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KPMG INTERNATIONAL

# Sustainable Insight

# Unlocking the value of social investment

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# IN BRIEF

AREAS OF SOCIAL INVESTMENT:

- Education
- Health
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- Science & innovation
- Poverty alleviation
- Food & agriculture
- Enterprise development
- Disaster relief
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Companies around the world and their charitable foundations invest billions each year into social programs that aim to address some of the biggest challenges the world faces, from poverty, to lack of access to healthcare or education, to natural disasters, climate change and much more. But who benefits from these investments and how much? Do companies fully understand the value of their investments? This paper aims to help corporate responsibility managers and others involved in social investment overcome some of the challenges to measuring and reporting on social programs.

In this paper, KPMG presents research into reporting of social investment by 100 of the world's largest companies and their associated foundations. The results show that companies focus on measuring and reporting inputs to social programs (such as financial contributions, employee volunteering and product donations) but that reporting on the impacts of social investment is far less common.

There is also room for improvement on reporting social investment strategies. A clear strategy for social investment, with targets and processes to measure outcomes and impacts, is crucial to ensuring companies achieve the greatest benefits for society from their investment budgets. Tracking inputs to social programs and understanding the impacts can in turn help to improve future investment strategies.

This paper explores the benefits of social impact assessment, examines why measuring impacts can be challenging even for large companies and provides a framework for better measurement and reporting.

# WHAT DO WE MEAN BY SOCIAL INVESTMENT?

Reporting terminology around social or community investment can be confusing, with many organizations using the term to refer to philanthropy, charitable giving, corporate social responsibility, community programs and social contributions. Our research confirmed that there is no standard terminology or definition of social investment. The three terms most commonly used by the companies we researched were community investment, social investment and philanthropy.

In this paper, we consider 'social investment' to be any investment a company makes to contribute to society that is not primarily motivated by generating a direct financial return.

Having said this, many companies are increasingly aligning their social investment strategies with their business strategies, which can bring indirect benefits to the business such as improved reputation or access to new markets (see Viewpoint, right).

## Viewpoint: creating shared value

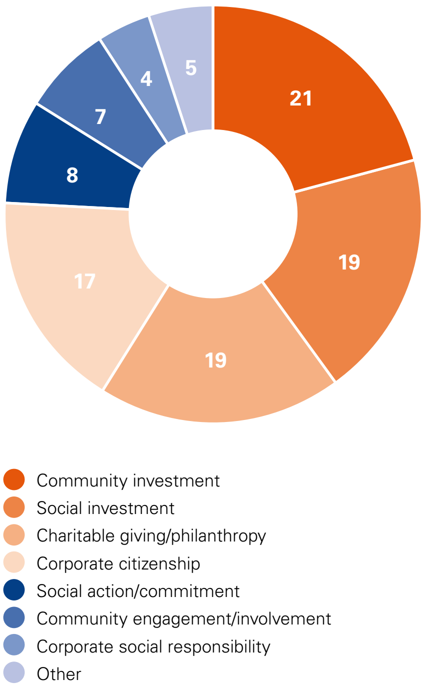
"Best practice strategic community investments are those that create shared value for both the beneficiary and business. In my experience, there needs to be a clear business driver for companies to continue to invest in beneficial programs, for the investments to be sustained long term and to be effective.

There is a gradual shift occurring as companies move away from pure philanthropy towards more strategic social investments that create value for both society and the business.

This means that companies may make social investments with the intention of creating shared financial, social and environmental benefits. I don't see this as a conflict, because it means corporate funds are more likely to be invested long term and that society will benefit from the skills and expertise of a company investing in a manner related to its core business."

**Neil Morris**, Partner,
KPMG in South Africa

**FIG. 1 / Terminology used for social investment**
Number of companies that use each term in CR reports




**Base:** 100 companies researched
**Source:** KPMG International, Sustainable Insight: Unlocking the Value of Social Investment, May 2014

In this paper our definition includes investments:

- in the form of corporate donations of cash or products, employee volunteering, pro-bono work, sponsorship, matched giving and the costs associated with administering these programs;
- directly made by a company, as well as spending through a corporate foundation or grants given to not-for-profit partners;
- made voluntarily, as well as those made to meet regulatory or legal requirements set by governments;
- made locally, close to the operations of a company, often with the aim of improving relations between a company and the local people affected by its operations;
- made on global scale and targeted at beneficiaries in multiple countries.

For the purposes of this paper, wider corporate socio-economic contributions such as paying taxes, royalties, suppliers and employing people, are not considered social investment.

## Viewpoint: the value of mandatory social investment

"In some jurisdictions, companies are required to invest in social programs to meet a range of legal, regulatory and compliance licenses at the national, state and local project levels. Investments that bring social or environmental benefits are often a condition of securing a legal permit to operate and are dictated by local community needs such as access to clean water, roads or housing.

There is some debate over whether mandatory investments should be considered social investment, as some view these investments as 'business as usual' for companies to operate. I do not see any advantage to discounting mandated corporate funds spent on beneficial programs: the end goal of improving lives and the environment is the same. There is also no less need to measure the impact of mandated investments compared to voluntary ones. Companies that operate in highly regulated environments should not be penalized by not being allowed to recognize benefits flowing from social projects. This debate is not likely to go away with the Indian government mandating companies in any sector to spend part of their profits on corporate social responsibility initiatives."

**Chi Mun Woo**, Partner,
KPMG in Australia

# THERE IS GROWING PRESSURE TO MEASURE AND REPORT SOCIAL IMPACTS

## Viewpoint: Social Benefit Bonds

"Social Benefit Bonds (SBB) are an innovative payment by results model for financing social programs, which rely on evidence of social outcomes. In this model there is a three way partnership between investors, government and service providers – private sector investors fund a program delivered by a social service provider. The rate of return to investors is dependent on program outcomes – if the program has positive outcomes for beneficiaries they receive a higher rate of return. KPMG in Australia has evaluated the first Australian SBB trial which is working to keep children with their families out of foster care, reducing social services costs in New South Wales. The model relies on measurement of outcomes and measurement of progress towards outcomes. There is a lot of activity around Social Benefit Bonds internationally – they are being trialed or explored in many countries including UK, Australia, the US and Canada."

**Liz Forsyth**, Partner,
KPMG in Australia

The potential benefit of social investments to society is significant. Companies and their foundations can use their cash, products and employees' skills to tackle some of the biggest challenges the world faces such as poverty, lack of access to healthcare and education, securing food and water supplies, and preventing and adapting to climate change, in both the developed and developing world.

Social investment can also create significant opportunities for businesses, including enabling them to meet regulatory requirements, secure a social license to operate, improve reputation, attract talented employees, increase workforce engagement and develop new products and markets.[1]

[1] KPMG Australia, The Community Investment Dividend: measuring the value of community investment to support your social licence to operate, 2013.

There is growing pressure on companies to treat social investments in a similar way to commercial investments, by demonstrating there is a strong case for investing and that it generates an acceptable return. Some of the factors driving this include:

- Companies are spending increasing amounts on social investment, despite the global financial crisis. In 2011, an estimated US$381 billion was transferred from developed countries to the developing world through private sector investment and philanthropy, a 35 percent increase from US$281 billion in 2009;[2]

- There is some regulatory pressure to continue to invest in social programs. In India, the government is the first in the world to mandate spending on corporate social responsibility (CSR) initiatives. The updated Companies Act 2013 requires companies with a net profit of US$1 million or more to invest 2 percent of net profits in corporate social responsibility projects.[3] It is possible other governments will follow this lead;

- Within companies, there is growing pressure on budget holders to demonstrate that investments are effective. In South Africa, for instance, government regulations require a Social and Ethics sub-committee of the Company Board to govern social investments. In KPMG's experience, this has led to greater senior management scrutiny of social investment budgets to ensure that limited financial resources are being managed and prioritized effectively;

- There are also external factors increasing the need for companies to measure and report on impacts. These include increasing expectations from NGOs, other project providers and beneficiaries such as community members to better understand the impact of corporate social investments;

Measuring and quantifying social or environmental change and outcomes is also gaining greater prominence in corporate reporting frameworks such as the International Integrated Reporting Council (IIRC) framework. In addition, new models of social investment, such as Social Benefit Bonds, require stronger evidence of investment impact (see Viewpoint on page 6).

[2] Hudson Institute, The Center for Global Prosperity, Index of Global Philanthropy and Remittances 2013, page 5. In 2011 a total of US$381 billion flowed from developed to developing countries, including US$322 billion of private capital (2009: US$228 billion) and US$59 billion of philanthropy (2009: US$53 billion).

[3] http://indianexpress.com/article/business/economy/mandatory-2-csr-spend-set-to-kick-in-from-april-1/

# KEY FINDINGS: SUMMARY RESULTS AND METHODOLOGY

### A NOTE ON TERMINOLOGY: FROM INPUTS TO IMPACTS

The starting point for evaluating a social investment program is the 'theory of change'. This widely-used framework helps organizations understand the contributions made to a program, and the resulting change (or impact). KPMG professionals use this framework to assess corporate and foundation measurement and reporting on social investment.

To understand current approaches to social investment, KPMG Climate Change & Sustainability professionals researched the reports of 100 of the world's largest companies and their charitable foundations. The objective was to understand how they measure and report on their social investment and its impacts.

The research results show that:

- **Company social investment budgets are significant:** in total the 100 companies studied made investments valued at US$12.2 billion in 2013. On average, companies invest the equivalent of 2.5 percent of pre-tax profit in social programs, with the greatest contributions made by the pharmaceutical sector (equivalent to 12 percent of pre-tax profit) due to the high value of donated medicines (valued by the majority of companies at wholesale market value, not at cost). With so much invested, there is great potential for companies to tackle social and environmental challenges, but more insight is needed into the impact of investments;

- **Reporting focuses on inputs and outputs:** 93 percent of companies quantify social investment inputs (such as financial contributions, employee time and product donations) and 88 percent of companies quantify outputs (such as the number of participants in a social program). This is encouraging because reporting inputs and outputs is an important first step in the journey to understanding impacts. Without knowing what is contributed and the immediate result of an investment, it's challenging to measure impact;

- **Reporting on outcomes and impacts is weaker:** less than one third of companies discuss outcomes or impacts even in general terms (30 percent). Only one in five currently quantifies any outcomes (20 percent). None of the companies quantify long-term impacts. Measuring impacts is crucial to understanding how effective social investment is, to prove the business case for continuing investments and to find ways to achieve a greater benefit from future investments;

- **Companies risk having a 'scattergun' approach to social investment strategy:** only 32 percent of companies report a detailed strategy for their social programs. On average, companies invest in 5 different areas, suggesting that companies risk a 'scattergun' approach to investment rather than focusing on a small number of priority areas. A clear social investment strategy enables companies to target investments more effectively and maximize the impact of funds invested. Insights into the impact of investment budgets can, in turn, feed into improving companies' investment strategies.

## Research methodology

KPMG professionals researched the 10 largest companies by revenue in each of the 10 sectors studied – a total of 100 companies headquartered in 11 countries. The sectors studied were:

1. Automotive
2. Chemicals & synthetics
3. Finance & insurance
4. Food & beverage
5. Metals, mining & engineering
6. Oil & gas
7. Pharmaceuticals
8. Telecommunications, electronics & computers
9. Transport
10. Utilities

- The research was based on publically available information in corporate and foundation reports, including corporate responsibility (CR)/sustainability reports, annual financial reports (including integrated reports), and foundation annual and progress reports;
- Reports were assessed for clarity on contributions to social programs, social investment strategy, goals and targets, KPIs and approaches to measuring inputs, outputs, outcomes and impacts;
- A more detailed methodology can be found in the appendix (see page 27).

| INPUTS | OUTPUTS | OUTCOMES | IMPACT |
|---|---|---|---|
| **What goes in?** | **What comes out?** | **What is the result?** | **What is the value?** |
| • What the company gives in cash, time and 'in-kind' (materials or products donated), and management or administration costs. | • Direct community benefits of a program e.g. number of people reached by a new school or a health program, number of recreational facilities opened, the number of people that attended a community event. | • The effect of the program;<br>• Outcomes can be short-term or long-term<br>- e.g. the outcome for children taking part in an education program could be a 25 percent increase in literacy;<br>• Outcomes can also be measured and evaluated for the business that makes the investment<br>- e.g. the outcome of a health program for workers and their families could be a 10 percent increase in workforce productivity. | • The measurable long-term benefit and social change created as a result of the investment<br>- e.g. the impact of an education program could be a long-term increase in employment rates and reduced poverty as a result of better early years education;<br>• It can take years to see the final impact of a program and measure it. Intermediate outcomes can be measured along the way that demonstrate impact objectives are being achieved;<br>• Programs could have an impact for the business as well as for the community. |

# RESEARCH FINDINGS: IN DETAIL

## Viewpoint: social investment budgets

"Our research shows that there is little consistency on how companies report social investment budgets, as a percentage of profit or income before or after tax. Given that taxation laws can change from year to year, considering pre-tax profit is as good a measure as any.

The best starting point is to consider the funding requirements of long-term projects and then determine the budget accordingly. This approach avoids dramatic variances in allocated funds if the budget is determined annually based on profits which may fluctuate year to year.

If a percentage of pre-tax profit is used to allocate funds then using a three year average of pre-tax profit is useful to iron out some of the fluctuations and allow for better clarity of future funding that will be available for multi-year projects."

**Neil Morris**, Partner,
KPMG in South Africa

## 1. Company social investment budgets are significant

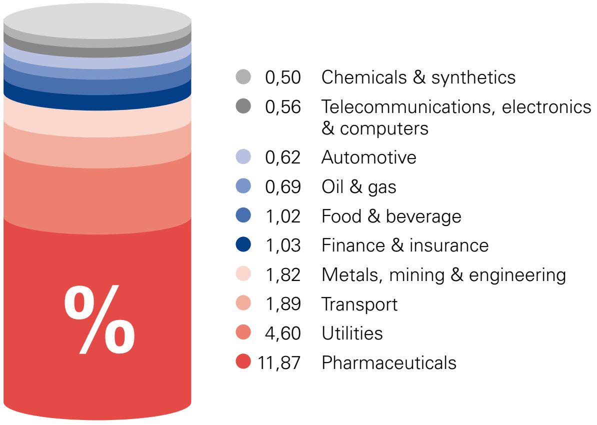
Large companies are investing huge sums in social programs. In 2013 the companies researched reported investments valued at US$12.2 billion[4], equivalent to 2.5 percent of pre-tax profit on average.[5] With so much invested, there is great potential for companies to tackle social and environmental challenges, but more insight is needed into the impact of investments.

There is no standard metric for reporting social investment budget. Very few companies (only 7 percent) report social investment budget as a percentage of their profit or income: around half of these companies report it as a percentage of pre-tax profit and the others report it as a percentage of net profit, net income or operating income. The lack of a standard approach makes it difficult to compare social investment contributions between companies, sectors and geographies. Whichever metric companies choose to use, it should be used consistently in reporting.

4 Base: 69 of the 100 companies researched. These companies report the total value of social investment, such as cash donations, the value of employee volunteering time and donated products and charity sponsorship. This figure should not be taken as absolute as companies use disparate methods to value in-kind contributions.

5 Base: 65 of 100 companies researched. 7 companies report percentage of pre-tax profit or income spent on social investment, KPMG calculated the percentage for a further 58 companies based on available information on pre-tax profit, income or earnings and total social investment spend.

**FIG. 2 / Social investment budgets by sector**
Average percentage of pre-tax profit spent on social programs




**Base:** 65 companies that report value of social investment and pre-tax profit, income or earnings.
**Source:** KPMG International, Sustainable Insight: Unlocking the Value of Social Investment, May 2014

## Good practice: reporting social investment budget

- Total spend on social investment reported;
- Transparency about the relative size of social investment compared to an industry-relevant financial metric such as pre-tax profit, earnings or income;
- Discussion of strategy for determining social investment budget, considering a long-term view that averages out significant potential budget fluctuations (see Viewpoint on page 10);
- Year-on-year data for social investment spend so readers can track progress over time.

Companies in the pharmaceutical sector make investments in social programs equivalent to the greatest portion of their pre-tax profit (equivalent to 12 percent). This is in contrast to companies in the chemicals & synthetics sector that invest the equivalent of 0.5 percent of pre-tax profit on average. The high level of investment from pharmaceutical companies reflects the value of medicines donated in developing markets, which the majority of pharmaceutical companies value at wholesale market price, not at cost. It also reflects the value of medicines given through assistance programs to US patients who cannot afford healthcare. In the utilities sector, the average spend on social investment (equivalent to 4.6 percent of pre-tax profit) reflects the cost of rebates given to customers who cannot afford energy through government mandated schemes such as the Warm Home Discount in the UK.

## 2. Reporting focuses on inputs and outputs

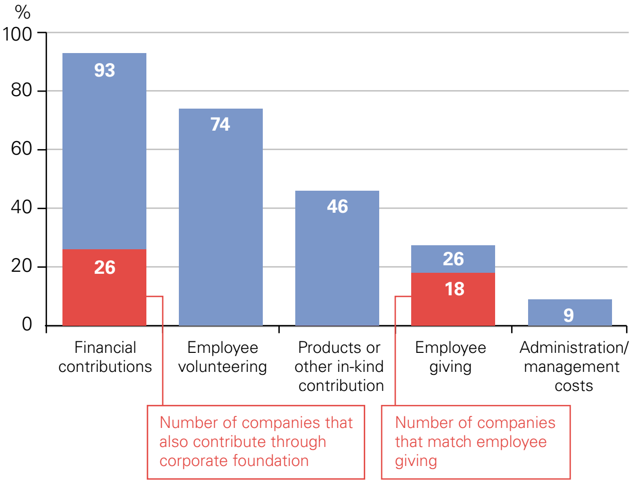
All the companies we researched discuss their social investment inputs in their reporting and 92 percent discuss their outputs. This is clearly an area of focus for companies and foundations as they seek to track their contributions to social programs and the immediate results.

Reporting inputs and outputs is an important first step in the journey to understanding long-term benefits of social investment. Without clarity on contributions and immediate results, it's challenging to measure any outcomes and impacts.

The research shows that:

- 93 percent of companies put a numerical value on social investment inputs (quantifying financial contributions, employee time or product donations). 88 percent of companies quantify outputs (such as the number of participants in a social program).
- The most common type of social investment made by companies is to make financial contributions (93 percent of companies). Many companies (74 percent) also report how much time employees invest by volunteering. Almost half (46 percent) of companies report contributions made 'in kind', without detailing the exact investments made.
- Few companies (9 percent) report the administration or management costs associated with social investment. Administration costs could include budget used to monitor and evaluate the progress of social programs, so as more companies invest in evaluating their impacts, this figure is likely to increase.

**FIG. 3 / How companies invest in social programs**
Number of companies that report different types of giving

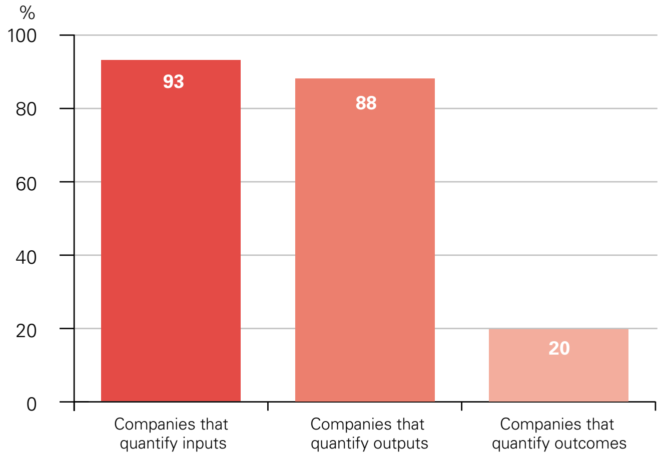



**Base:** 100 companies researched
**Source:** KPMG International, Sustainable Insight: Unlocking the Value of Social Investment, May 2014

## Good practice: reporting social investment inputs

- Itemized breakdown of how much is invested in financial contributions, product and other in-kind contributions and employee time;
- Transparency about administration and management costs associated with social programs, including budget for monitoring and evaluating social impact;
- Explanation of whether contributions are mandatory or voluntary investments;
- Contributions quantified and tracked year on year so readers can understand progress;
- Clarity on whether charitable foundation activities are included or separate from the company's social investment budget and strategy;
- Transparency on valuation methods used, such as how product donations and employee volunteer hours are valued (e.g. at cost or retail value of products).

FIG. 4 / **Quantifying inputs, outputs and impacts**
Percentage of companies that report any quantified inputs, outputs and impacts




**Base:** 100 companies researched
**Source:** KPMG International, Sustainable Insight: Unlocking the Value of Social Investment, May 2014

## 3. Reporting on outcomes and impacts is weaker

Few companies report the outcomes or impacts of their social investments. A third of companies (30 percent) discuss outcomes or impacts in general qualitative terms, but only 20 of the 100 companies report any quantified metrics. All of the metrics reported are for the outcomes of the social programs, while none of the companies researched reported quantified impact metrics. Measuring outcomes and impacts is crucial in order to understand how effective social investment is, to improve programs and to increase the social and environmental return.

Of the companies that quantify social outcomes, most (15 companies) report five or fewer metrics. These outcomes are reported for individual programs and none of the companies researched report progress against corporate level social investment objectives.

The metrics used to quantify outcomes vary greatly because different metrics are appropriate to different types of programs. Furthermore, it can be difficult for companies to isolate the impact of their own investments in programs that are supported by multiple partners. Examples of companies that have quantified outcomes in their reporting include:

- An oil and gas company that partnered with international and local organizations to achieve a percentage reduction in malaria cases and malaria-related deaths in a 2 year period;
- A food processing company that partnered with local government and an international NGO to improve farming practices, achieving a percentage increase in farmers' crop yields, crop values and incomes;
- An engineering company that funded education programs across several US states, measuring the percentage increases in English language, writing, and mathematics scores among the children involved.

### Good practice: reporting outcomes and impacts

- Clarity on the company's social investment strategy and objectives;
- Discussion of the intended benefits of social programs so readers understand the social change that companies aim to achieve through their investments;
- Discussion of KPIs and metrics for measuring performance;
- Baseline from which progress on outcomes and impacts is measured;
- Transparent disclosure of measurement methodology, boundaries and assumptions associated with measuring outcomes and impacts;
- Transparent disclosure of involvement of other project partners such as NGOs and government organizations;
- Progress reported year-on-year.

## 4. Companies risk a 'scattergun' approach to social investment strategy

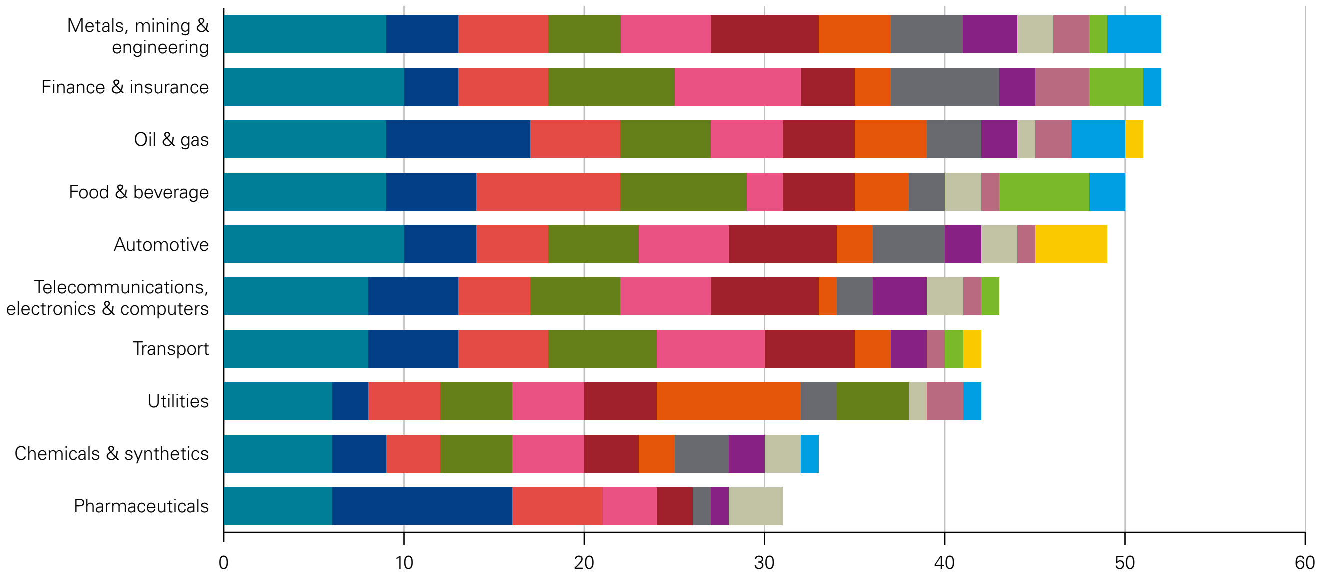
Corporate approaches to social investment are diverse. Some companies focus on philanthropy and donations to charities, others on employee volunteering and sponsorship, while others see the potential of their products or services to address social challenges. A clear social investment strategy enables companies to target investments more effectively and maximize the impact of funds invested. Understanding how social investment supports the company's business strategy can also help with proving the business case for companies to continue to invest. Insights into the impact of investment budgets can, in turn, further improve companies' investment strategies.

Most companies (79 percent) discuss their social investment approach in general terms, but only 32 percent report a detailed strategy. Some reports do not discuss a social investment strategy at all (21 percent), instead highlighting individual programs or groups of unrelated activities.

The research also highlights the breadth of social programs that companies and their foundations invest in, with an average of 5 different areas invested in per company. Education, health, disaster relief and environment are the most common areas of social investment. Investments are often guided by local development priorities in the countries where investments are targeted. The breadth of investments suggests that companies risk a 'scattergun' approach rather than focusing on a small number of priority areas. This could undermine companies' ability to target investments effectively and bring the greatest benefits to society and the business.

The number of investments made varies from sector to sector. Pharmaceutical companies are the most strategic, investing in the area most relevant to their business – health. Mining, metals and engineering companies invest in the highest number of different areas, which is likely due to their need to provide housing, education, infrastructure, health facilities and more for the communities close to remote operations.

**FIG. 5 / Areas of investment by sector**
Number of companies that invest in each area




**Base:** 93 companies that quantify social investment inputs
**Source:** KPMG International, Sustainable Insight: Unlocking the Value of Social Investment, May 2014

**FIG. 6 / Areas that companies invest in**
Number of companies that invest in each area


**Base:** 93 companies that quantify social investment inputs
**Source:** KPMG International, Sustainable Insight: Unlocking the Value of Social Investment, May 2014

## Good practice: social investment strategy

- Detailed explanation of social investment strategy and long-term objectives;
- Discussion of how social investment strategy relates to business strategy;
- Sense of priority given for which stakeholders are intended to benefit most from each investment;
- Explanation of how progress towards strategy and objectives will be achieved.

A well-planned social investment is[6]:

- Strategic: Flows from a well defined strategy that addresses short and long term objectives; and places emphasis on social impacts beyond financial inputs;
- Aligned: Aligned with business objectives and local development priorities as well as internal functions that interact with local stakeholders;
- Supported by effective partnerships: Identification and establishment of effective partnerships between the company, community, other producers, NGOs and Government;
- Sustainable: Based on community participation and ownership; Built upon community assets with a clear and sensible exit and handover strategy;
- Measurable: Established measures to quantify business value of the investment and leveraging outcome and impact indicators and participatory monitoring and evaluation;
- Communicated: Communicating the value generated by the social investment proactively internally and externally.

[6] International Finance Corporation, Strategic Community Investment: A Good Practice Handbook for Companies Doing Business in Emerging Markets, 2010.

# UNLOCKING THE VALUE OF SOCIAL INVESTMENT BUDGETS: SOCIAL IMPACT ASSESSMENT

Huge sums of money are invested by companies and their foundations every year with the aim of benefiting society, but what do these investments actually achieve? Who really benefits and by how much? Are social investment budgets spent as wisely as they could be, to generate the greatest possible social return?

Completing a social impact assessment can help to answer these questions. There are various tools and methodologies for understanding the social, environmental and economic value that programs generate. Whichever tool is used, there are five steps that form the basis of any social impact assessment that draw on traditional impact assessment methodologies (see below).

| STEP 1 | STEP 2 | STEP 3 | STEP 4 | STEP 5 |
|---|---|---|---|---|
| **Plan & set objectives** | **Map impacts** | **Collect data** | **Analyze impacts** | **Evaluate** |
| • Identify and prioritize social programs for assessment;<br>• Identify stakeholders affected by social programs;<br>• Identify potential benefits to the company;<br>• Create stakeholder engagement map. | • Determine who is affected by investment and how;<br>• Identify inputs and outputs to programs;<br>• Identify the desired change as a result of project activities (impact);<br>• Create impact map. | • Collect data and evidence of social change and impact;<br>• This could include: field visits, data collection methods such as questionnaires, focus groups, interviews. | • Estimate value of future programs;<br>• Calculate value of past programs;<br>• Adjust results to account for factors e.g. influence of other program partners;<br>• Perform Social Return on Investment (SROI) analysis if applicable. | • Review findings of quantitative and qualitative feedback from program stakeholders;<br>• Create action plan for improving value of future programs;<br>• Update and refine social investment strategy. |

This assessment approach can be applied by companies in any sector and at different stages of a social investment program. It can be used as a predictive tool, to give a useful indication of who will benefit from planned investments and by how much, or it can be used to evaluate the benefits of programs while they are ongoing or after they are complete.

The process provides quantitative and qualitative insights into the value and benefits of investments. The qualitative narrative tells the story of how a program or organization creates or erodes value from the perspective of different stakeholders, which can be very valuable feedback for companies seeking to meet their social investment objectives.

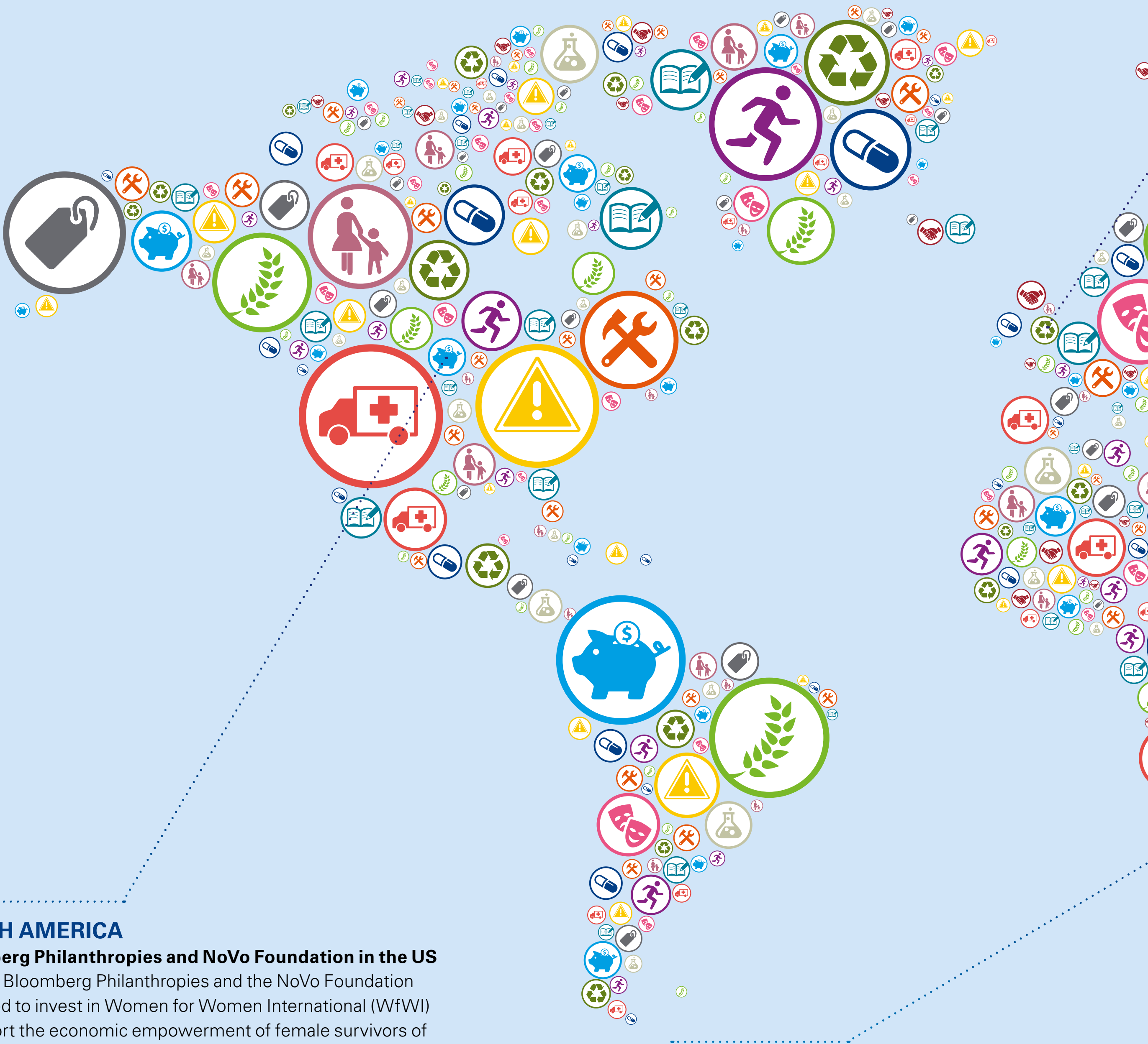
As part of a social impact assessment, companies can also benefit from a detailed Social Return on Investment (SROI) analysis, in line with the SROI Network's guidance[7], in which the social benefits of a project are 'monetized'. For more detail on this see page 21.

Social impact assessment can benefit companies in the following ways:

- **More effective investments:** understanding how social projects create value, and who benefits, can help companies design better targeted programs. By learning what works well and what does not, companies can improve the effectiveness of future investments, ensuring they maximize the benefits of their social investment budget;
- **A business case for future investment:** valuing the social benefits created by an investment program helps to demonstrate the return for every dollar spent. Demonstrating the value to beneficiaries, as well as to the business, can help corporate responsibility managers secure greater support from the rest of the company for continuing social programs;
- **Improved management and monitoring systems:** the information gathered on the inputs, outputs, outcomes and impacts of social investment can be used to implement effective strategies for monitoring future progress;
- **Identify opportunities to improve programs:** a social impact assessment can highlight why programs are not delivering the expected benefits and offer opportunities to implement corrective plans;
- **Build stronger relationships with community stakeholders and project providers:** listening to feedback from the beneficiaries of social programs and the NGOs or local government organizations that deliver the projects can help build deeper relationships with communities and partner organizations.

[7] www.thesroinetwork.org

# SOCIAL IMPACT ASSESSMENT IN ACTION: CASE STUDIES FROM AROUND THE WORLD



## NORTH AMERICA

**Bloomberg Philanthropies and NoVo Foundation in the US**

In 2009, Bloomberg Philanthropies and the NoVo Foundation partnered to invest in Women for Women International (WfWI) to support the economic empowerment of female survivors of war. The partners engaged KPMG International Development Assistance Services to enable them to better understand the impact the WfWI program can create for women and girls and identify the leverage points for continued investment in this and similar projects. The assessment conducted by KPMG US primarily consisted of interviews with a sample of project beneficiaries, community members, and other stakeholders; and reviewing civil health and education data. The assessment showed that WfWI's work created significant changes in the attitudes of men towards women and improved economic opportunities, health, education and empowerment for women, as well as decreasing domestic and sexual violence.

## SOUTH AFRICA

**Exxaro in South Africa**

Mining company Exxaro commissioned KPMG in South Africa and India to complete a detailed Social Return on Investment analysis of its social investment programs (see spotlight on page 21).

## UK

**UK Independent Commission for Aid Impact (ICAI)**

ICAI was established in 2011 to scrutinize the UK's aid spend of over EUR 11 billion per year. ICAI reports directly to the UK Parliament and is focused on maximizing the impact and effectiveness of the UK aid budget for intended beneficiaries and the delivery of value for money for the UK taxpayer. ICAI reports are transparent, impartial and evidence-based. They provide clear recommendations to support UK Government decision-making and to strengthen the accountability of its aid programme. KPMG UK is the lead contractor for ICAI which developed an overall assessment framework to guide all of its reviews. KPMG has enabled ICAI to produce high profile reports and has contributed to real improvements in the accountability and delivery of UK aid.

## ITALY

**Vodafone in Italy**

Vodafone's approach is to create long-term societal value by investing in technology and innovation to support social, economic and environmental development. The Vodafone Foundation in Italy commissioned KPMG in Italy to assess the social impact of a flagship project that helped develop skills and create job opportunities for prisoners. The analysis improved the Foundation's understanding of the social benefits created and what could be achieved with the resources invested. It also enabled the Foundation to improve its approach to reporting, communicating more clearly the value of its social activities to the management internally and to external stakeholders.[9]

## INDIA

**Ambuja Cement Foundation in India**

A social impact assessment helped the Ambuja Cement Foundation (ACF) in India to reconfirm the importance of the Foundation's social investments to Ambuja Cement Limited's overall Corporate Social Responsibility (CSR) approach. KPMG in the Netherlands evaluated the social value of a range of Foundation investments in promotion of agriculture based livelihood, micro-irrigation, water resource management, healthcare and education. The results confirmed that water resource management and micro irrigation projects are particularly valuable to the local environment and community stakeholders, information that will feed into internal priority-setting for future investment.

## AUSTRALIA

**KPMG in Australia**

KPMG Australia is committed to closing the gap in social and economic inequality between Indigenous and non-Indigenous Australians. It invests in a range of programs with not-for-profit organizations to achieve this. KPMG's Reconciliation Action Plan (RAP) explains the activities taken to support its national efforts to address this inequality, and close the 10 year gap in life expectancy. A team of KPMG professionals from Climate Change & Sustainability and Health & Human Services in Australia joined forces to undertake a social impact assessment of the RAP program. The results highlighted how valuable pro-bono work is to the community and the need to refocus efforts on indigenous employment, areas which will continue to be a focus of KPMG Australia's Citizenship strategy.

8 Further information available at: icai.independent.gov.uk

9 Further information available (in Italian) at: www.vodafone.it/res/attachments/pdf/2010_2011contributo_paese.pdf

"We have the opportunity to improve future projects and design them to maximize benefits for communities"

## SPOTLIGHT ON **SOCIAL RETURN ON INVESTMENT**

The mining industry in South Africa has a significant responsibility to the communities close to its operations, often providing vital social services and facilities such as roads, schools and medical centers in remote locations. The South African government requires resource companies to commit to Social and Labour Plans (SLPs) detailing planned investments in local socio-economic development as a condition of granting mining rights. For mining companies such as Exxaro Resources Limited, involvement in the community goes much further.

In a comprehensive assessment of projects funded by the Exxaro Foundation and Exxaro Chairman's fund, KPMG in South Africa and India evaluated the social impact of more than 20 planned and past community investments. Using the Social Return on Investment (SROI) methodology, the assessment evaluated the net social, economic and environmental value generated from Exxaro's investments.

By valuing the financial and non-financial benefits, the results show that for every South African Rand spent on community projects, the average total value generated is 1.32 Rand.

Ramesh Chhagan, Exxaro's Group Manager for Community Development, said, "Putting a monetary value on the benefit of our investments enriched the conversations we have internally about our social strategy. We know what has worked well in the past and what could be improved. We have the opportunity to improve future projects and design them to maximize benefits for communities."

Exxaro is now in a position to report more transparently to its shareholders, employees and community stakeholders on the impact of its investments. The results are also ensuring the future SLPs will deliver the best possible outcomes for society.

# CHALLENGES WITH MEASURING AND REPORTING SOCIAL IMPACTS

Even among the largest companies in the world, there is significant room for improvement when it comes to reporting on the outcomes and impacts of social investment programs. What is stopping companies and their foundations measuring and reporting on impacts?

The key issues that companies face are:

- **A plethora of impact assessment tools:** social impact assessment has been an area of concern for charities and governments for some time, as more organizations aim to demonstrate the social and economic value of the programs they fund and run. In recent years, social impact assessment has also received more attention from the corporate sector as companies increasingly need to justify their investments.

  As a result, a plethora of tools and frameworks for assessing social impact has been developed across the charitable, public and private sectors, such as Social Return on Investment (SROI), the WBCSD's Impact Assessment Framework, the London Benchmarking Group and the Bill & Melinda Gates Foundation's Cost Effectiveness Analysis, to name just a few. The Foundation Center in the US identifies more than 150 assessment tools relevant for philanthropic organizations alone.[10] For companies shifting their focus to impact assessment, it can be difficult to know where to start;

- **The cost of assessment:** many companies are reluctant to divert funds away from social programs themselves into monitoring and evaluation. Channeling a small amount of funding , such as 2 or 3 percent of the total budget, into resources for monitoring, measuring and evaluating social investments can provide significant insights to make programs more effective;

- **The complex task of quantifying impacts:** a quantitative assessment of social impacts can involve assigning a financial value to benefits that are not commonly quantified in economic terms, such as the monetary value of increased literacy among children taking part in an education program. The challenge of putting a financial value or other measure on intangible social benefits can be a barrier;

- **Lack of insight into how funds are spent:** companies rarely work alone to address social challenges. Some companies give funds to an NGO to run a specific program with a single objective. In this case, it can be relatively straightforward to understand whether objectives were met for the money invested.

[10] http://foundationcenter.org/

However, it is also very common for companies to give funds to a trust or an NGO that runs multiple programs and is not in a position to target funding from one party to a specific project. This means corporate funders sometimes have little oversight over how their contributions are spent. For this reason, measuring impacts against objectives can be challenging. It can also be difficult to separate the benefits of one partner's investment from those of other organizations involved with funding and delivering a program;

- **Long timeframe for measuring impact:** it can take months or years for the long-term benefits of a social investment to materialize and for a company to assess whether or not program objectives were met. This requires a long-term commitment to measurement and monitoring of impacts;

- **Decentralized investment approach:** many companies channel social investment funds into a huge range of programs chosen by local operations, rather than targeted from a central corporate function. Aggregating data on how funds were spent from multiple parts of the business can be a significant challenge.

## Viewpoint: KPMG's Global Corporate Citizenship program

"As an accounting and advisory firm, we recognize that measuring impacts and outcomes is crucial to addressing society's biggest challenges. We also realize it can be a challenging and complex task. For KPMG Global Corporate Citizenship, we struggle with capturing a fair measurement of the significant indirect contributions we make to society, such as through our pro-bono efforts to strengthen civil society organizations. Likewise, we participate in a diverse and wide-ranging set of citizenship activities around the globe, making it difficult to aggregate data, even when we can identify quantifiable results.

But we have made some successful attempts, leveraging KPMG methodologies to institute frameworks for tracking progress. For example, KPMG has made a significant commitment to support the development of the Millennium Village of Kiuyu Mbuyuni – a small village on Pemba Island, Tanzania in sub-Saharan Africa. Results to date show progress against all interventions, from maternal health to education to infrastructure. Another example is KPMG in Mexico's work with World Vision, where we assisted a local community to develop an organic coffee business by providing pro-bono services ranging from training on accounting to redesigning packaging. Our measurement methodology for that initiative has centered on the growth of the business and the related community benefit.

While we have made some progress in this journey, we realize we still have some way to go. As part of our participation in the International Integrated Reporting Council's pilot program on integrated reporting, we are further analyzing how we create value across the global network - for our clients, our communities and our people. We are building towards a better understanding of the true value of our contributions, a journey that takes time, but is well worth the effort."

**Michael Hastings,** Lord Hastings of Scarisbrick CBE, Global Head of Corporate Citizenship, KPMG International

# **FRAMEWORK** FOR BETTER MEASUREMENT AND REPORTING

Measuring and reporting on social impact can be a complex and challenging process. There are no agreed standards for collecting data or measuring impacts. A clear and coherent investment strategy is the starting point for understanding impacts, which is an iterative process. Monitoring and evaluating impacts can provide insights into the effectiveness of investment activities, which in turn can be used to refine the investment strategy. The following framework and key questions aims to help companies with this iterative process:

## STRATEGY

- Review existing strategy and complete a mapping exercise of current investments;
- Identify the end objective and overarching goal for investment strategy;
- Identify the primary stakeholders to benefit from investment;
- Create or revise investment strategy to align to business strategy and overarching objective;
- Identify short, intermediate and long-term targets and establish key performance indicators and baselines for measuring progress.

### Key questions to address:

**01 / What change do you want to create, and what impact do you hope to achieve?**

**02 / Why is your business investing in the areas it currently invests in, or plans to invest in?**

**03 / Who should benefit from the investments?**

**04 / How can progress be measured? What will success look like?**

## REPORTING

- Communicate progress to stakeholders including inputs, outputs, outcomes and impacts;
- Be transparent about how reported measures are defined and calculated;
- Use a combination of quantitative and qualitative information to tell the story of investments;
- Be transparent about areas for improvement;
- Verify data and reported information.

### Key questions to address:

**01 / How can you most effectively communicate the story of progress against your objectives?**

**02 / Is the data and evidence reported robust and credible?**

**03 / What learning can you feed into your ongoing investment strategy, implementation and monitoring processes?**

## IMPLEMENTATION

- Develop investment activities to achieve your objectives;
- Consider if any existing activities should be stopped;
- Consider how existing activities can be updated to align with strategy;
- Establish partnerships with other organizations to implement activities.

### Key questions to address:

**01 / Are all your current investment activities supporting your strategy? If not, can they be redesigned to better align with your objectives?**

**02 / Do you have the necessary budget and resources to implement, monitor and evaluate activities?**

## MONITORING & EVALUATION

- Establish monitoring and evaluation processes and data collection techniques;
- Identify sources of evidence for meeting objectives;
- Collect data on inputs, outputs, outcomes and impacts;
- Use social impact assessment tools such as social return on investment (SROI) where appropriate;
- Focus monitoring and evaluation efforts on the most material activities.

### Key questions to address:

**01 / Are there any existing sources of evidence for progress? For example, existing data on outcomes held by project partners, local government officials or community leaders.**

**02 / Are the benefits of your investment realistic? Have you considered the outcomes that could be attributed to other project partners?**

# HOW CAN KPMG HELP?

KPMG is one of the pioneers of sustainability consulting – some KPMG member firms first offered sustainability services over 20 years ago. Today our network employs several hundred sustainability professionals located in around 60 countries. This means we have in-depth understanding of the economic, political, environmental and social landscapes wherever your organization may operate.

There is no one-size-fits-all approach to social or community investment. KPMG brings together multi-disciplinary international teams to support clients with strategy and governance, implementation, monitoring and evaluation, and reporting and assurance.

Relevant services include:

**CONTACT**

KPMG's Global Center of Excellence for Climate Change & Sustainability

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### 1. Strategy & governance

- Develop economic and social baseline;
- Develop community investment strategy and advise on focus areas;
- Assess social investment governance structures;
- Develop business case for social investment and align with core business;
- Map key stakeholders and develop stakeholder engagement plan;
- Establish performance measures and targets.

### 2. Implementation

- Assist in design of log frames outlining objectives, inputs, activities, outputs and outcomes;
- Identify and perform due-diligence on prospective implementation partners;
- Streamline grant application and decision making processes;
- Assist in designing investment activities that align with strategy.

### 3. Monitoring & evaluation

- Develop approaches and guidelines for monitoring and evaluating progress against objectives;
- Assist with information gathering processes and evaluating robustness of data systems;
- Measure the social return on investments (SROI);
- Develop stakeholder engagement approach and perform Relational Proximity™ assessment to measure strength of stakeholder relationships .

### 4. Reporting & assurance

- Develop reporting strategy;
- Design reporting tools and templates for all levels of reporting including Board level, project level and annual performance reporting;
- Assist with reporting against standards and frameworks;
- Independent assurance for your internal and external social reporting systems;
- Independent assurance of your sustainability performance reporting;
- Verify the performance of project partners.

# RESEARCH METHODOLOGY

KPMG Climate Change & Sustainability Professionals analyzed information published by companies and their foundations to assess the effectiveness of reporting on social investment and impacts.

- The 10 largest companies by revenue in each of the 10 sectors studied (100 companies in total) were included in the research. The sectors were:

  1. Automotive
  2. Chemicals & synthetics
  3. Finance & insurance
  4. Food & beverage
  5. Metals, mining & engineering
  6. Oil & gas
  7. Pharmaceuticals
  8. Telecommunications, electronics & computers
  9. Transport
  10. Utilities

- The companies researched were headquartered in 11 countries:

  - Australia
  - Brazil
  - China
  - Germany
  - Italy
  - Japan
  - Netherlands
  - South Korea
  - Spain
  - UK
  - US

- The research was based on publically available information in corporate and foundation reports, including corporate responsibility (CR)/sustainability reports, annual financial reports (including integrated reports), and foundation annual or progress reports.

- Most of the companies researched (70 percent) have a charitable foundation associated with the company. Many companies (50 percent) include foundation spending as part of their wider social investment spend and strategy.

- Reports were assessed for clarity on inputs, outputs, outcomes and impacts of social investment, as well as social investment strategy, goals, targets and KPIs.

- The research examined the areas companies invest in, categorized as:

  - **Art & culture:** funding for cultural organizations such as museums, theaters, cultural centers, dance / music groups and heritage foundations.
  - **Community welfare:** unspecified community contributions that cannot be labeled as housing, infrastructure and energy investments (see below) e.g. volunteer initiatives to renew parks, community events, supporting vulnerable community members such as foster children or the elderly citizens.
  - **Disaster relief:** investments to support those affected by extreme weather events e.g. earthquakes, floods, fires, hurricanes, tsunamis.
  - **Education:** primary and secondary education (K-12 in the US), university funding, scholarships and fellowships, vocation-based skills, teacher training programs.
  - **Enterprise development:** supporting entrepreneurs to start or maintain small to medium-sized businesses. Often focused on empowering female entrepreneurs helping to lift families out of poverty.
  - **Environment:** efforts to protect or enhance the environment, ecological initiatives, such as water conversation, waste management, recycling programs, clearing litter, planting trees.
  - **Food & agriculture:** food donations such as meals for school children, agricultural inputs such as seeds, training farmers in new techniques, initiatives aimed at improving crop yields.
  - **Health:** funding programs to eliminate diseases such as cancer, HIV or malaria, increase access to existing treatments and medicines, improve healthcare infrastructure, improve hygiene, encourage exercise, improve wellbeing.
  - **Housing, infrastructure & energy:** community infrastructure initiatives e.g. building houses, roads, access to water and energy.
  - **Poverty alleviation:** investments aimed at most disadvantaged members of society, programs to meet basic needs such for food and clothing, or improving financial situation of those in poverty and increasing financial literacy.
  - **Safety:** initiatives to improve community safety, most often road safety.
  - **Science & innovation:** grants or funding to further science, innovation, technology and learning through established or new research institutes.
  - **Sports & recreation:** support for sporting and recreational activities, often focused on children's access to sport.
  - **Other:** unspecified contributions and those that do not fit under other categories e.g. undefined employee and matched giving initiatives.

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Publication name: Sustainable Insight: unlocking the value of social investment

Publication number: 131321

Publication date: May 2014

Printed in the Netherlands