The Social Taxonomy – part one of GGI's interview with Romeo Effs

Romeo Effs is the founder and chief executive of governance, organisational health and executive coaching consultancy Lumorus. He is also a serial entrepreneur who started his first business at 16, he's a Hollywood producer, a philanthropist, and the author of two best-selling books. And he's spoken all over the world on a range of business, governance and leadership-related topics.

Following the recent GGI Festival event chaired by Romeo about organisational health and culture, Daniel Taylor, communications and relationships manager at GGI, sat down with him to discuss the S in ESG. What follows is part one of two – we'll publish the concluding part of the interview later this week.

Daniel: Let's start with the basics, what exactly does the social element of ESG mean?

Romeo: The central focus of the social element of ESG is really how a company manages its relationship with its workforce, customer base, suppliers and the society and the political environment it operates in. The other aspects of ESG, around environmental and governance, are primarily concerned about the organisation's effects on the planet and its internal operations and functions.

The people component of the social element is rising in importance due to sustainability demands from regulators or investors or other stakeholders. There's much more focus on the social impact of companies than there used to be. COVID has had a huge impact on this and the Black Lives Matter movement has also helped to bring the whole notion of equity and equality and social justice to the forefront. Companies are under more and more pressure in terms of how they treat their employees, in terms of working conditions.

Organisations and regulators are placing an increasing importance on this social element. NASDAQ now demands that companies report this part of ESG. Here in the UK the FCA has started a consultation around the best way to measure things like organisational culture or the role a company is playing in wider society. If you really look at all the things that make up the 'S', companies that don't manage that well run the risk of reputational damage, reduced performance and reduced profit.

Daniel: Thank you, it's helpful to start with that thorough explanation. You run a company specialising in supporting organisations with this social dimension of organisational leadership and responsibility; what sort of requests have you seen coming through from them and what's the motivation been for them to get in touch?

Romeo: We've seen plenty of activity around the environment and climate change. Even though some organisations might be accused of greenwashing, the environmental element is now coming into maturity, although it's still challenging in terms of companies delivering on regulations.

Governance has been around even longer, because that is about the stewardship of a business in terms of helping that business to achieve its objectives. I think most organisations are pretty comfortable about governance, even though we help them to become more compliant and make it more robust.

But the social element has always been a challenge. And I think the problem is that organisations have a hard time defining what it means. For a long time, the 'S' just focused on diversity - especially gender diversity. So they have just focused on that because that was the most comfortable thing for them to do. But more and more, we're finding that, through pressure from investors, from customers, from the wider community and society, organisations across all sectors are being encouraged to be more definitive, adopt more sustainable operational practices and be more purposeful. They're being asked to see their business as a tool for good. Rather than just being about shareholder value or providing a public service, people want to see businesses and public bodies that take responsibility for delivering value for all their stakeholders. It is oft-overlooked that the 'S' component is a proven significant driver for the profitability of a company. It encompasses the people who work for you, the suppliers who supply stuff to you, the customer base that buys from you. If you think about it, without those three elements you can't deliver in terms of profit or shareholder value.

Organisations come to us for help around those three key areas. They ask how we can make their organisation healthier - usually starting off by telling us they need to do something about diversity and inclusion. What we would say to them is that diversity and inclusion is only one element of a healthy organisation. If you really want to help the organisation, you have to be a little bit broader than just diversity. You have to look at inclusion and belonging but you also have to look at how things are happening in your supply chain.

Daniel: You make an interesting point about that broad view of things. It's something that came up in a recent conversation we had with Lord Hastings as part of an interview series that we did with him and Emmanuel Ofosu-Appiah. He mentioned the exact same thing: this tendency to narrow in on diversity and miss that broader picture.

You mentioned greenwashing a minute ago but what about 'social washing'? I wonder if you could just touch on that a bit. What does that phrase mean and what are its implications?

Romeo: Organisations tend to just focus on how they can make their board more diverse, or they can get more women into their organisation, more people from an ethnic background. But if you think about it, the diversity of it is easy to achieve.

It's as easy as going to Victoria station and saying, 'Hey, Mr. Black man, I'd love to hire you. Hey, Ms Black woman, I'd love to hire you. Hey, Mister gay guy, I'd like to hire you'. If you offer them some nice perks they would probably come in. But the most important part is the inclusion bit. That's the hardest bit to achieve. How do I make them feel comfortable in the organisational culture, how do I make them want to stay? That's where I think companies tend to get it wrong.

There's the whole notion of greenwashing, but

there's also social washing or, as I like to call it, 'swashing'. You find a lot of companies doing that. With greenwashing companies would piggyback on the latest trend of the day. So they will do the climate assessment or they will pay for carbon offsetting. And we know that's not doing enough, right?

We have found the same thing going on with social washing. We actually fire clients who we feel are social washing - those clients who just want to do a tick box exercise. They might hire a woman for their senior leadership team, or a Black person to put on their board, because then they can hold that up as to everyone and say, 'Hey, see how diverse we are'.

Daniel: One of the things Lord Hastings said that stuck with me, which goes back to your point about this tokenism theme, is that it's not just about having people from Black and other minority backgrounds on the menu, it's having them deciding what to eat. People might say they have embraced diversity because look around at what you can see, but actually what's the active participation? Has it actually shaped organisational culture? So I wonder, where 'swashing' is a problem, what can be done to get beyond it? How do you break through those barriers so measures become more than a tokenistic exercise?

Romeo: We've developed this thing called the ESG taxonomy. As part of that, we have an ESG social taxonomy, where we've broken the 'S' down for companies in key areas. It's about having an ethical supply chain - working conditions, looking at things like slavery, and child labour and the impact on local communities. It's about conflicts in the regions or the communities that organisations work in. It's about health and safety. It's about things like employee relations, which includes diversity and inclusion. It's about things like data protection and social justice.

Organisations have to take a proactive, strategic, actionable plan towards improving these social elements. This means making sure it permeates throughout your strategy. So if your strategy is to expand globally, you have to then start looking at how you're going to operate when you expand into these other regions. If you're responsible for providing public services to a community, do you understand their needs? The different needs of different groups within the community? Does your leadership and organisational makeup reflect the public or customer group you are serving? It encourages people to think 'OK, so I'm operating in the UK, where there's almost a 50/50 male/female split; X% of the population are LGBTQ+, or disabled, or from an ethnic background. How am I going to reflect that in the organisation so that my customers or patients see that I understand them as a customer base or service users? But also, how am I going to reflect that in the organisation so that I create a culture that will breed innovation and creativity so that I can be ahead of my competitors?'

It has to go much deeper than just having a poster child - just being able to display on your website that, hey, we have this one Black person or this one woman on our board.

Daniel: The 'E' of ESG is increasingly about sustainability. But the same is true of the social element too? And together, the sustainability of the 'E' and the 'S' elements is increasingly important to the financial.

Romeo: We've been working a lot on this, we looked at some research done by the World Economic Forum around ESG, especially around the 'S' element. As we look through it, we recognise that there were some gaps. And we're now running a big piece of research with a large global publication house to understand what organisations think about the social element; what they think is important and how they report on it. As I mentioned earlier, I think companies are missing the most important thing. The objective of a business is to make profit but you can make far more profit - and this is backed up by research - by operating in a sustainable way. If you think about the engine that really drives profitability of a business, it sits in that 'S'. You're talking about the people that work for you, your supply chain, your customer base. If you can get those right, and wrap the environment and governance around that, then you have what we call the sweet spot of a sustainable growing business.

Daniel: I was going to ask about why ESG is grouped together. But I think you've pretty much just said it: that these elements are all intrinsically linked. And together, they broaden the notion of value beyond just the financial.

Romeo: I struggle with the whole notion of just having ESG because on its own it doesn't deliver anything; it doesn't drive anything. Especially when it's applied to business, we cannot forget that the ultimate aim is entrepreneurship. So where does the entrepreneurship element come into the ESG picture? We like to think about entrepreneurship or enterprise plus ESG because what drives business leaders is the notion of profitability. They want to know how their business is giving value back to its stakeholders. Profitability ensures that the business survives, and that means

people will remain employed, communities will continue to benefit, the impact that the business can make in terms of purpose with this leverage will still exist, but the enterprise cannot exist without that layer of sustainable business practice.

We refer to this as the three Ps: people, planet, profit – the basis of how a commercialised business should run. If it's a non-profit, or a government agency or NHS Trust or local authority, they don't talk about profit, they talk about surplus, because that surplus is then reinvested in the organisation and the services it provides.

Daniel: We're going through a generational reform of health and social care which is primarily about all of our many NHS provider organisations, but also lots of local authorities, the third sector organisations they work with, and the many businesses that supply services to them. The remit of these new integrated care systems is ultimately about improving people's lives rather than enterprise and profit.

It makes me think that those three Ps still apply, but slightly differently. So instead of profit, you'd have purpose.

Throughout the pandemic we've seen that Black and other ethnic minority communities have been affected disproportionately, both socially and economically. We've also found out that in terms of burnout in the workplace, particularly in the NHS, the impact on BME is also disproportionate. There are some serious structural issues that need to be addressed. So purpose in ESG, rather than profit, is going to be really important. And the new ICS organisations really need to be thinking about this social taxonomy very carefully.

Romeo: Absolutely. Coming back to an organisation like the NHS, the extra 'E' for enterprise is important, because enterprise is about how we manage the resources allocated to us in order to deliver services. Organisations like the NHS need to be enterprising in a way that's not necessarily about profit. If you're allocated taxpayers money, it's about using it in the most efficient, effective way to deliver the service that you are charged to deliver. Are you delivering that level of service and empathy to your end users?

Look out for the second part of our interview with Romeo Effs, which we'll publish later this week.