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Creating Positive Social Impact:
Mitigating Risk by Aligning Social Impact with Business Strategy

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Imagine an oil company that did the following:

- As early as 1997, declared evidence of global warming and invested billions in alternative fuels.
- Had two of its CEOs announce safety as a top priority.
- Demonstrated its commitment to the safety of people by creating a system in which executive bonuses included a component tied to personal-injury metrics.

Now, imagine an oil company that:

- Focused on growth through acquisition and cost cutting.
- Experienced decades of fatalities and environmental spills due to neglected maintenance and safety upgrades.

Which of the two scenarios describes the oil company involved in the Macondo well blowout that destroyed the Deepwater Horizon drilling rig in the Gulf of Mexico, resulting in the death of 11 workers, and the largest oil spill and environmental disaster in U.S. history?

Believe it or not, both. The descriptions are of the same company—BP.

How was it possible for a company with such a clearly expressed commitment to safety and environmental protection to experience one of the largest and most expensive disasters in modern history?

The answer is simple: there was a lack of alignment between BP's stated social impact strategies and the company's operational practices.

The Deepwater Report by the Center for Catastrophic Risk Management called the Macondo disaster an "imbalance between production and protection." Ultimately, this imbalance resulted in a crisis that undermined all of BP's social investments, significantly impacting its financial performance and reputation, and severely damaging stakeholder and public trust. Unfortunately, the internal pressure to perform financially overpowered safety considerations, with disaster resulting from every angle—with the worst being loss of life and long-term degradation to the Gulf of Mexico.

That kind of disconnect or gap creates an enormous risk to the company's reputation and potentially to the company's existence. That's because today we live in a "Reputation Economy," a world where who you are as an organization matters as much—possibly more—to consumers than what you sell. In fact, according to Alan Greenspan, former chairman of the

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Federal Reserve, "in a market system based on trust, reputation has a significant economic value."

To mitigate those risks and ensure long-term sustainability, there is a tremendous need to create positive social impact by aligning social impact strategies with business strategies. Doing so has powerful results. A 2014 survey of senior executives conducted by the Boston College Center for Corporate Citizenship in the Carroll School of Management shows that companies are more likely to successfully achieve business goals when corporate citizenship is integrated. In certain cases—such as reducing employee health costs, improving the ability to retain employees and improving access to new markets—success levels more than doubled.

Many companies simply respond to growing regulatory and legal requirements of their industries by committing dollars and other resources to philanthropic giving and social programs that are independent of business operations. More sophisticated companies understand that they must take a different approach, going deeper to create positive social impact. In fact, according to a CEO Poll*, 77 percent of CEOs said that in order to address the social problems that will affect their business and their stakeholders in 2020, they *must* embed social engagement in their strategy and organizational structure. These CEOs see the value in tethering social impact to business strategy.

Increasingly, companies are not only consciously changing the way they do business to minimize risk, but they are altering their business practices to have a positive social impact by understanding their environmental footprint, understanding how they are perceived, driving innovation, and improving employee recruitment and retention. They are breaking down the silos that exist between their social impact efforts, including philanthropy and corporate social responsibility, and their business strategy. These companies are considering how societal issues should inform business strategy, and then they are building the culture and the processes to support that strategy.

What is Positive Social Impact?

Social impact is the role a company's products and services play in society. But it's not just the products and services themselves, it's also the business practices used by employees and suppliers. Social impact comprises behaviors from corporate citizenship initiatives, such as philanthropy, community development, sustainability, safety, and environmental performance, as well as human resource practices, like diversity and human rights. As stakeholders become educated about the impact of not only the product itself, but also the impact of the processes used to create it, they are increasingly expecting a company to take responsibility for the full implications.

How Oil Spill Incident Affected BP's Share Price

In its simplest form, social impact refers to how a company's behaviors impact its stakeholders. Likewise, **positive social impact** occurs when an organization aligns its business strategies and practices to ensure its behaviors, expertise and assets have a positive impact on society, whether local or global.

Nestle Does it Right—Aligns Social Impact with Business Strategy

Nestle is a global leader in the production of food and beverages. Palm oil is an edible vegetable oil commonly found in household products, including baked goods and many of the products Nestle produces. Oil palm trees grow well in areas where heat and rainfall are abundant, but require sufficient space between trees to grow the fruit that produces the oil. To meet the demand for palm oil, many areas of the world are clearing rainforests to create palm tree plantations. This results in deforestation and habitat degradation of rainforests that are important to our climate and home to wildlife.

Prior to 2010, Nestle came under a great deal of scrutiny for palm oil use in its candy through a social and traditional media campaign led by environmental activists. Since then, Nestle has demonstrated its commitment to align its social impact efforts with its business strategy and is cited as a leader by organizations, such as the World Wildlife Fund and the Union of Concerned Scientists, for its efforts to minimize harmful effects of its global footprint. Consider these efforts:

- In 2010, in its effort to stop deforestation, the company committed to tracing 100 percent of its supply chain.
- In 2013, Nestle published the first global maps of deforestation for suppliers, competitors and NGOs.
- In 2014, Nestle created, piloted and deployed a new level of supply chain assessments, called the "Traceability Declaration Document (TDD)," which suppliers complete quarterly.

According to Paul Bulcke, Nestle's chief executive officer, the company is "all about quality of life and nutrition—that is what we live for as a company. But the relevance of that is the value it creates: for consumers, for society and for our business—driving competitive advantage and R&D, being ahead of the curve, and building our brand value."

Nestle's efforts to minimize its global footprint are aligned with its business strategies. The company's stated objective is to be a leader in nutrition, health and wellness. And the company's social impact behaviors align with that objective, adding value for its stakeholders.

It's clearly no accident that since 2010 Nestle has risen in position on the Reputation Institute's list of the 100 most reputable global companies and on Fortune Magazine's list of "Most Admired" companies. Nestle's shareholders appear to be pleased with the company's strategy and performance—its stock price rose 68 percent between 2010 and 2014.

Social Impact's Role in Corporate Reputation and Market Value

BP's significant drop in stock price after the Macondo well disaster underscores the enormous financial risk for companies operating with a disconnect between business operations and social programs.

But it doesn't take a disaster to impact the bottom line. There is increasing evidence that investors are paying attention to these risks and making investment choices based on a company's mitigation efforts. A May 2014 study by PricewaterhouseCoopers LLP found that 82 percent of investors polled consider environmental, social and governance issues in their investment decisions, proving that the overall governance of the company rather than just its financial performance are important to investors. Of those, 73 percent cite risk mitigation as the primary driver. Today's companies must be aware of a broad array of risks, including global societal issues, such as population growth, resource constraints, climate change, water scarcity and talent shortages.

According to a 2014 global survey by McKinsey, executives at all levels are recognizing the critical importance

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5 Key Steps for Creating Positive Social Impact

These five steps provide the essential insights needed to create a strategic social impact plan that is aligned with the organization's business goals.

01

Establish a cross-functional, internal team

02

Conduct an audit and environmental scan

03

Conduct stakeholder research

04

Conduct a gap analysis

05

Create a plan to address gaps

A Strategic Approach to Creating Social Impact Value

Building a trusted reputation doesn't happen by accident or by luck. Likewise, creating a positive social impact depends on developing an effective and holistic strategy that bridges organizational silos.

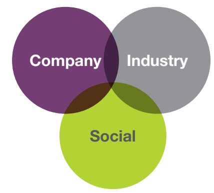
There are five key steps to ensuring that social programs are aligned with the business strategy:

01

Step 1

Establish a cross-functional, internal team of leaders from all key areas of the organization, led by a senior leader who is ultimately accountable for results. This team may include representatives from communications, environmental, finance, government affairs, human resources, investor relations, legal, marketing, operations, philanthropy, safety and health, sales, and research and development. This group should examine social impact, financial performance and business operations to identify ways to build enterprisewide competence on social impact decision-making.

02



Step 2

Conduct an audit and environmental scan of:

- current and past cause and charitable activities
- sustainability initiatives, existing reporting and data
- emerging issues and regulations affecting the company and its industry
- analysis of risks and opportunities
- corporate assets and expertise
- peer businesses' sustainability programs

03

Step 3

Conduct stakeholder research of internal and external key stakeholder groups, which often includes insights collected from employees, executives, customers, supply chain representatives, community members, investors, and nongovernment organizations.

04

Step 4

Conduct a gap analysis based on the learnings and insights from the environmental audit and stakeholder research, identifying vulnerabilities and misalignments with the business strategy, mission, vision and values.

05

Step 5

Create a plan to address the gaps between operations, social programs and perceptions. The plan should outline the actions and measures used to align employees, engage other key stakeholders and generate outcomes required to close the gaps. Companies are ultimately judged on their actions, not their words or intentions. Implementation of a strong action plan ensures authenticity and accountability.

of aligning environmental, social and governance practices with their companies' business strategy, mission and values to create trust. These same executives find reputation management to be a key challenge driving this emphasis, underscoring the importance of aligning business strategy around social impact, operations and financial results.

Common Pitfalls and Barriers to Creating Positive Social Impact

With all of this potential upside, what is preventing more companies from actively integrating social impact programs into their business strategy? Typically, the greatest barrier is the belief that shareholder value and engagement in social issues are mutually exclusive. There are perceived challenges in implementing social impact programs because of the pressure to deliver short-term earnings, overshadowing the longer-term benefits that a positive social impact strategy can deliver.

While companies have historically contributed philanthropically to the communities where they operate, there typically has been limited or no direct connection to the business strategy. Instead, the philanthropy programs operate in silos, run separately from the day-to-day business, thereby creating no incentive to tie those contributions to business strategy.

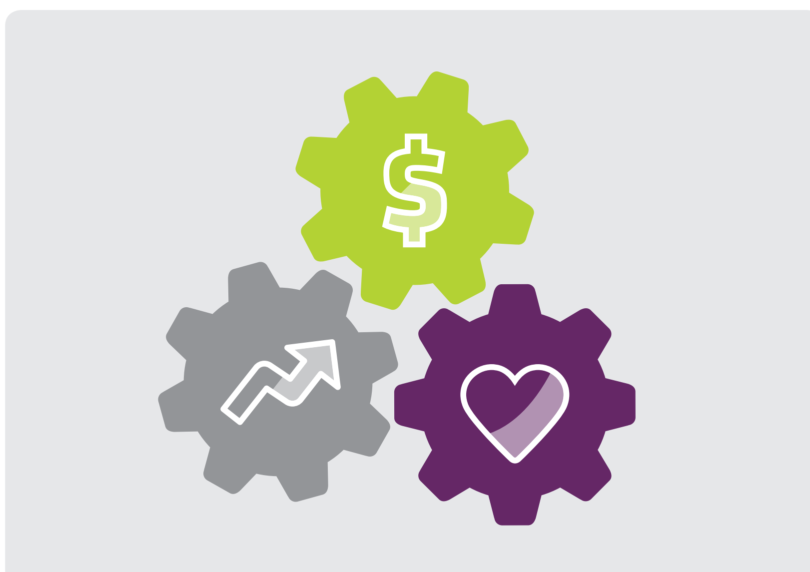
However, this type of engagement—when not aligned with business strategy—will not build trust, which is critical to sustaining a positive reputation, particularly in the face of a crisis. Likewise, as we saw in the BP situation, committing resources to safety programs, but not embedding safety in the business and operational strategies, will not improve safety and prevent disasters.

Alternatively, companies can achieve sustainable value creation when social impact is imbedded in the business

Effectively managing corporate reputation requires alignment between three key areas of business strategy and governance:

- **Responsible Business Operations** is imperative and leads to minimum negative impact and maximum social impact.
- **Positive Social Impact** requires clearly identifying the social issues impacting key communities and stakeholders, prioritizing those issues based on the impact on the company and its expertise and ability to affect them.
- **Financial Stability** is an imperative for all viable companies and is necessary to operate effectively and to have a significant positive impact on society through economic contributions, such as jobs and taxes.

Organizations with a strong, positive reputation are trusted by their stakeholders. Ensuring that there is alignment between the company's vision, mission, values and business strategy helps build that trust. The vision describes what the company wants to become; the mission describes why it exists; and the values outline the belief systems and behaviors its people should live by. All business, operations and social initiatives must work cohesively for the company to live the vision and mission and effectively execute the strategy.



strategy, as is the case in the Nestle example. And when companies prioritize and focus on where they can make an impact and align the organization around that focus, real value is created for stakeholders.

Social Impact and Risk Mitigation

The ideology and focus is clearly shifting from doing something good just to get something in return to doing something good because it's the right thing to do for employees, customers, the planet *and the company*. Executives are not only acknowledging improved financial performance, they also are seeing the connection to mitigating reputation risk.

According to the Deloitte 2014 Global Survey on Reputation Risk, 88 percent of executives surveyed are focused on reputation risk as a key business challenge. The report points out that reputation risk is driven by numerous other business risks, including ethics and integrity, fraud, physical and cyber security, and environmental, safety and health. Many business risks also provide opportunities to address societal issues.

Given that positive social impact plays a key role in effectively managing an organization's reputation, it only makes good business sense to align these efforts with the business strategy. That alignment, or lack thereof, defines the level of risk for the company's reputation—and in today's "reputation economy," a good reputation has enormous business value.

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