Shared Value Measurement

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Q. How do you go about measuring shared value? What do you need to know? What literature is out there to support your measurement process?

A. Read this guide and you will find out!

IMPORTANT NOTICE: This workbook, compiled by Andrew Hamilton and Phil Preston, is designed to help the attendees of the Shared Value Summit Masterclass workshop 2018 better comprehend the task and challenges surrounding shared value measurement. It is not for copying or distributing on to others without their permission. For licensing or internal training requirements, please make contact with the authors via andrew@socialscaffolding.com.au or phil@philpreston.co

The Measurement Task and Its Challenges

As a relatively new lens used for corporate innovation, dimensioning the measurement of creating shared value (CSV) is challenging because it straddles economic, social and environmental value creation. There are many interested stakeholder groups, none more so than company management, because measurement helps inform the decision of where to allocate resources.

There will be many stakeholder groups that also have interest in measurement, such as business and not-for-profit partners, regulators, advocacy groups, investors, financiers, employees and the community at large, and the type of data they are seeking will differ between them.

Value, whether economic, social or environmental, is defined as benefits *relative* to cost and not benefits alone. In other words:

- Companies will be seeking an attractive ROI in economic terms. In some cases, they may be willing to accept a lower level of return or a longer time to reach break-even point, however a fundamental tenet of CSV is that it is underpinned by an attractive commercial return and / or a meaningful and measurable boost to a company's competitive advantage.

- Social and environmental returns should be attractive relative to the cost of producing them so that the most efficient and effective means are sought out by project partners.

Creating shared value is predicated on the fact that societal needs - not just economic needs - define markets[1], and therefore it follows that societal issues may generate high internal costs for companies or present new product or market opportunities. There are two criteria for creating shared value:

1. An economic benefit for the company in question; and
2. A positive and measurable societal benefit.

These criteria are quite broad and creating shared value does not have an agreed methodology or approach to reporting on outcomes. Porter & Kramer appear to be comfortable with this level of openness as it is really for the company, its key business partners and stakeholders to agree on what needs to be measured and how it is reported.

The lack of a perfect measurement framework should not preclude a project or initiative going ahead. At the APAC Shared Value Summit in 2018, CEO of AIA, Damian Mu, outlined a personal framework he applies in decision making situations: knowledge, intuition and experience. Knowledge can be gained from data and analysis and experience can be both internal and with external partners. Intuition is more difficult to define, however we all know that strong and insightful intuition is a key strength when it comes to innovation, and CSV is one of many lens' that can be adopted for innovation in business.

In some cases, benefits are hard to measure and proxy measures will be used. For example, in the Indian milk districts supported by Nestle's infrastructure development agenda, they focus on

[1] *Porter & Kramer, Creating Shared Value, HBR 2011*

increases in milk volumes and cattle health as proxies for economic value. Another example stems from early studies of cocoa farmers in Cote d'Ivoire which found that shared value investments, driven by multinational company concerns over falling crop yields, could raise their incomes by more than 300% which delivered sufficient ROI and strategic benefits for the main participants[2].

Our guidance is that ***the measurement regime adopted must speak to management, core project partners and other major stakeholders*** you are endeavoring to satisfy.

Questions to ask include:

- What business benefit is being measured?
- Is it increasing profitability through extra revenues? Reduced costs?
- If direct measures aren't possible, can you identify proxy measures?
- Has it improved competitive positioning? If so, how?
- Do you have a set of indicators that will help you track progress along the way?
- Are you building in measurement considerations and systems early on?

Because CSV is fundamentally about creating competitive advantage, companies are not always willing to share commercially valuable information, and this is a barrier to advancing measurement knowledge.

The Australian based Bendigo & Adelaide Bank has been recognized for the power of its shared value approach, receiving a ranking of 13th in Fortune's Change the World List (2017). From the late 1990s it has employed an innovative business model to establish physical bank branches in metro and regional areas that the larger banks were exiting from. Partnering with local communities has driven its success, leading to substantial balance sheet growth and reinvestment of more than $200 million in those communities. When creating new shared value strategies, it asks five key questions:

1. Is the strategy based on a belief that "business needs successful community and community needs successful business"?
2. Is there a social issue that the strategy is addressing?
3. Is the core business being applied?
4. Does the strategy achieve community and business success?
5. Will it result in competitive advantage?

According to their Head of Shared Value, Sam Moore,

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[2] *Ibid*

"We found that it's not a simple yes / no answer to the question of whether a strategy is / isn't shared value. It's more helpful to ask to what extent a strategy is reflective of shared value principles. So we identified five essential questions that shared value strategies need to answer. And the stronger the answers, the stronger the shared value"

Inputs, Activities, Outputs, Outcomes and Impacts!

Before going further, we need to define the above terms and differentiate them, partly because CSV is prone to using proxy measures. As a rough guide, in the context of a project:

- Inputs - the resources used in project implementation (eg. funding, equipment, volunteers)
- Activities - what is done in executing the project plan (eg. adapting policies and procedures, conducting meetings and information sessions)
- Outputs - refers to immediate, direct indicators (eg. the number of meetings held, people attending who show interest in the offering)
- Outcomes - typically reflects what has changed in the medium term as a result (eg. number of jobs attained by the social cohort, decrease in staff turnover)
- Impacts - the long-term consequences of the project (eg. youths breaking the cycle of unemployment, improved workforce productivity)

Measurement Frameworks

In FSG's *Measuring Shared Value* publication, the authors note:

"Despite the wide- spread embrace of the shared value concept, however, the tools to put this concept into practice are still in their infancy. ... Even the companies that are most advanced in pursuing shared value today lack the data they need to optimize its results."

In their 2013 paper, *Innovating for Shared Value*, Pfizer et al acknowledged that no universal system exists and propose a three-step process:

#	Step	Description
1	Estimate the business and societal value	Estimate how a degree of change in a societal condition will drive profits through either incremental sales or reduced costs, and link those benefits with the resources needed to achieve them.
2	Establish intermediate measures and track progress	Use the business plan as the road map to monitoring progress in achieving the targeted societal and business benefits, with the goal of validating (or otherwise) the anticipated link. Because the timelines may be long, installing metrics to monitor intermediate progress is required.
3	Assess the shared value produced	If the expected benefits are found, is there a business case for expanding or scaling up via additional investments?

We also want to mention related topics and methodologies:

- Social Return on Investment (SROI) – typically used when a project is designed to deliver savings to government, and especially so for social impact bonds and similar government negotiated agreements. A method for translating societal outcomes into savings for government is agreed between the parties prior. SROI is seldom required for your shared value initiatives unless there is direct government involvement or you are trying to on-communicate the dollar equivalent of your project's societal benefits.

- Corporate Social Responsibility (CSR) – it serves an essential purpose for most companies, playing a role in building brand, reputation and preserving social licence to operate, and usually does not produce a directly measurable economic benefit. Spending will typically be framed as a percentage of turnover or profits, and social investments relate to the company's risk management agenda.

- Sustainable Development Goals (SDGs) - a framework developed by the United Nations to help bring focus to global challenges. Many companies make use of them to guide their assessment of societal issue materiality and bring focus to the most important issues. As far as CSV is concerned, they may assist companies in developing and aligning societal targets and measurement systems with broader community objectives. They provide a good checklist when companies ask the question: *Which societal issues are constraining us or presenting opportunities for our business?*

- Australian Stock Exchange (ASX) – Using the Australian context as an illustration, ASX Corporate Governance Principle 7 ("Recognise and Manage Risk") states "*A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks*" and goes on to say "*To meet this recommendation does not require a listed entity to publish a sustainability report. However, an entity that does publish a sustainability report may meet this recommendation simply by cross-referring to that report*". As you will note, this is framed from a risk perspective and not in value creation terms.

Instructive Case Studies

These case studies are resources on the Shared Value Project (https://sharedvalue.org.au/resources/case-studies/) and Shared Value Initiative's (https://www.sharedvalue.org/resources) websites that are good illustrations of measurement, metrics and the challenges that belie the process:

- The Community Bank Model (Bendigo & Adelaide Bank) - Contains hard metrics around societal and business outputs and outcomes

- NAB Assist - One of the best Australian examples of measurement on the business and societal fronts.

- AIA Vitality - A list of business and societal outcomes being sought, however no numbers or actual measures are given.
- Macarthur Real Estate Engagement Project - Outlines the direct financial savings realised by real estate agents if tenancy evictions are averted as well as societal outputs, outcomes and impacts.
- Stockland: Creating Liveable Communities - This case study is low on numbers given it is early stage reporting, it does give great insight into business /society linkages and competitive advantage.
- CJ Korea Express: Senior Parcel Delivery - Provides metrics on job creation for seniors and the business benefits associated with it.
- 4e, Camino al Progreso (SABMiller) - Outlines the returns on investments in small-holder retailers in Latin America.
- Healthcare Worker Safety (Becton Dickinson) - A fantastic example of a social need driving the creation of products that now represent about 25% of their revenue.
- Patrimonio Hoy (Cemex) - An array of societal and business results are provided from the creation of housing products and systems suited to low income earners.

As a practical example of reporting, this excerpt from Aurizon's 2016 sustainability report (p39) is a useful reference point:

> *"The Indigenous Pre-Employment Program was highly successful, with 15 out of 20 of the participants securing a role with Aurizon.*
>
> *A pre-apprentice program to prepare people for study, the necessary clothing, and mentoring from other peers to support through the training and induction process. Especially if travelling far from home.*
>
> *By investing in the program, Aurizon also delivered shared value for both the participants (through sustained employment), and for their business: increased staff retention Voluntary turnover for Indigenous employees reduced from 11.3% four years ago to 3.3% in FY2016 and is lower than overall voluntary turnover of 5%. As a result, staffing costs such as recruitment, training and other associated business costs are reduced in these regions. "Supporting 20 Indigenous people from Central Queensland to participate in a pre-employment program is not just good for these new employees and their families, but also makes good business sense for Aurizon."*

Key Papers and Resources

As practitioners, we recommend the following as further reading:

Paper / resource	Reason it's of value
Shared Value Project resources	https://sharedvalue.org.au/resources/
Shared Value Initiative resources	https://www.sharedvalue.org/resources
Porter & Kramer, Creating Shared Value, HBR 2011	The authors' seminal paper on CSV is so rich in concepts and content that you tend to find something new each time you read it, including things that will help form thoughts around measurement.
Pfizer et al, Innovating for Shared Value, HBR 2013	The authors' measurement framework was mentioned earlier in this resource.
Insuring Shared Value, FSG Report	Provides a snapshot of insurance related shared value initiatives, including metrics.
Measuring Shared Value, FSG Report	There is an excellent table on page 3 that outlines, by shared value strategy type, the types of business and societal benefits that are on offer. Examples, such as those based on Novo Nordisk and Nestle, are instructive.

About Andrew Hamilton and Social Scaffolding

Andrew founded Social Scaffolding in 2016 and has been a member of the Shared Value project, delivering workshops, panel discussions and consulting projects. Having worked in both corporate and large NGO's Andrew is passionate about the opportunities of Creating Shared Value in partnership between the two sectors.

The Social Scaffolding team are experts in developing and assessing new business models across 'for profit', social enterprise and 'profit for purpose' opportunities, with complimentary skills to Shared Value creation including market research, impact investment and outcomes measurement.

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About Phil Preston and The Collaborative Advantage

Phil rode his own wave in the corporate sector for 19 years and became the head of a financial research team responsible for $40 billion of global investments. Disillusioned with the limitations of philanthropy and traditional CSR, he co-led an initiative to integrate environmental, social and governance (ESG) factors into decision making.

Today, as the Founder of The Collaborative Advantage, he guides businesses, not-for-profits and government through the challenges associated with shared value strategies and collaboration-based projects. In 2013, he was invited by Professor Michael Porter and Mark Kramer to Boston to help form the Shared Value Initiative's inaugural global practitioner network and is a member of the Australian-based hub, the Shared Value Project.

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