LBG MEASURING COMMUNITY INVESTMENT

Investing for Shared Value

A framework to assess results for business and society

CORPORATE CITIZENSHIP

About LBG

LBG is the global standard for measuring corporate community investment. Our vision is a world where every business measures its community investment and shares this is an open, transparent and consistent way. Our mission is to provide a platform for LBG members to work with each other, and with their partners in the community, to improve measurement and make a greater difference. Companies in the LBG network collectively contribute more than $3 billion to community causes helping more than 90 million people.

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LBG is managed by Corporate Citizenship

Corporate Citizenship is a global business consultancy specialising in sustainability and corporate responsibility. The team uses expert insight and a simplified approach to sustainability to deliver growth and long-term value for business and society. With teams in London, New York, San Francisco, Santiago and Singapore we work with clients on both a local and global level, to achieve their commitments to responsible business behaviours and sustainable practices. We advise on a number of areas including strategy, community, engagement, environment, supply chain, socio-economic impacts, reporting and assurance – helping clients to make the smart choices that will enable them to survive and thrive in an increasingly challenging business environment.

For further information about our services, please contact us at **mail@corporate-citizenship.com**

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Executive Summary

Some companies are having a 'light bulb' moment – realising they can make money at the same time as meeting social needs. Others wearily point out that this is not a new concept. Nineteenth century philanthropists like Carnegie, Lever, Peabody and Rowntree are still renowned today for combining successful businesses with social activism.

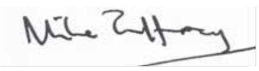
New or old, what's not in doubt is the growing interest in a space now sometimes described as 'shared value' – business projects and activities that yield strong benefits for society as well as good commercial returns. Companies and partners are looking for practical tools to understand the potential, to manage programmes and above all to deliver results.

This paper proposes a new **framework for shared value** and presents a companion **assessment tool**. At its heart is the belief that results for both society and business will be greater if the desired outcomes (objectives) are clearly set at the beginning and if best practice is followed in running the activity (quality management principles). The framework defines what shared value activity is, with criteria for inclusion, and the tool provides guidelines for valuation.

This approach is built on our experiences working with companies over nearly two decades since we founded LBG – the global standard for measuring community investment. It especially draws on the work of eight companies – Barclays, BT, Co-operative Group, Diageo, GSK, Royal Bank of Scotland, SABMiller and Unilever – who came together to help us explore ways to define and measure the investments they are making in business activities with high social impacts. Along the way, we consulted widely and reviewed many different measurement models – now summarised in an accompanying shared value **measurement map**.

The outcome is a simple and practical approach, based on readily-understood principles. It can be used in many different types of companies and sectors, and in differing geographies around the world. In this way we hope that the results can be benchmarked and learnings shared.

What's exciting for companies now engaging in these activities is the challenge to conventional notions about community contributions – and about traditional business too. Let us know how you get on.



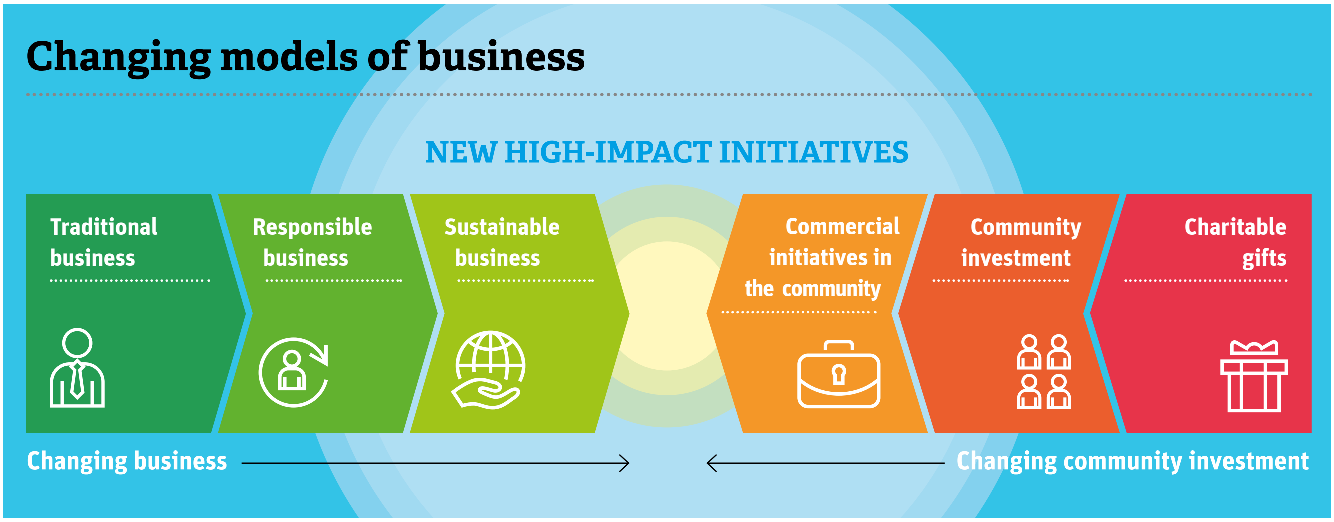
Mike Tuffrey
Co-founding director, Corporate Citizenship

What are investments for shared value?

Most large corporations have longstanding and well-developed programmes for making charitable and other community contributions. These investments are primarily driven by a community benefit motivation. By definition, as investments in the community they largely sit alongside and beyond the business, albeit increasingly aligned with a 'business case' rationale.

At the same time, conventional business activity is primarily driven by for-profit and shareholder value motivations, even if the beneficial social impact of some products and services is increasingly recognised. Under conventional thinking, these impacts, along with the wider benefits to society from jobs created and taxes paid, are a by-product of the business, rather than an intended and managed outcome.

However some companies are now undertaking activities that appear to blur these distinctions, deliberately involving elements of both – so-called 'shared value' activities that combine a for-profit motivation with the desire for genuine and significant social impact. This is driven by two trends: a greater understanding of the long term corporate benefits of business responsibility and sustainability, and a shift away from philanthropy towards win-win investments. (See below)



In the current debate about corporate responsibility and sustainability, some say there is not (or perhaps, should not be) a distinct third category of 'shared value' projects. They say that increasingly all business needs to demonstrate the 'social utility' of the free-market capitalist model.

However this debate unfolds, the companies we work with believe there is merit today in identifying the 'shared value' space better and in defining suitable objectives and measures that can help socially responsible companies to:

- improve the likely results of their investments, both for their own businesses and for wider society.
- spread understanding within other companies about the advantages of starting similar activity.
- strengthen wider understanding in society and among stakeholders about the changing role of business in society.

To help define clear criteria for 'shared value' investments, we examined what distinguishes them from conventional community and business investment.

In summary, compared to conventional business investment, 'shared value' activity tends to:

- be innovative and developmental, finding new ways to do things.
- have longer timeframes than conventional business investments.
- have higher risks of failure or greater uncertainty.
- may involve some element of reduced profit margins, at least initially, perhaps with slower sales growth or higher costs.
- explicitly provide 'added' social value alongside business goals.

Compared to traditional community investment, 'shared value' activity tends to:

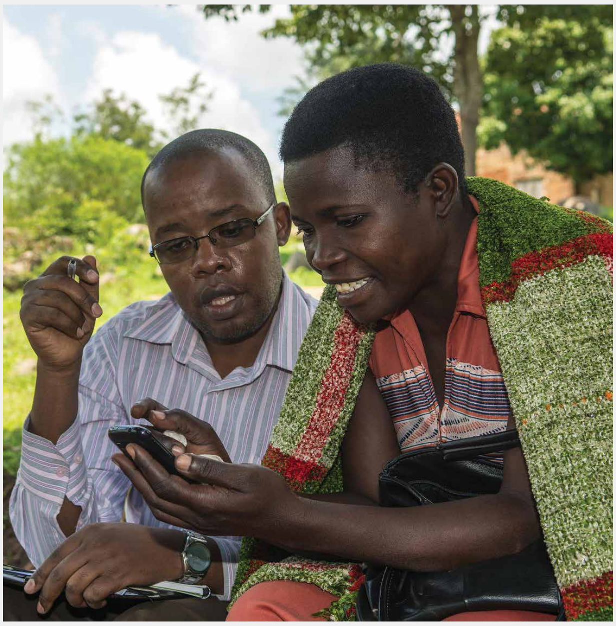
- be led by the business directly, rather than a separate programme or department.
- explicitly seek improved sales and profits as its eventual goal.
- be durable, for example through self-funding, rather than relying on continued corporate contributions or public subsidy.
- make a lasting contribution to social change, rather than simply providing an immediate benefit.
- have no essential requirement for a community partner.

CASE STUDY

Barclays

Barclays established a Social Innovation Facility (SIF) in 2012, with £25m in allocated funding, to accelerate the development of commercial solutions that directly address social challenges. The SIF receives proposals from business units for new commercial products and services that demonstrate positive social impact. Examples include financial services delivered through 'village savings & loan associations' in Africa, a college savings account to support low income students in the US and contactless payment technology that enables micro-donations in the UK. The Facility is helping Barclays to uncover, test and scale new market-based solutions that challenge existing business models, encourage unconventional partnerships and support innovation from within the business.

Barclays Social innovation web page



CASE STUDY

Unilever

Unilever, has made a bold commitment to promote sustainable living and has a formal plan to help drive the business towards achieving its sustainability goals. One specific goal is the target to provide 150 billion litres of safe water by 2020, through its range of water purifiers that provide 'safe drinking water' that meet stringent international safety norms at a fraction of the cost of bottled or boiled water. Unilever is investing to build distribution and after-sales channels across 12 countries for its water purifier brands (Pureit and Qinyuan). Innovative business models are being used to reach low income communities via enabling partnerships with NGOs and microfinance institutions.

Unilever: Providing safe drinking water

Framework for investing for shared value

A Set objectives

Set clear measurable goals for business and for society, aligned to business strategy and responsibility/sustainability mission.

B Consider if shared value criteria apply

Ensure the activity meets the requirements for a true 'shared value' investment, looking at the criteria for inclusion.

C Check activity meets quality management principles

Make sure successful outcomes are more likely to be achieved, by careful planning and management of factors such as stakeholder consultation and inclusion.

D Make the investment

What are the lifetime costs of this activity to the business?
What third party funding is directly attributable to this activity?

E Business results

Directly through a measurable improvement in the bottom line profit
Longer term resilience and capacity building

F Society results

Direct benefits for individuals
Longer term socio-economic capacity building.

G Assess overall outcomes

Look back at the original objectives: what is the scale of resources invested and results achieved? Does the ratio between inputs and outputs – the return on investment – look right, for the business and for society?

Have longer term goals been achieved, such as innovation and mainstreaming?

This framework draws on experience over 15 years working with companies around the world applying the LBG evaluation approach. It was tested by the participant companies in our research and compared to other impact assessment models in current use (see separate Measurement Map for a summary of other models).

The central insight is that results for both society and business are likely to be greater if the desired outcomes (objectives) are clearly defined at the outset and if best practice is followed in running the activity (quality management).

Measurement starts by quantifying the resources invested and then considers the results achieved, distinguishing between those that are direct and immediate and those that are more long term or indirect. The framework's final stage is an overall assessment, comparing inputs with outputs and reviewing objectives. An assessment tool with guidance on measurement at each stage is separately available.

Using the framework

The framework uses six criteria to determine whether an activity is classified as 'shared value'. These are whether it:

1. Meets a defined business objective, explicitly linked to a stated corporate strategy.
2. Meets a defined social objective, clearly linked to a stated responsibility/sustainability purpose, mission or strategy.
3. Provides high levels of social value derived from a business solution.
4. Is different from standard business investment requirements.
5. Will yield demonstrable and measurable results, both for the business and for society.
6. Is intended to be scalable, replicable and durable, with a self-sustaining resource model.

A further five subsidiary criteria are included in the assessment tool (available separately) to help determine whether an activity can be included.

Some companies will want to apply the framework across their entire portfolio of activities, calculate a monetary value of resources invested company-wide and aggregate the results. They will use the data to improve outcomes and to report externally, alongside their traditional community contributions. This will enable them to engage with stakeholders, explaining how different interventions achieve varying outcomes.

Others will more simply use the framework to understand better their existing activity, to assess individual initiatives, or to extend practices to other parts of the company. The framework can also be used looking forward, to test out alternatives or to consider future scenarios, sometimes working with external partners.

Practical guidance on valuation issues

Our goal in building the framework into a measurement tool has been to provide companies with a simple and practical approach. We have therefore not devised a set of new measures. The framework allows existing company systems and external standards to be incorporated flexibly. Our approach is 'keep it simple'.

In practice this means:

- For business results, use the measures already in place in your business –whether that is profit, rate of return, market share or cost benchmarks.
- For social impact, use measures that link to externally recognised standards such as the Sustainable Development Goals, national sustainable development indicators or relevant government strategies.
- On time scales, base your assessment on the total length of the initiative or activity over several years if necessary, in keeping with your usual three to five year business planning cycle. That is consistent with the longer term approach of much of the activity in this space. If annual progress reports are needed, disaggregate that as required into individual years.
- Don't be deterred by technical evaluation issues, such as 'counterfactuals' (what would have happened anyway) or any linked negative impacts. Acknowledge these in your explanation and communication and focus on ways to improve outcomes.
- Recognise that not everything can be measured and that if best practice quality management principles are followed, results in line with objectives are more likely to be achieved even if you can't measure them all.
- Focus on how you will use your valuation results – on what the end assessment is going to tell you about how to allocate resources and manage better. Typically there are three questions to address:
  - how much are we spending on this activity?
  - are we achieving our goals – is the activity effective in meeting its objectives?
  - is it a good use of our resources – is the ratio between inputs and output efficient, or could we get a better mix by doing things in a different way?

CASE STUDY

BT Group

BT is expanding the UK's high speed broadband network but not all customers are able to gain access to its services and the benefits that brings. For example over 2 million people in homes provided by housing associations are not online, even though applications for social security benefits, notification of job vacancies and access to other services must increasingly be made over the internet. As part of its Purposeful Business programme, BT is offering social housing tenants training, coaching and access to a special helpdesk for installation and technical support, along with a low cost personal computer. Although a service charge is made, the upfront investment costs are higher, the margins are lower and the investment payback time is longer than conventional offerings.

BT Group: Creating Possibilities

CASE STUDY

GSK

GSK, the global pharmaceutical company, is investing in developing countries to increase access to medicines, build capacity and deliver sustainable growth. Their vision is to make GSK products available to 80% of the sub-Saharan Africa and Least Developed Countries (LDCs) population by 2020. In LDCs, prices of their medicines are capped at no higher than 25% of those in more developed countries and 20% of the profits made are re-invested back into building the healthcare infrastructure of that country, specifically through front-line healthcare worker training. GSK's Africa and Developing Countries business unit, responsible for delivering its strategy across 50 countries, including all of sub-Saharan Africa, is not measured on profits generated, but on delivering higher volumes of lower-priced, high-quality medicines and vaccines. By increasing the overall volume of products sold, GSK is able to sustain lower prices on essential medicines and vaccines for those most in need – a departure from the traditional pharma company model.

GSK: Developing Countries Unit

The way forward

It is clear from our work that different companies are adopting a variety of approaches to 'shared value' investing: some are undertaking pilot projects, others are creating new business units, while a few are re-examining their whole corporate purpose and business model. This is very much 'work in progress'.

Certainly, this framework is not meant to be the last word on evaluating the results from business investments in activities that yield high outcome for society. On the contrary, companies in LBG and those supporting this project expressly seek to learn from each other and to share their findings.

Our aim is to disseminate widely their experiences, gain insights from others in business, civil society and government, and refine and revise the approach for the future. Therefore please let us have your own perspectives and experience.

Further resources – Measurement Map

Recent interest in frameworks, standards and indices for the measurement of non-monetary value and impact has led to a proliferation of initiatives. Our 'measurement map' is designed to scope out the principal initiatives offering measurement tools relevant to companies, so helping to navigate this space. With a short explanation of each, it provides an introduction for further research as needed. A copy to download is available from www.corporate-citizenship.com

Also available for download is the assessment tool.


Measurement Map
a corporate perspective

Companies

COMPANY MEASURES
- Bespoke KPIs
- Impact studies
- Strategy-linked plans
- Environmental P&L
- Integrated reports

BUSINESS FRAMEWORKS
- GRI
- SASB
- LBG
- WBCSD
- Shared Value Initiative
- BITC CR Index
- ISO 26000

INVESTORS
- Socially Responsible Investing
- PRI
- Equator Principles
- IFC

Social impact measures

IMPACT INVESTING
- Acumen Fund
- Bridges Ventures
- Root Capital
- GIIN - IRIS

SOCIAL IMPACT
- Co-operatives
- Social enterprises
- Inspiring impact
- Issue based standards
- Social return on investment (SROI)

Government & Nations

BIG GOALS
- Millennium Development Goals and Sustainable Development Goals
- UN Global Compact

WELL-BEING
- OECD Better Life Index
- ONS National Well-being Index
- NEF Happy Planet Index

Recent interest in frameworks, standards and indices for the measurement of non-monetary value and impact has led to a proliferation of initiatives. The sheer number and range of these can be incredibly confusing for practitioners, especially those trying to get started. Our 'measurement map' is designed to scope out the principal initiatives offering measurement tools relevant to companies, so helping to navigate this space. With a short explanation of each, it provides an introduction for further research as needed.

CORPORATE CITIZENSHIP
Sustainability, simplified

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