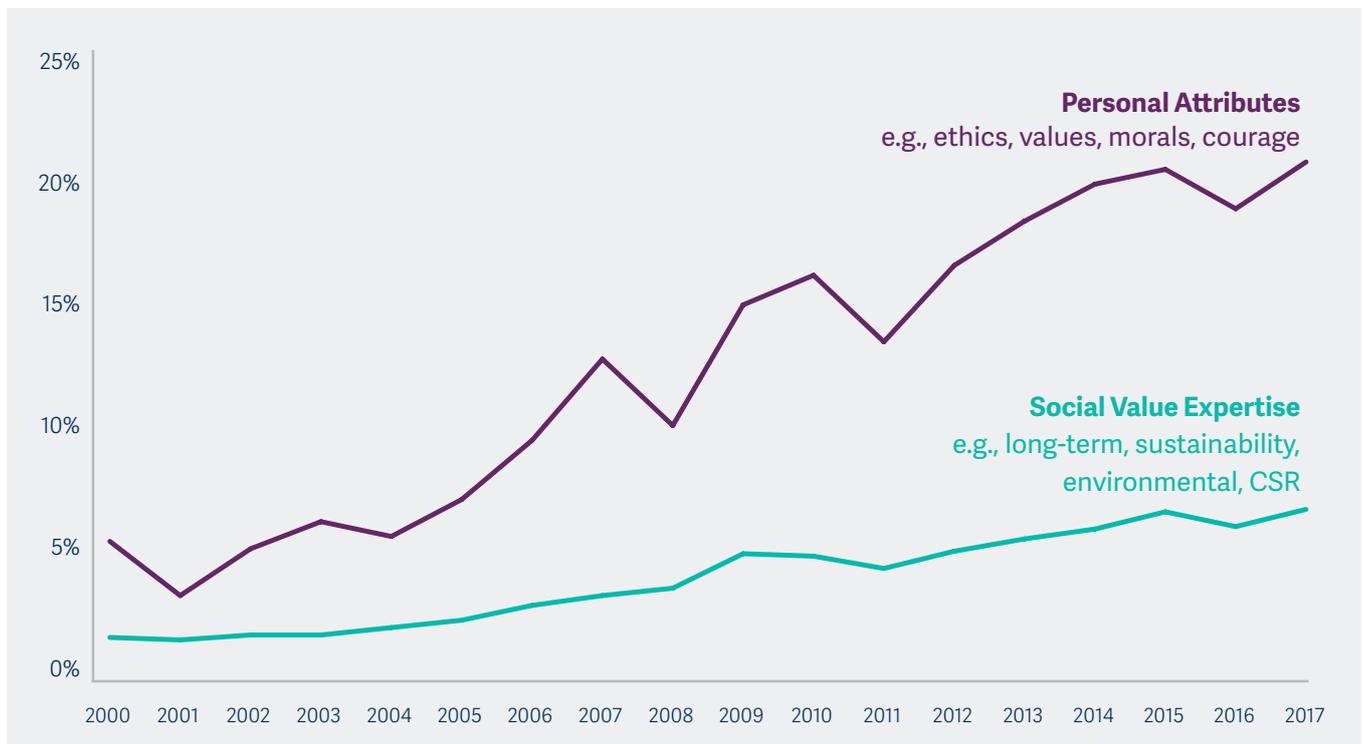
BUILDING A BOARD TO SUPPORT SOCIAL VALUE

Finding the right directors to support a social value strategy at a for-profit company is a complex exercise. For one, it cannot be about appointing a single-purpose director. In our experience, candidates who bring a deep expertise without general business experience risk becoming marginalized from more traditional directors. However, director candidates who only have for-profit backgrounds must have the right personal attributes to support social value strategies.

Are corporate boards striking the right balance? In 2018, Russell Reynolds Associates analyzed its database of 2,300 non-executive director position specifications posted between 2000 and 2017.¹ We found that the incidence of terms related to specific social value expertise (e.g., stakeholders, sustainability, long-term, corporate social responsibility) rose moderately, from 1 percent to 7 percent of all specs, over the decade. Meanwhile, terms related to personal attributes that would suggest an affinity for social value (e.g., ethics, values, morals, courage) spiked from 5 percent to 21 percent in NED specs over the same time period.

Our data makes clear that in the immediate aftermath of the crisis, many companies were seeking board members who could complement their business acumen with a non-financial lens. However, it's also clear that to the extent that boards are prioritizing these attributes in director recruitment, they remain narrowly focused on innately altruistic personal attributes rather than technical expertise related to social value.

A robust understanding of business will always be table stakes for any director candidate, but boards will increasingly want to identify director talent whose understanding of business includes an appreciation for how social value issues materially impact the business.



¹Originally published in Ethical Boardroom, Spring 2018.

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