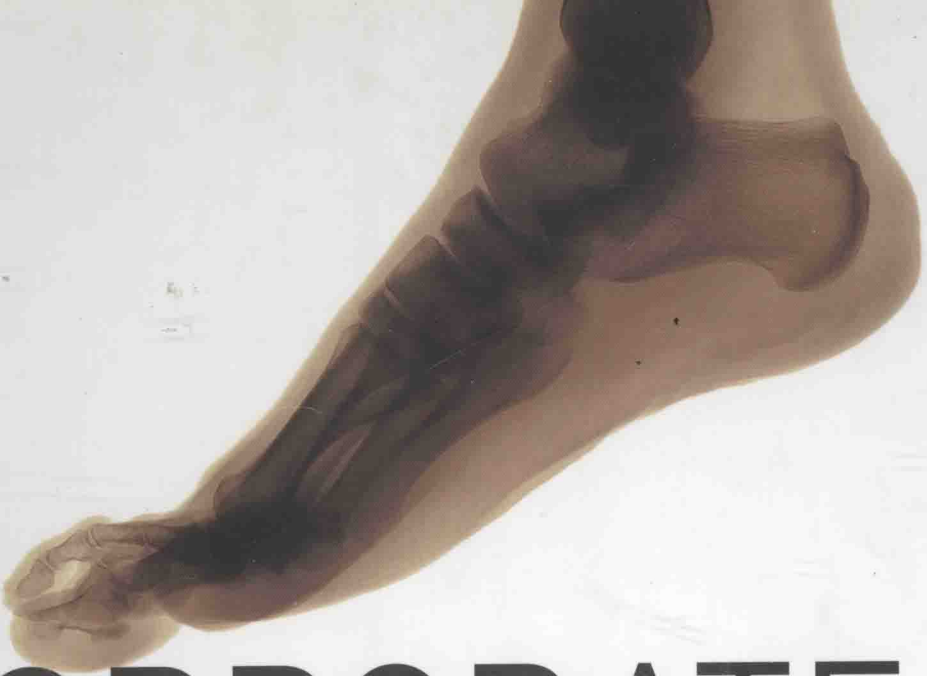

CORPORATE IMPACT

Measuring and Managing Your Social Footprint

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Abbreviations

CR	Corporate Responsibility
CSR	Corporate Social Responsibility
EU	European Union
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
HRIA	Human Rights Impact Assessment
IFRS	International Financial Reporting Standards
ISO	International Standards Organisation
MDGs	Millennium Development Goals
NGO	Non-Governmental Organization
NHS	National Health Service
PR	Public Relations
ROI	Return on Investment
SEC	Sexual Exploitation of Children
SIA	Social Impact Assessment
SRI	Socially Responsible Investment
SROI	Social Return on Investment
UDHR	Universal Declaration of Human Rights
UNEP	United Nations Environment Programme

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Introduction

At university I studied sociology. At that time (the 1970s), remarkably little attention was paid to the role of companies in shaping our world. Of course, Adam Smith had warned against the dangers of businessmen (Smith, 1999a,b) and Wallerstein (Wallerstein, 1974, 1980, 1989) and others were explaining the role of economics in the pattern of nations and the growing inequalities of the world. But the result was an account of how economic activity was changing the world, not of how to understand the role of an individual company in doing it (EC, 2002).

Today, I am a professor at a Business School, and the situation in Business Schools seems to have some unfortunate parallels to what was going on in the 1970s. There is (naturally) much attention paid to business activity and how to enhance it, but little work on how to understand the impact of a given company, for good or ill, on the world.

Yet it seems fairly clear that, after the family, companies are perhaps *the* major unit of modern society since they influence almost every aspect of our lives. It follows that without understanding the role and impact of a company, it is not possible to understand what is going on in society, much less to control or manage it. So governments, which like to demand an 'evidence base' for their policies, do not have a systematic understanding of the impact of individual companies or even know how to measure it – far less do they have an adequate basis of evidence on which to found their business, economic or social policies.

And yet we know companies are large and getting larger. In the 1930s Berle and Means found companies to be spectacularly large (Berle and Means, 1933) and, as predicted, they stagger the imagination today. In 2008 Walmart's revenue was nearly US$350 billion. That is larger than the GDP of Venezuela and exceeds the *combined total* of the world's smallest 94 countries, up to and including Jamaica (CIA-USA, 2007; WalMart, 2007). Yet it is still not possible to discover what the overall impact of Walmart is (or, more strictly, what the overall impact on society of all the economic activity represented by the goods Walmart sells is).

Why is this? There are perhaps three key explanations. One is that any full-scope understanding of the impact of companies has been displaced by an endless dedication to understanding their financial consequences. This is necessary, but it is not enough. A central theme of this book will be that while the financial impact of companies is obviously *part* of their impact, it is very far indeed from being the total of their impact, which includes other social and environmental consequences. In many cases a company's financial impact is not even the most important of their social consequences.

A further explanation is that companies are not passive players in the development of society. They are actively and consciously involved in its development. And they are very powerful. Unfortunately, companies do not on the whole find it in their interests for their full social consequences to be known and available. Since they are powerful, they can prevent full disclosure. The recent rise of 'CSR' (or Corporate Social Responsibility) might seem to suggest that I am wrong in this. The number of large companies, at least in Europe, which have produced a report on their impacts beyond the financial impacts is significant. But as I have argued in *Corporate Truth* (Henriques, 2007), the delivery of transparency by companies is fatally mismatched with the interests of their stakeholders. The insight that stakeholders need into the power that companies have over them is rarely permitted. In other words where companies exert power over their stakeholders, the need for transparency is greatest – and that is precisely where it is typically lacking.

A final explanation is that understanding and measuring the impact of a company is actually a hard thing to do. Of course this may be exacerbated by the fact that the academic community has not devoted sufficient attention to it. But it is also because it is intrinsically a complex problem. This book is addressed particularly to this problem, seeking to understand the nature of this complexity and to appraise and suggest ways in which the social impact of companies has been and can be measured and assessed.

SOCIAL IMPACT?

I consider nothing that is human to be alien to me.

Publius Terentius Afer, c150 BCE

Social impact concerns social issues. So what counts as a social issue? The first things that come to mind may be problems such as obesity, drinking to excess, health issues, religious conflict, human rights and poverty. All these issues – and many more – have a social feel to them. What gives them that feel? And how does that relate to the social impact of corporations? I believe a variety of factors can make a social issue social, and the edge of the concept is blurred.

One of the things which makes obesity, for example, a specifically social issue is that it concerns a large proportion of the population of a number of countries, including the USA and the UK and, increasingly, 'undeveloped' countries. Companies can be involved in the issue through selling food, selling diets or in selling obesity remedies of some kind. This connection with large sections of societies is part of what gives an issue a social 'feel'. Of course, obesity can also affect those who may have little or no formal or direct connection with any company that might be involved. The partners of those who are clinically obese may fall into this category.

Yet environmental issues can also affect large numbers of people. Does that make them social issues? I shall be arguing just this: because they affect *people*, environmental issues are also *social* issues. Yet environmental issues appear to be different, because they involve more technical matters connected with the physical environment, and also because some aspects of certain environmental issues can be quantified and measured precisely. Carbon dioxide emissions, for example, can be quantified and the corresponding global temperature can also be assessed, although neither measurement is straightforward and the calculations involved can be complex.

Another key factor which makes an issue count as a social one concerns responsibility. One feature of some social issues which can distinguish them from environmental issues is whether or not those impacted have some responsibility for the issue. Obesity, for example, can be blamed on companies pushing junk food on the public and particularly on the young. Yet many people also feel that those who over-consume should bear some responsibility. Exactly how responsibility for the outcome of obesity on a particular person should be shared between that person and a company selling food, for example, is not clear. One of the factors which makes assigning responsibility to any companies involved more difficult is that they will rarely have targeted any particular person, despite the best efforts of marketing departments. Most advertising is aimed at large numbers of people. And of course some of these will not have become obese, even if they have consumed the products of the food company in question. But it is also clear that neither company nor consumer can escape all blame. The question of responsibility for environmental issues, such as exposure to pollution, is weighted the other way round. Those who suffer from pollution will not have chosen that fate. But the question of responsibility is not clear-cut, as those who suffer from pollution may well be very reluctant to give up the goods whose production leads to the pollution.

A Company's Role

What should a company's role be in this? If Walmart is such a big player, does that have particular consequences for Walmart's responsibility? We expect governments to take responsibility for the social welfare of their citizens. But on the whole we do not expect companies to take very much responsibility for their social impacts. Why not?

To its credit, Walmart has made some effort to address its environmental impacts. It acknowledges the major environmental problem of our time: 'Climate change is an urgent threat not only to our business but also to our customers, communities, and the life support systems that sustain our world' (WalMart, 2008). What it is doing on this front may or may not be sufficient, given the scale of its impact. Yet Walmart is still widely attacked, mostly for its record on wider social issues and its anti-union stance in particular. Is this simply on account of its size and success, as some (Nordlinger, 2004) claim? Or does its pre-eminent economic position justify any proportionately greater ethical burden on the company? How much do its social impacts matter – and how far should responsibility for them be shared with other groups?

A comparison of social issues and environmental issues facing companies can be helpful. As we have seen, environmental issues on the whole have the possibility of 'scientific' appraisal. Not only can they usually be clearly measured (or we at least know what measurement should look like), but we can know when they have been addressed. They may raise political issues in the determination of how to address them, but these typically cross traditional party lines. Social issues are rarely like this. Above all they seem to raise political issues from the start. How Walmart relates to its staff is a central part of its social responsibility, but it is also regarded as an inherently political matter, raising all the prejudices around unions. This is actually quite natural, since the issues that matter in company-stakeholder relations are particularly those which concern the relative power of the company and its stakeholders. The central question is perhaps 'How much control should Walmart staff expect to have over their conditions of employment?'

Social responsibility is also wrapped up in some confusing way with 'sustainability'. So that even though it is now accepted that there is a social dimension to sustainability, there is little clear understanding of what that really means or how it might be measured by companies. There is no agreement as to the appropriate measures of social impact and a general unease that what is being measured does not always capture what matters.

This is important to companies not only because they now profess a much greater concern with sustainability, but because corporate social impacts affect how well and how profitably a company can be run. The social impact and nature of companies is in fact closely connected to the nature of their stakeholder relationships. In general, good stakeholder relationships lead to better business relationships. Good relations with customers, for example, will lead to better sales or more loyal customers. This is both commercial common sense – as well as an area which has been minutely studied.

But what happens when a stakeholder has little power, no direct commercial relationship with the company and is generally in a vulnerable position? The business case, although it can sometimes be made, is much less direct. And because the proper measurement of corporate social impacts is always hard, such vulnerable stakeholders are likely to be doubly neglected. For those seeking to understand the impact and consequences of companies, there is therefore a need to scrutinize current company-stakeholder relationship measurement techniques relevant to all stakeholders.

The Elusiveness of the Social

Expectations of the extent to which social impact can be measured will always be too high. When all the quantitative techniques have done their work, there will always be left over those matters which lie beyond them. The impact of a mobile phone or fashion trainer, for example, is partly captured by the numbers sold, an analysis of those to whom they are sold and so on. But their full impact also includes how they shape the lives of those who wear them – and also of those who do not wear them, perhaps because they cannot afford it. It includes the jealousies they may arouse and also the crimes to which they can lead: when one young person mugs another one in order to possess the trainers (or phone) in question. While it might be possible to capture the volumes of these incidents, no set of such numbers will capture how the victim and aggressor felt. Yet the complete social impact of trainers includes these feelings, as well as many others, such as the comfort felt by older wearers of trainers, for whom other shoes just don't do it!

What are the reasons for this elusiveness? In addition to the technical difficulties in finding suitable measures, together with the resource requirement necessary to measure them appropriately, I believe the main factors underlying it are:

- the range and complexity of social issues, which typically result from the interaction of many different parties;
- the inherently subjective nature of social issues, which involve people who have their own views on the matter.

There are many different techniques for measuring social impact, some of which this book will describe. While it is possible to list a set of procedures or methods which can collectively capture many of the social impacts of a company, there is no single tool which captures them all.

Business Cases

> *What stakeholder engagement can do for you: boost brand, boost sales and motivate employees.* (EC, 2008)

The European Commission has a marvellously straightforward view of the benefits of understanding social impact – or at least the engagement aspect of it. While on its own unconvincing, what such unbridled optimism can do is to prompt a closer look at the issue of understanding the business consequences of an organization understanding its own social impact.

The context of the business case for understanding social impact needs to be set in a moral frame which should guide action. As Geoffrey Chandler, one of the chief pioneers of the drive to put human rights on the corporate agenda, has put it:

> *I believe our train of thought should be this: business is part of society; society has agreed certain international values and principles; business needs to reflect these in its operations if it is to be acceptable. Its social purpose is to provide products and services profitably and responsibly, the boundaries of that responsibility being determined by the extent of its impact on its stakeholders, the nature of that responsibility being determined by society's values.*
> (BT, 2003)

This means that certain actions which are wholly immoral should be prevented on moral grounds alone. Slavery was once a profitable enterprise – and in some forms, it still is. But the argument for its abolition relied on moral grounds as well as economic challenges. And no business today would argue that because it could make money out of slavery, it should be allowed to do so. A key part of a business's 'licence to operate' is that it is not operating outside the zone of moral acceptability as determined by society. Unfortunately, sometimes in practice a company's fear of finding out about, and having to remedy, its dependence on immoral activity can actually prevent efforts to discover the role such practices are playing. For this reason it has sometimes been suggested that a company should not look too hard into its potentially more dubious activities. That is one side of the argument for businesses to understand their social impact.

The other side of the business case for a company to understand its impact is justifying what positive courses of action, including efforts to determine its impact, *should* be undertaken. While a business case will not always be necessary to justify social responsibility, it is always sufficient. So there remains the challenge of justifying to its shareholders a particular means for a business to determine its social impact. The remainder of this section will look at some of the main kinds of argument employed. None of the processes for understanding social impact come cost free; all of them require some kind of investment, at least in management time. However, the focus below will be on benefits, which can be harder to articulate than costs.

There are some areas for which the advantage of understanding corporate social impact are clear. This is especially true for 'human capital' (Kingsmill, 2003). It is usually quite apparent to most organizations that the level of training and competence of their staff directly affects how well they can perform. However, the overall social impact of a company is often thought about as if it excluded such well-understood areas as human capital. And of course, justification is still demanded for action in relation to areas in which social impact is not so obvious.

It is useful to note first that the most common form of general justification of social responsibility, that it enhances a company's reputation, does not directly underwrite its efforts to understand its social impact. An enhanced reputation results primarily from good social performance. It does not flow automatically from simply understanding all areas in which social performance might be improved. On the other hand, systematic improvement in social performance, which will lead to lasting reputation benefits, is unlikely to be possible without a systematic understanding of social impact. But the connection remains indirect.

Nevertheless, there are some business arguments for understanding social impact. The first of these is connected with trust. In general, an increase in stakeholders' trust in a company is a sign of an increase in 'social capital'. It might seem that, just as with reputation, trust increases with good social performance, rather than with understanding social impact. And this is of course true: nothing increases trust like trustworthiness. However, the process of understanding social impact, which must involve stakeholders, can also have a role to play. The process of engagement that underlies an understanding of social impact is a social process in which the company and its stakeholders get to know each other. This alone can increase trust, provided it is undertaken sensitively. Simply getting to know your stakeholders/company is likely to increase trust.

The virtue of greater trust is quite widespread. Typically an increase in trust will lower the cost of doing business. For example, part of the cost of dealing with suppliers is the legal costs of arranging appropriate contracts. Now much of the work that lawyers do is to pin down what happens should things go wrong with a commercial contract. Lawyers are driven in their perception of risk partly by their own experience and partly by the concerns expressed by the two sides of the contract. It follows that where each side expresses trust and confidence in the other party, less time and therefore cost will be expended by contract lawyers. This can be very significant, particularly in the extractive sectors, where permission to operate can be granted far more quickly if the local communities are on board. Analogous arguments can be made about the relationship between a company and almost any stakeholder.

The second argument for a positive business case for a company to understand its social impact can be summed up in one word: intelligence. Companies' activities can be described as facilitating the interactions between their various stakeholders. It should therefore be obvious that a company needs to keep in close contact with its stakeholders to maximize its business advantage. And indeed, most companies are keen to be in close touch with their main commercial stakeholders, especially customers. That interest, depending on the nature of the business, may extend to suppliers, shareholders and competitors. But with staff, somewhat surprisingly, there is an ambivalence about how close companies wish to be. And companies are often very cautious as to how closely they wish to work with hostile stakeholders.

However, one thing which stakeholders can provide is information, or early warning, about issues which may be – or may become – of significant concern to the company. NGOs, for example, are often amongst those who raise issues to prominence. Campaigning NGOs such as Oxfam brought the issue of access to pharmaceutical medicines in the South to the attention of the press. This has remained a key issue for pharmaceutical companies for nearly 10 years. By working with NGOs, rather than ignoring them for as long as possible, a company has access to key sources of intelligence. Of course, no stakeholder will tolerate simply being pumped for information. If a stakeholder is to be a source of intelligence it needs to be treated as a partner, not a problem.

The third argument concerns risk and uncertainty. To some extent it builds on the advantages of stakeholder intelligence. While access to intelligence can help with strategic planning, connection to stakeholders in general can reduce uncertainty. It is important here to distinguish between risk and uncertainty. Risk can be characterized by a set of known alternatives against which probabilities can be assigned. Many commercial strategies are based on the close analysis of alternative strategies in the face of such risks. Uncertainty is a more profound lack of knowledge than simply facing a set of defined risks, encompassing context as well as specific outcomes. Uncertainty characterizes the 'unknown unknowns' of the future.

Companies often approach such uncertainty through the use of scenarios. Scenarios are coherent stories which map out plausible possible futures the company may face. The use of scenarios is common when trying to plan (prepare may be a more accurate word) for the more distant future. What is interesting here, as the *Financial Times* economist John Kay has pointed out (Kay, 2008) is that the way to tackle uncertainty is through stories. Of course there is a danger that the stories are simply fantasies which satisfy our hopes, rather than offering any predictive value. The key is to assess the stories with common sense. And that sense is to be found in the intelligence which stakeholders can provide.

The exploration of social impact and the narrative communication of it which stakeholders may provide is thus an essential input into a coherent approach to the uncertainty of the future. In practice this means that companies should seek the wisdom of their stakeholders, rather than using cunning to exploit them. Stakeholders should be consulted in the sense in which, in a personal capacity, we might consult someone wise and with much relevant experience. That can only be done if stakeholders are treated with respect.

Framework of this Book

This book attempts to provide a coherent framework within which the issues of social impact can be understood, measured and assessed. This will involve exploring some basic issues, such as what 'social impact' actually means as well as reviewing the practical ways in which it has been measured. The first four chapters therefore provide a theoretical framework for understanding social impact. Social impact is compared to environmental impact and the differences which affect its measurement are highlighted. It is argued that the role of the stakeholder is central to any assessment of impact.

To measure the social purpose of companies it is important to know what they are for – in particular, what sort of impact they are intended to have. In other words, what is the purpose of companies? Is it to make money, perhaps by selling bread, or to deliver on some social outcome, such as producing food? Chapter 2 will explore this dilemma through stakeholder relationships looking at social need and practical issues, such as legal constraints. The dilemma is actually not as acute as it may first appear: on the one hand economic outcomes are also social ones and on the other, economic outcomes may be necessary to support positive social impacts.

Chapter 3 provides a case study of social impact. It explores the difficult issue of the sexual exploitation of children. This is obviously a social issue. But it is not obvious how the activities of companies contribute to it or prevent its occurrence.

If social issues are part of sustainability, it is necessary to understand how social impact and environmental impact are related. And in order to lay the ground for later chapters, it is necessary to understand how environmental and social issues each relate to sustainability. At one level this concerns causal connections between these apparently different domains – such as the (false) argument that wealth is necessary before sustainability can be addressed. Yet social and environmental issues are much more closely connected than this: in Chapter 4 it will be argued that environmental concerns are always at the same time social ones. This book will not describe methods of environmental measurement, as this area is very well catered for.

Since stakeholders, as I will argue, are central to understanding social impact, how should we understand stakeholders? Chapter 5 will cover the difficulties of identifying stakeholders and will also confront very practical issues which are rarely covered in the CSR world, such as what engagement with staff means in the context of active union representation. While not providing a manual of stakeholder consultation, this chapter will discuss a range of techniques which have been used to 'engage' stakeholders – and how and why they may be beneficial or inappropriate in practice. Stakeholder identification and engagement is central to almost all techniques of social impact assessment and measurement.

Chapters 5 to 13 describe a variety of techniques for assessing social impact. The advantages and disadvantages of each are set out and also the contribution each can make to understanding sustainability, together with suitable examples. One feature of most of the techniques described is that they have been used exclusively for one kind of organization. Social Return on Investment (SROI), for example, which is covered in Chapter 10, has been used largely for the social enterprise sector, rather than for private companies. Others are used mainly by the private sector. One of the purposes of the book is to demonstrate how all of them can be useful to measure the impact of private enterprise.

This range of techniques falls into three main approaches:

- stakeholder-centred techniques to measure social impact, focusing on the subjective experience of stakeholders;
- direct measurements of social impacts;
- economic measures of social impacts.

At one level this book is a collection and explanation of a set of techniques for measuring social impact. Running through the descriptions of most of these techniques is the issue of the role of the stakeholder and the tension between objective measures of impact and its subjective nature. Stakeholders are important not only because the social impact of a company *is* its impact on stakeholders, but also because stakeholders themselves have a voice and can tell their story. Without this story, any account of social impact will be incomplete. Therefore one of the techniques, 'narrative analysis' or looking at stories, is different from the others in that it is the main technique that has a primary focus on what stakeholders themselves have to say. This is explored in Chapter 6.

Chapter 7 addresses the history of social impact assessment and 'social capital', a concept which has been historically applied mainly to local communities and is concerned with the nature of the interconnections between individuals within society. The history and application of the concept will be discussed prior to exploring how the concept of social capital can be applied to companies.

Chapter 8 discusses the nature of indicators and which indicators have in practice been used to measure various aspects of social impact. Chapter 9 covers the reporting of social impact. It addresses the usefulness of the Global Reporting Initiative (GRI) in identifying social impact measures. The GRI is an important reference point as it represents the largest exercise to date to arrive at consensus over social measurement. This chapter also analyses a typical example of reporting on social issues.

Chapter 10 addresses a concrete example of a social measurement technique. SROI attempts to measure social impact in financial terms. The measurement of SROI will be discussed in detail, including its history, the pitfalls of finding data and the appropriateness of its calculations.

Economic impacts are also social impacts. There are some examples of companies trying to understand their overall economic impact, beyond shareholder returns. Chapter 11 describes these together with a particularly practical tool for capturing corporate economic impact.

Is there one measure which somehow captures the overall social impact of an organization? Chapter 12 explores the possibilities of a social footprint on the analogy of the ecological footprint. A number of attempts to produce a social footprint measure are discussed and Chapter 12 will present an additional one. However, while the goal of a single measure which somehow captures all aspects of social impact in one measure looks possible, it is probably doomed to be unsatisfying. Nevertheless, the discussion raises crucial issues for understanding the social aspects of sustainability in a coherent way.

Chapter 13 reviews the approach and relevance of financial accounting techniques to the measurement of social impact. Companies enjoy a fairly complete framework for measuring financial impacts, encompassing capital and revenue accounting. This chapter explores how far this model can be applied to the social aspects of sustainability accounting. The discussion draws on the various techniques which have been covered in earlier chapters showing how they might fit into such a framework.