

# Mutuality and Social Responsibility

A Report for The Building  
Societies Association

Prepared by



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# INTRODUCTION

**Adrian Coles, Director General, BSA**

Corporate social responsibility (CSR) is one of business' new "buzz" words and as such is often derided as the fad of the moment. However, the values which lie behind CSR are at the very heart of how an organisation is run.

The Building Societies Association, as the representative trade body for all 65 building societies in the UK, decided to explore in greater detail what CSR meant to the sector, what activity was taking place and how we, as an industry, could share best practice.

Building societies, as mutual organisations, are collectively owned and run for the benefit of their customers - their members. In addition, many building societies are still located in the communities who founded them, rather than head offices in London. Therefore the level of community involvement demonstrated by this research comes as no surprise.

It is always difficult to generalise across the sector; especially given the fact that building societies range in size from 5 to 12,500 employees. The challenges of the CSR agenda for such a diverse range of organisations are of course different, but nonetheless demanding.

The research shows that there is a lot of activity taking place in the building society sector (especially with members and local communities), and that this activity is driven by an ethos based on the concept of mutuality. However, building societies could do more to communicate this activity, so, in some ways the publication of this report is the first step to addressing this issue.

There are also areas where more work needs to be done, and the BSA will be working with the sector to help devise ways of sharing best practice.

Finally, I would like to thank the SMART Company for their work on this project, which has been measured, thorough and has not pulled its punches. Measurement of how the building society sector is delivering to its key stakeholders is important, and I will be reporting in 2003 on how the industry is building on its work in this area.

Adrian Coles  
Director-General, The Building Societies Association  
November 2002

# INTRODUCTION TO THE RESEARCH

In July 2002, the Building Societies Association began a research project to explore the issue of social responsibility in relation to building societies and mutuality. Working in partnership with The SMART Company, an independent consultancy specialising in corporate social responsibility (CSR), the project was designed to enable to The Building Societies Association to:

- Understand the current situation within building societies on corporate social responsibility issues;
- Give societies the information they need to develop best practice in this area; and
- Promote building society best practice.

The research involved three stages:

- A self-assessment questionnaire sent to all building societies, designed to gain an overview of current CSR activity (50 out of 65 societies responded);
- Follow-up interviews with eight societies of varying size, to explore certain areas of practice in more depth; and
- Telephone interviews with 100 community leaders from across the UK, to gauge perceptions and expectations of how building societies are meeting, and should meet, their social responsibilities.

The research was carried out by The SMART Company.

This report offers an insight into the growing CSR agenda, presents the findings of the research, and explores how building societies can use their strong foundations of community involvement and mutuality to actively engage in this agenda.

# MAIN FINDINGS AND RECOMMENDATIONS

Within building societies there exists a wealth of good practice with regard to social responsibility. The challenge for building societies is to communicate this good practice to a wider audience and to ensure the message of mutuality is understood.

A growing body of evidence demonstrates the value of CSR activity - improved employee relations, enhanced reputation amongst the local community, cost saving through responsible use of resources - all these elements point to a strong business case. Building societies are well positioned to respond to the CSR challenge, as they have a core philosophy of community support and mutual responsibility.

In order to respond, there are a number of areas where action needs to be taken:

## ● Communication

Few building societies are taking steps to communicate their activities in the area of social responsibility, despite the wealth of activity. Proactive communication is key in ensuring a positive reputation and recognition for activity.

### ● **Developing Social Responsibility**

While many building societies are undertaking activities which can be included under the heading of “social responsibility”, few seem to be developing their approach to gain the maximum benefits from such activity. It will be important for building societies to begin to develop a more strategic view, to realise their investments in CSR activity.

### ● **Develop the Concept of Community Involvement**

For the majority of building societies, community support still involves financial support for local projects. Community support, however, could be developed to address key social issues such as financial exclusion. Building societies, as community focused organisations with a significant level of trust amongst local communities, are well placed to take the lead in this area.

### ● **Spread the Message of Mutuality**

If it is mutuality that is driving building societies’ approach to social responsibility, this message needs to be communicated. The most successful CSR strategies are those with core values as their foundation, and building societies already have a philosophy which is perfectly attuned to the growing environment of social responsibility.

If building societies can respond to these challenges, they have the opportunity to take the lead in the developing agenda of CSR.

## **AN INTRODUCTION TO CORPORATE SOCIAL RESPONSIBILITY**

### **Introduction**

Corporate social responsibility (CSR) has developed rapidly over recent years. It is fast becoming an accepted and essential part of mainstream modern-day business practice and is moving ever higher on the agenda of business leaders, politicians, investors and customers alike.

The implications of the CSR movement have impacted far beyond the examination of corporate behaviour. There is increasing debate about the governance and transparency of many organisations and institutions, ranging from government to charities.

### **What is CSR?**

There is no single, agreed definition of CSR, but having begun as a movement focused on either corporate philanthropy and community involvement or driven largely by concern over environmental and reputational issues, CSR is now fundamentally understood to be about the behaviour and conduct of an organisation as a whole. The Department of Trade and Industry (DTI) uses the following definition:

*“A responsible organisation does three things:*

- 1. It recognises that its activities have a wider impact on the society in which it operates;*
- 2. In response, it takes account of the economic, social, environmental and human rights impact of its activities across the world; and*
- 3. It seeks to achieve benefits by working in partnership with other groups and organisations.”*

### **The Policy Context**

The last four years under a Labour Government have been characterised by an attempt to reach out to business in a way that has not been seen under any previous administration. With the appointment of the UK’s first Minister for CSR in March 2000, the Government illustrated its determination to promote CSR as a vital component of modern day business best practice.

Across Europe too, the indications are that CSR will continue to develop. Following the publication of the CSR Green Paper in 2001, the European Commission produced a communication on the issue in July 2002. The main recommendation of the communication has resulted in the creation of a multi-stakeholder forum on CSR, intended to promote innovation, transparency and convergence of CSR practice. The forum will report back in 2004.

There is as yet little appetite for regulation on CSR from governments across the UK and Europe. In the UK, the Government continues to focus on best practice, with an emphasis on how CSR can enhance competitiveness. Yet the possibility of increased regulation in the longer term, especially in relation to environmental responsibilities and reporting, cannot be ignored.

### **Key Drivers**

As well as the developing policy agenda, a number of other drivers are increasingly accepted as significant in pushing CSR into mainstream practice, for example:

- Risk Management - driven by the Association of British Insurers (ABI) Guidelines on CSR and the Turnbull Report, many UK companies have begun to establish procedures to oversee the management of non-financial risk and to consider social and environmental performance as part of an overall focus for corporate governance.
- The War for Talent - in today's highly competitive and mobile labour market, many forward thinking companies have begun to make the link between having a strong CSR track record and being an 'employer of choice'.

Although CSR developed as an issue for large corporations in the first instance, and much of the relevant legislation and action is targeted at shareholder-owned companies, such a focus has created an environment of anticipated accountability and transparency which is relevant to all organisations operating in the public domain. The DTI has emphasised the importance of CSR for all types of business, for example conducting research to explore what CSR means for small and medium-sized enterprises. Although some of the issues discussed in this report do stem from an increased scrutiny of large corporations, the implications of these are as relevant to building societies as to any other organisation.

### **CSR and Building Societies**

Building societies have a proud tradition of local community involvement, and the philosophy of mutuality is reflected in high levels of engagement with key stakeholders, i.e. members. Whilst building societies continue to enjoy a positive reputation amongst their local communities and have escaped much of the cynicism attracted by high street banks, there is a feeling amongst some within the sector that building societies occupy something of a "sleepy hollow" in terms of recognising the importance of CSR and wider stakeholder engagement.

With such strong foundations in principles of community involvement and engagement, building societies are well placed to position themselves at the forefront of the growing CSR agenda. The events of the late 1990s, which saw a number of societies either converting to or being taken over by banks, has raised the profile of and strengthened commitment to mutuality. The challenge now is for building societies to make the links between mutuality and social responsibility, and to communicate these links to a wider audience.

This report will explore four fundamental elements of CSR for building societies:

- Workplace practice - human rights, working practices, internal communication and development
- Environmental practice
- Stakeholder Relationships - local community support and involvement
- Member Involvement and external communication

The report will present an overview of each area, and discuss the present level of activity amongst building societies on the key issues. The report will then explore the findings of research conducted with community leaders and the implications of this for building societies, before considering how societies might use their strengths to respond to the CSR agenda.

## **SOCIAL RESPONSIBILITY IN THE WORKPLACE**

### **Introduction**

According to the International Business Leaders Forum - an international charity which promotes responsible business practice - investment in human resources is the primary success factor and the highest cost for business. Most workers spend more than half their waking hours at work, and it is increasingly accepted that the work environment influences quality of life, family life, and health. It is therefore in the interests of employers and employees that the workplace should offer a happy and healthy environment, which provides equal opportunities for all.

### **Diversity**

Diversity is an issue which appears increasingly on the business agenda, and will continue to grow in importance as the profile of the available workforce in the UK changes:

- Women now comprise almost half the UK workforce;
- Ethnic minorities make up 25-50% of the workforce in some key metropolitan areas;
- One fifth of the population of working age have disabilities, but only 11% are employed;
- By 2010, 40% of the workforce will be aged over 45.

With statistics like these, it is clear that organisations will need to ensure that their practices create a workplace that is representative of and welcoming to all sections of the population.

### **Work-Life Balance**

The importance of ensuring work-life balance is indicated by the Government's commitment to the issue - their £10.5m campaign will be backed up by legislation covering flexible working for parents of young and disabled children, improved maternity leave and rights to paternity leave. Organisations such as 'Parents at Work' and 'Carers UK' have promoted the case for flexible working practices which allow employees to combine a job with personal commitments such as caring for children or other dependents.

A strong business case exists for addressing work-life balance - a survey by the Industrial Society in 2000 found that 3 out of 4 employers thought stress would be the biggest health and safety issue facing them in the next 2 years. Staff retention is also an issue - Sarah Jackson of 'Parents at Work' believes that organisations will need to become more responsive if they want to retain their valuable, skilled staff, and if they don't, "your training investments are going to walk out of the door".

### **Employee Development**

Investing in employee development and training shows a commitment to people that is likely to be repaid both in the retention of staff and in the growth of expertise and productivity. While professional training and development has become almost a standard expectation, especially for graduate jobs, there has in recent times been a growing emphasis on learning. This is an area of particular importance for CSR, according to the International Business Leaders Forum. They argue that learning within the organisation is key to the development and strengthening of corporate values and culture, and that organisations should introduce training and development programmes to show how value-based decisions can be taken about business issues.

# SOCIAL RESPONSIBILITY IN THE WORKPLACE - CURRENT PRACTICE

## Introduction

When asked to describe their organisation's understanding of corporate social responsibility, a number of societies made additions to the given list, to include a commitment to employee satisfaction. The significance of this element of CSR was reflected in the survey results and in the interviews, which suggested that building societies are making significant advances in the demonstration of social responsibility in the workplace.

## Key Findings

### Human Rights and Labour Policy

- The overwhelming majority of societies ensure, at least in practice, that there is no discrimination on the basis of gender, ethnic origin and disability. Just over 75% of societies have formal policies in place to guarantee this practice.
- Discrimination on the grounds of sexual orientation and religion is less likely to be the subject of formal policy or monitoring - a number of respondents commented that this is not an issue that they would ask about, and therefore monitoring would be difficult.
- Although the majority of societies recognise the right of employees to join a trade union, 26% take no action at all in this area, and 38% have no mechanism for employee participation such as a Works Council. For smaller societies, such mechanisms are deemed unnecessary - internal communication and representation occurs on an informal basis, and there is no perceived need amongst staff for any more formal mechanism to be in place.

### Health and Well-being

- Work-life balance is increasingly recognised as an important issue - though 56% of respondents currently undertake no action in this area, 14% are considering action, and 16% have in place formal, monitored policies.
- Allowing flexible working is a challenge for all societies, and particularly for smaller societies with a limited workforce - branches must open according to customer needs. However 80% of societies are taking some level of action to address this issue. Building society branches have a high proportion of female staff, and societies increasingly recognise that, if they wish to retain their experienced staff, it is important to allow for maternity breaks and part-time working. Smaller societies find that addressing these issues as they arise, on an individual basis, is sufficient.
- Childcare is an issue which has yet to be addressed not just by building societies, but by companies in general. Best practice currently involves the provision of childcare vouchers rather than crèche facilities - for most organisations such arrangements are simply too costly. The issue of childcare is therefore more commonly dealt with by allowing carers to work flexibly.

### Employee Development

- Building societies show a high level of activity in this area, with almost all respondents offering professional training and development, and around two-thirds offering mentoring and life-long learning opportunities.

## Discussion

The area of workplace practice is one where the challenges for smaller societies are clear. For many societies with a small workforce, it is not desirable or practical to introduce formal policies in this area. This is not to suggest, however, that responsible practices do not exist - rather, smaller societies tend to respond to workplace issues on a more individual, flexible basis, treating each case on its own merits.

Even if an organisation finds that introducing a formal policy for say, flexible working, is impractical in its organisational context, it is important to ensure that staff feel able to raise the issue where necessary. Impending Government legislation will mean that an employee with young children is entitled to ask for more flexible working hours, and that an employer must give the request serious consideration and give their explanation in writing should they choose to turn it down. This means that all organisations, especially those with a high proportion of female staff, will need to have systems in place to deal with requests, even if these are not formalised into policy.

In relation to issues of diversity, discrimination and employee representation, a similar point must be made. These may not have arisen as problematic areas for building societies in the past, and it may be impractical for smaller societies to introduce formal policies in these areas. Awareness of and concern about such issues is growing, however, and societies will need to ensure that the working environment is one where such issues could be discussed and managed, should they arise.

Wider issues of work-life balance are less likely to become the subject of legislation, but pressure may still come from employees themselves. The Head of Employment Policy at BT has said "The labour market is laying down the conditions for the way it will engage with employers...It comes through particularly strongly when you talk to young people...They won't allow work to consume them."

Within building societies, how this balance is realised may vary enormously, depending on the size and culture of the organisation, as the following case studies show.

#### **Smaller Society (Ranked between 20-30 on assets)**

For one smaller building society, CSR is not seen as an issue in itself. Although certain aspects of the society's activities might be included under a CSR banner, there are doubts about the relevance of the concept, and in reality these actions might be driven by a number of factors. Reusing paper can be seen as an environmentally responsible action, but also saves costs. Using local suppliers is not only environmentally responsible, cutting down on transport costs, but also benefits the local community and is likely to improve the society's local reputation. It is difficult to have formal policies on work-life balance, but the working environment is said to be "like a family". Everyone knows everyone else and if staff need anything or have any concerns, they know exactly who to go to. In a small society such as this, an open and friendly working environment is likely to be just as beneficial for employees as formal policies would be.

#### **Larger Society (Ranked between 1-10 on assets)**

For one of the larger societies, work-life balance has become a much bigger issue, and a number of initiatives have been introduced to address this area. This is an organisation which has grown enormously over the last few years, but the feeling arose that working practices were not efficient as they might be – success came through hard work rather than "smart" work. The society has therefore introduced a coaching programme which will extend throughout the organisation, based on the concept of the "Wheel of Life". This allows an individual to map out all the different areas of their life, and teaches them how to manage their time most effectively to meet their priorities. The coaching is beginning at the top of the organisation, with a number of senior executives training as coaches themselves, to enable them to share best practice with others.

In addition to this comprehensive programme, the organisation offers a range of options from indian head massage to exercise classes and on-site doctors, to make the working environment more comfortable for everyone.

# SOCIAL RESPONSIBILITY AND THE ENVIRONMENT

## Introduction

Environmental impact often tends to be discussed in global terms - in relation to climate change, for example - making it easy to think that environmental management must only be an issue for multinational companies. All organisations can have an environmental impact however, and all office based organisations will use paper, water and energy, and generating waste in various forms. Showing that these issues have been recognised and are being addressed demonstrates that an organisation is thinking more widely about its social responsibility.

## Context

It is becoming increasingly necessary for organisations not only to think about their environmental impact, but to find ways of managing it and reporting on it. The Government is keen for companies to report on and manage their environmental performance, promoting the case that more efficient use of resources can lead to greater productivity and economic success. As part of an increasing trend towards corporate transparency, changes have been made to pension fund legislation which require companies to disclose the extent to which the fund Trustees are taking into account environmental, social and ethical considerations when they make investment decisions.

In the UK, earlier this year Business in the Environment's 6th Index of Corporate Environmental Engagement ('the BIE Index') provided further evidence of the increasing importance of environmental risk to business. This year, for the first time, participating companies were asked to report on the most significant areas of environmental impact to their operations and sector, enabling investors and analysts to compare environmental performance between companies within the different sectors.

The EU Green Paper on CSR, published in June 2001, incorporated environmental concern as an integral part of the corporate social responsibility debate, illustrating that through the vast number of business-related environmental concerns and their consumption of the world's resources, businesses have a crucial role to play in the future of the local and global environment.

## Managing Environmental Impact

There are three key factors for organisations to address - energy efficiency, pollution levels and environmental reporting. The most effective way of addressing these in a large organisation may be through the introduction of an Environmental Management System, the most widely recognised standards for which are the international ISO14001 standard and the EU's Eco-Management and Audit Standard EMAS.

The use of such systems may not be practical or achievable in smaller organisations, but introducing smaller scale policies such as reusing paper and aiming to reduce electricity use can all make a difference. There are financial benefits to be gained from managing environmental impacts. Government studies have shown that 10% savings can be achieved at zero cost - a saving of £2.6bn on the UK combined energy and waste disposal bill of £26bn. The reputational benefits that stem from taking a responsible approach to the environment are more difficult to quantify, but there is evidence to suggest that employers will increasingly be expected to demonstrate an awareness of environmental and social responsibility. Research has shown that environmental pressure is being exerted on companies by their own employees, with an Industrial Society survey finding that 82% of UK professionals would not work for an organisation whose values they did not believe in.

# SOCIAL RESPONSIBILITY AND THE ENVIRONMENT - CURRENT PRACTICE

## Introduction

Of the building societies that responded to the questionnaire, 80% felt that health, safety and environment was an important element of the society's understanding of corporate social responsibility. Though formal policy is less likely to exist in the area of environment, many societies are taking steps to address their environmental impact.

## Key Findings

- ➔ The most common area for building societies to take action is on paper use - two-thirds take steps to reduce paper use, while 80% encourage paper recycling.
- ➔ Almost half of the responding societies take measures to reduce water consumption, while 60% are trying to improve energy efficiency.
- ➔ Very few societies have a formal environmental management system in place - this is not considered to be practical for smaller organisations.
- ➔ A very small number of societies are offering targeted customer products such as "green" mortgages - there is no indication whether this is due to lack of demand amongst customers, or whether customer needs are already felt to be met by more specialist service providers.

## Discussion

Environmental impact still forms part of an emerging agenda for building societies. Even for the larger societies already engaged in developing a comprehensive CSR strategy, formal management of environmental issues seems to be the area where least activity has taken place.

This is not to say that building societies are not taking into account their environmental impacts, as the figures above show. Rather than dealing with this as a separate issue, however, managing environmental impacts seems to arise as a consequence of other considerations, such as cost saving or local community support. This suggests that consideration of environmental issues can have a positive effect on a number of aspects of the business, and even seemingly small actions such as reusing paper are achievable by and beneficial for all societies.

It is unlikely that the majority of building societies will find it worthwhile or practical to introduce wide-ranging, formal systems for environmental impact management - the impacts are not sufficiently significant, and the drivers not sufficiently forceful, for this to make sense from a business perspective. Within the context of increased scrutiny and raised social awareness, however, it would be beneficial for building societies to make members, customers, employees and local community stakeholders aware of any steps which are being taken to manage environmental impact, as these will all add to the profile of building societies as socially aware and responsible organisations.

Where the drivers are greater, a number of building societies have taken steps to introduce a more formal approach to environmental management, as described in the case studies below.

### Regional Impact

One building society based in a largely rural, farming region, became aware that many of its mortgage customers were seeking loans on either farm-building conversions, or new-builds. In order to protect the local environment, the society introduced a number of products to ensure sensitive development of old buildings, and environmental efficiency in new homes. The society felt that if it was going to attach certain conditions to its mortgages, in order to remain credible the society itself should consider its own environmental practices and impacts. After a comprehensive process, the society has measures in place to control and monitor resource use, and become the first accredited company under the Peterborough Environment City Trust Environmental Management Scheme, which is independently audited.

### **Larger Society (Ranked 1-10 on assets)**

One of the larger building societies which is currently undertaking a process to formalise its approach to CSR, carried out a review of its environmental practices about 5 years ago. A staff survey showed that 80% of staff members felt the society should be more involved in environmental issues. Since then, the society has introduced a number of measures to manage its impact. Targets have been set to reduce paper use, to increase waste recycling and to reduce CO2 emissions.

In addition to this standard approach to environmental management, the society has introduced some more innovative practices. The society has an Environmental Champions Scheme – a group of employees from across all business units whose aim is to formulate and implement initiatives which will help the environment.

### **Specialist Society – Environmental Focus**

One building society which is founded on environmental principles and which specialises in environmentally responsible services, is demonstrating how environmental principles can be combined with responsibility to the local community, in the building of its new HQ. Having decided upon a site in careful consultation with the local community and councils, the building will be constructed using traditional materials where possible, and will incorporate systems for rainwater harvesting and "green" energy use.

The building is designed to have as small an "environmental footprint" as possible, while at the same time making a significant contribution to the local community. The site will include mature trees, a community garden and formalised dog walking area. In order to benefit the local community, a meeting room will be constructed, detached from the main building, which will be made available to local groups and schools. The building will also have a study area and library specialising in environmental issues, the resources of which will be available to the general public on request.

## **COMMUNITY RELATIONSHIPS**

### **Introduction**

Involvement with and support for local communities is one of the most fundamental ways in which an organisation can demonstrate its awareness of social responsibility. 'Business in the Community' - a business membership organisation which promotes CSR - takes the view that there is a clear connection between the health and profitability of a company and the general well being of the community in which it does business. A healthy local community offers a pool of potential employees for a company, and a successful and vibrant local economy will provide customers as well as other business opportunities. Support for local businesses, for example through responsible supplier relationships, can therefore have a positive impact not only on one's own business, but on the whole community.

### **Benefits of Community Involvement**

Research carried out by BitC points to a growing belief that involvement with communities can have real benefits for business:

- ➔ **88%** of chairmen and chief executives believe that companies that develop an active community affairs programme are likely to have a more committed and happy workforce;
- ➔ **85%** believe that a reputation for being socially responsive and responsible is becoming a competitive advantage;
- ➔ **79%** believe that community investment will play an increasingly important part in the strategies of companies in the future;

- ➔ **40%** of business leaders say they've got new business ideas through their community activities.

### **Involving Employees**

There are a number of ways of demonstrating an awareness of community stakeholders, ranging from communicating with local communities when significant changes are made to an organisation's operations, to contributing financially to a community, to encouraging staff to donate time or money to charitable causes. These latter initiatives have a double benefit, in not only building a strong reputation in the community, but also by demonstrating to staff that their values are important and recognised. This recognition is likely to strengthen staff commitment and boost morale.

The Government has demonstrated its belief in the importance of staff involvement in community engagement programmes through a number of initiatives. The 'Giving Campaign' - an independent, national campaign supported by the Government - aims to promote a culture of giving, and a key target area is influencing employers to encourage giving by employees. The Government is strongly promoting Payroll Giving, and has targeted nearly 30,000 employers to encourage them to offer the scheme to employees - the aim is to increase this form of giving to £60m a year. In 2000, the Government launched the 'Active Community Initiative', which is funding a new website to promote employee volunteering, as well as undertaking research to explore the benefits of employee community involvement, and developing case studies and a guidance toolkit to aid businesses in this area.

## **COMMUNITY RELATIONSHIPS - CURRENT PRACTICE**

### **Introduction**

It is in the area of community relationships that building societies show the most strength. Of the fifty societies responding to the survey, 86% considered support for local communities to be a key element of the society's understanding of CSR. Commitment to the local community extends beyond financial or in-kind support to the use of local suppliers, and engagement with local councils, development groups and schools. Employee involvement in such issues is regarded positively, and even where formal policies are impractical on such initiatives as time off for volunteering, the majority of societies welcome and encourage employee awareness of their role in the local community.

### **Key Findings**

- ➔ 90% of responding societies run some kind of community involvement programme. A number of societies run their own charitable foundations which offer substantial support to local organisations, while other societies run smaller scale programmes to provide cash donations or in-kind support.
- ➔ A third of societies have a formal policy in place to support employee volunteering, while a further 46% encourage employee volunteering on an informal basis.
- ➔ Pay-roll giving and matched giving schemes are rare - only 10 societies have a formal pay-roll giving scheme. There were indications from the societies interviewed that pay-roll giving was not a particularly popular option amongst employees as a method of community support.
- ➔ Over half of societies are engaging with Government at some level on public policy or key social issues, while 60% state that efforts are being made to address financial exclusion.
- ➔ There is much support for local suppliers, with 92% using local suppliers wherever possible, and the same number demonstrating support for local suppliers through such mechanisms as prompt payment schemes.

## Discussion

Community involvement and support is clearly an established area for the majority of building societies, and for many is synonymous with CSR. Even for the smallest societies community support is important and achievable - one respondent commented that while it was not possible to run a financial support programme, it advertises heavily in local organisations' programmes, which not only provides financial support for local events, but is an effective way of building the society's profile.

As community support is such a fundamental part of building society activity - as one respondent commented, it runs through the organisation "like a stick of rock" - some societies may not be realising the full benefits of their involvement, or appreciate the reputational impacts of their schemes. Some societies are exploring how to get more out of their community programmes, for example through linking employee volunteering to personal development programmes. There is a growing awareness that thinking of community involvement just as "something we've always done" may no longer be enough - the challenge is to consider how that community involvement can be used to the benefit of the society.

Another area of importance is financial exclusion. Addressing financial and social exclusion remains a priority for the Government, and increasingly they are looking to business partners, especially in the financial services sectors, to aid them in this initiative. This provides a challenge particularly for smaller societies, who need to limit costs as much as possible in order to remain competitive and offer favourable rates.

A representative of one of the smaller societies explained that providing accounts to those on benefits often resulted in high costs for the society - benefit payments would be paid in on Friday and the customer would withdraw all the money on Saturday. In order to address this, the society has found it necessary to introduce a minimum balance, and a small charge for accounts which fall below the balance. This enables the society to continue providing the account, whilst not having a negative impact on other customers whose accounts do remain in credit. It is important for building societies to communicate the challenges that face them in this area, so that unrealistic expectations do not develop. Building societies also face challenges in encouraging take-up of services for the traditionally excluded, though some have developed innovative approaches to dealing with these issues, as the following case studies illustrate.

### Language Issues

One society emphasised the importance of taking a practical approach to CSR, ensuring that values were reflected in basic activity. The society operates in an area with a high percentage of people from ethnic minorities, and realised that many local community members did not have English as their first language. This deterred them from coming into a branch or opening an account, as communication would be difficult. To address this, the society has positively encouraged members of the local community to apply for jobs in branches, to ensure that these other languages were represented. This has helped customers to feel more comfortable about coming into the branch, thus providing an improved service for the local community, and for potentially excluded customers. The benefits for the society are clear too - an enhanced reputation locally and a larger pool of potential customers.

### **Social Exclusion**

One society has partnered with the organisation Opportunity Links, which provides advice and support on work-life balance issues. Through this partnership, the society became aware of a particularly challenging area – the growing number of young single parents who may be in danger of poverty as they couldn't manage to work. The society has worked to help these parents through the development of a special account, which offers a simple savings facility and prevents the customer going into debt. The society also offers a simple insurance policy which can be used by those in rented accommodation, to ensure their possessions are protected. In addition, the society has promoted a responsible approach to debt collection, which ensures sensitivity towards those with children. The society admits that it is a challenge to encourage people to take up the account – there is still a suspicion of financial service providers, and a dislike of the "formality". Nonetheless the society will continue to strive to help the financially and socially excluded, as this is a significant issue in the region.

## **GOVERNANCE, MEMBERS & COMMUNICATION**

### **Introduction**

Issues of corporate governance have had a high profile in recent months, due to corporate scandals such as the collapse of Enron, as well as Government initiatives such as the Company Law Review. Transparency and accountability have become key words in the CSR debate.

For building societies, governance issues are slightly different as societies are collectively owned by their members rather than by shareholders. Nonetheless, there is still a growing expectation that all organisations should be open about the way their business is governed. The spread of scrutiny beyond the corporate sector is indicated by the high level of discussion over recent months regarding the governance and practices of charities, with increasing calls for mandatory reporting on the way such organisations manage their funds. Within this climate, building societies have an opportunity to demonstrate leadership, as most have extensive measures in place to ensure member feedback and involvement. The challenge will exist in communicating this practice to a wider audience.

### **Consumer issues**

Engaging with customers and building relationships helps create brand loyalty and satisfaction. Consumers are increasingly concerned about corporate activity - research by MORI in 1998 showed that 71% of those questioned, felt that industry and commerce do not pay enough attention to their social responsibilities, while research carried out in 1997 showed that 79% of customers would be likely to switch to a brand associated with a good cause.

Consumers have shown themselves to be ever more willing to boycott certain brands or products if they feel uncomfortable with a company's behaviour. Though "ethical" purchasers still form a small minority of the overall consumer market, the percentage is growing, and has particular implications for retail and service companies due to the direct contact between the business and the consumer. The financial services sector is both diverse and competitive, meaning consumers can choose to whom they give their business according to a wide range of criteria, including personal values. This provides an opportunity to those providers who can offer not only competitive rates, but also an appeal to customers' personal values and beliefs.

### **Communication**

The Government has been active in promoting greater transparency in organisational behaviour, encouraging the development of social reporting. Research by MORI carried out last year

suggested that, were an organisation to produce a social report, 9 in 10 shareholders, 2 in 3 employees and 1 in 4 customers would expect to see a copy, suggesting that there is a desire amongst stakeholders to understand more about responsible practices.

Social reporting is increasingly being understood as a learning tool rather than a straightforward reportage of organisational practice. Companies regarded as leaders in CSR, such as Camelot, use the social reporting process as an opportunity for stakeholder engagement, talking to consumers, employees, retailers and others about their perceptions and expectations of the company. Organisations who already have an existing level of engagement with stakeholders - for example member forums and customer panels - are well placed to use this knowledge as a platform for the wider communication of their social performance.

## **GOVERNANCE, MEMBERS & COMMUNICATION - CURRENT PRACTICE**

### **Introduction**

Building societies are in a different position from many other commercial organisations - as mutually owned organisations, they are accountable to their members rather than to shareholders. Mutuality is not necessarily interpreted as an element of CSR, however, 72% of respondents felt that "an organisation run for the benefit of its members" constituted a significant element of the organisation's understanding of CSR. It seems more likely that mutuality is understood to be the foundation of CSR - more the *raison d'être* of the society than an expression of its social responsibility. The importance of mutuality is reflected in the approaches taken by societies to ensure communication with members. Societies are also showing an awareness of member needs, with a number introducing leading edge policies to ensure member satisfaction.

### **Key Findings**

- ➔ 70% of societies have systems in place to ensure members can share their views. For almost a third of societies, this constitutes formal policy, and approaches range from feedback cards in newsletters to member forums.
- ➔ AGMs do not seem to be considered as the most important way of enabling members to share their views. While a number of societies have taken steps to make their AGM more appealing and accessible, it seems to be accepted that member interest will not be high, and that other methods are more successful. The use of incentives to encourage attendance is not popular - 70% take no action on this at present.
- ➔ The majority of societies take care to ensure that customers receive easily understandable advice on products, and that accessibility to services is as wide as possible.

Communication through social, community or environmental reports is uncommon, with 90% of respondents taking no action in this area. Societies are more likely to communicate their performance via the internet, with 16% currently doing so, and 14% intending to take action.

### **Discussion**

Ensuring that members have opportunities to share their views about their society is clearly important to respondents, with a significant number ensuring that mechanisms exist to facilitate direct contact between the chief executive and members. This opportunity for such a level of engagement in the business of one's financial service provider is obviously unique to mutual organisations, and there is a feeling that the benefits of mutuality have not always been sufficiently communicated. Following the conversion of a number of societies in the 1980s and

90s, the message of mutuality has tended to focus on favourable interest rates. Mutuality, however, means far more than this, and the practice revealed by this research demonstrates some leading-edge approaches in terms of accountability, transparency and communication. Such activity fits perfectly with the agenda of CSR, and the opportunity exists for building societies to raise their profile and position themselves in a much more prominent position within this agenda.

Building societies are also taking steps to communicate with members at a 'consumer level', with several societies introducing more formal approaches to customer services. As discussed above, consumers have been significant drivers of the CSR debate, and organisations with strong performance in this area are likely to be regarded favourably. Again, the opportunity exists for building societies to make much more of the activities which are currently undertaken, to help build a profile of a socially responsible organisation.

While separate social or community reporting may not be practical for the majority of societies at present, the use of web based reporting should be encouraged. With an increasing number of people seeking financial services over the internet, websites provide the perfect opportunity for societies to share more information about the benefits of mutuality, as well as their activities in the area of community involvement, employee relations and environmental impact management.

The case studies below show how some building societies are managing their approach to member involvement and customer service.

#### **Forums**

One building society uses a forum approach to improve customer service and to ensure member involvement. At branch level, the society runs "education forums", which provide advice and support on issues such as investment planning and financial services. The aim is to engage customers and raise awareness of different opportunities. The forums are open to everyone and held at different branches in all the regions where the society is present.

The society also holds member forums where members are invited to meet the chief executive and talk to him on a one-to-one basis. Again, the forums are held at different locations and the schedule is published on the society's website.

#### **Improving Customer Service**

One society has introduced an "ideas to action" scheme, a system which enables the society to respond to customer needs as well as the ideas of employees. Having brought in new software to deal with customer service management, the society realised that behaviour would have to change too, to encourage a customer focused approach. Ideas for new or improved products are therefore encouraged from employees and customers, and a system is in place to ensure that ideas are reviewed, prioritised and assessed for risks. The society can decide which ideas to take forward and develops products in response. This ensures that the products being developed actually give members what they want.

For some societies, holding member forums is not practical, while others do not consider them to be the most suitable means of assessing a valid cross section of member views. Societies use a whole range of approaches to ensure member involvement, for example taking the AGM around the country to enable attendance for everyone; treating the AGM as a party; combining the AGM with a chief exec Q&A session; inviting members to write articles in the newsletter; and including feedback forms in newsletters.

# BUILDING SOCIETIES AND SOCIAL RESPONSIBILITY - PERCEPTIONS & EXPECTATIONS

## Introduction

The discussion of the research findings has shown that there is already much good practice amongst building societies. A wide range of approaches is being taken towards meeting social responsibilities, and there exists within the sector a huge commitment to meeting the needs of stakeholders, particularly local communities and employees.

This report demonstrates that building societies have a great opportunity to make more of this activity, and to raise their profile in the area of social responsibility. Questions still exist, however, regarding the necessity of this for the sector. Do building societies really need to raise their profile? Do they not already have a good reputation with local communities? Isn't the value of mutuality already recognised?

As part of this project, The SMART Company conducted research with community leaders, to explore perceptions and expectations of building societies. Interviews were conducted with 100 community leaders from all regions of the UK, who represented community and voluntary organisations in sectors including arts and culture, social exclusion, diversity, employment and health. The results showed that while building societies are comparatively well regarded in the financial services sector, awareness of their activity is not high, and an expectation exists that building societies could do more to address social responsibilities.

## What should building societies be doing?

The community leaders were asked what they felt were the most important ways in which building societies should demonstrate a commitment to social responsibility. The options given were:

- ➔ Providing financial support to local community and charitable causes i.e. through sponsorship, cash donations etc;
- ➔ Working to retain their mutual status, i.e. continuing to be owned by members rather than by shareholders;
- ➔ Working to address financial exclusion i.e. by offering basic saving and lending facilities, building communication with traditionally excluded customers;
- ➔ Offering "ethical" products, such as "green" mortgages and investments;
- ➔ Protecting the interests of all customers through responsible lending practices (e.g. limiting level of mortgage lending);
- ➔ Taking all possible measures to keep branches open and provide a service to the local community, even where doing so may not be financially viable.

Respondents were asked to rank these options in order, indicating which they felt to be most important, and which least important.

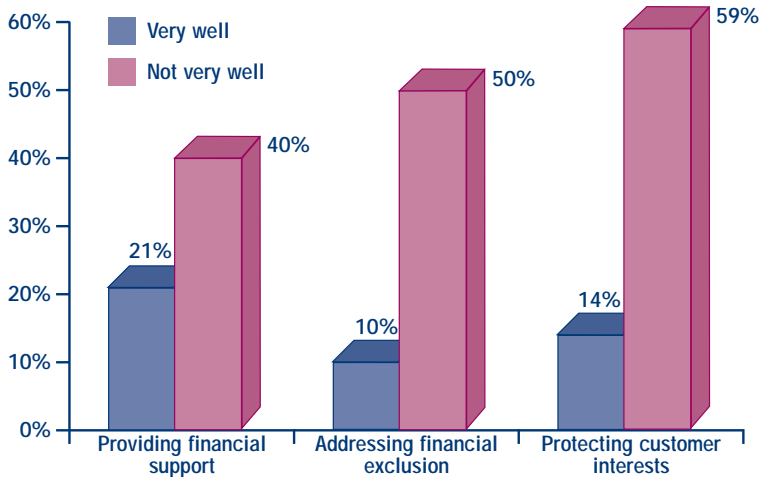
The options rated as most important were:

- ➔ ***Working to address financial exclusion*** (ranked as most important by 23% of community leaders)
- ➔ ***Providing financial support to local community and charitable causes*** (ranked as most important by 22% of community leaders)
- ➔ ***Protecting the interests of all customers through responsible lending practices*** (ranked as most important by 20% of community leaders)

### How are building societies doing?

From the research conducted amongst building societies themselves, it might be assumed that community leaders would already consider that building societies were active in these areas, particularly on the issue of providing financial support. When the community leaders were asked how well building societies were doing on those important issues, however, the results were surprising:

#### How well are building societies doing in addressing these issues?



Community leaders feel that building societies are doing best at providing financial support to local communities - though 40% still think that societies are not doing very well at all on this issue. The major concerns relate to addressing financial exclusion and ensuring responsible lending practices, with over half feeling that building societies could be doing more.

Based on the research conducted amongst building societies, it seems reasonable to assume that these attitudes stem as much from lack of awareness as from actual experience. When asked, just over half of the community leaders said they were aware of building society in their local area, and when asked for examples of good practice a significant number named demutualised organisations.

The research also indicates that the value of mutuality is not necessarily recognised outside of the building society sector. Only 12% of community leaders felt that "working to retain their mutual status" was the most important way in which building societies could demonstrate a commitment to social responsibility, with over 30% considering this issue to be of little or no importance. The research amongst building societies has shown that many believe mutuality to be at the heart of their approach to social responsibility, but the benefits of mutuality do not seem to be widely understood.

Community leaders were also asked to think about their own communities, and how they felt building societies could best contribute to meeting that community's needs. Almost 50% of community leaders in all regions felt that the most valuable contribution building societies could make would be in working with local communities to tackle financial exclusion, though providing financial support to local community initiatives was considered to be almost as important.

# **BUILDING SOCIETIES & SOCIAL RESPONSIBILITY - THE CHALLENGE**

The research has shown that within the building societies sector, there is a wealth of good practice with regard to social responsibility. The challenge for building societies is to communicate this good practice to a wider audience. The research amongst the community leaders shows that building society activity is not well known, and the lack of information appears to lead to the assumption of a lack of action.

A growing body of evidence demonstrates the value of CSR activity - improved employee relations, enhanced reputation amongst the local community, cost saving through responsible use of resources - which together present a strong business case. Building societies are well positioned to respond to the CSR challenge, as they have a core philosophy of community support and mutual responsibility. There are, though, a number of areas where action needs to be taken:

## **→ Communication**

Few building societies are taking steps to communicate their activities in the area of social responsibility, despite the wealth of activity. The research amongst community leaders demonstrates that proactive communication is key in ensuring a positive reputation and recognition of this activity

## **→ Developing Social Responsibility**

While many building societies are undertaking activities which can be included under the heading of "social responsibility", few seem to be developing their approach to gain maximum benefit from this activity. A "joined-up" approach to CSR draws on core values to make links between social responsibility and the business case, and encourages an approach where the organisation learns and benefits from its activities. It will be important for building societies to begin to develop this more strategic view, to realise their investments in CSR activity.

## **→ Develop the Concept of Community Involvement**

For the majority of building societies, community support still involves financial support for local projects. This is clearly welcome support, and for smaller societies, a realistic approach to local community engagement. The research with community leaders indicates, however, a desire for building societies to become more involved in addressing financial exclusion. Building societies, as community focused organisations with a significant level of trust amongst local communities, are well placed to take the lead in this area. A number of societies and the BSA are already undertaking work on this issue - once again, the challenge lies in communication.

## **→ Spread the Message of Mutuality**

Building societies are obviously committed to mutuality, and understand that the approach has deeper implications than an effect on mortgage and savings rates. If it is mutuality that is driving building societies' approach to social responsibility, this message needs to be communicated. The most successful CSR strategies are those with core values as their foundation. Organisations which have not developed a significant core philosophy, face a real challenge when trying to introduce organisational values at a later date. Building societies do not face this challenge, as their core philosophy already exists - a philosophy which is perfectly attuned to the growing environment of social responsibility. If building societies can communicate this message, they have the opportunity to take the lead in this new environment.



