

# The Business ROI of Social Investments

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# ROI

Return on Investment



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## Foreword

In 2016, ACCP conducted an extensive survey of the Corporate Citizenship profession. The goal of the survey was to understand what kept practitioners up at night. What were you thinking about in both the short term and the long term? Overwhelmingly, two-thirds of you told us what was top-of-mind for you was the need to align your Corporate Citizenship efforts to the business.

Your responses to that survey largely served as the guide post for ACCP as we shaped our Mission and Vision.

### **Mission**

ACCP empowers corporate citizenship leaders to improve the world and strengthen their companies.

### **Vision**

A world where corporations leverage their resources to improve society.

Over the past two years, ACCP has championed your ability to drive value to your organization and to society. These are not mutually exclusive; rather they are, when done well, mutually beneficial.

Again, guided by your input, ACCP formed a partnership with IO Sustainability later that year. IO Sustainability and Babson College, with the support of Convening Sponsor Verizon and Supporting Sponsor The Campbell's Soup Company, authored a report, Project ROI, that gave evidence to the fact that Corporate Citizenship investments can benefit society and add value to the company.

In 2017 the partnership formed a pilot program: The Business ROI of Social Investments. The pilot took eight companies through a process of discovery, assessment and analysis to determine the potential of their programs to add business value. The report you are about to read details their journey.

A couple more thoughts before you go.

First, the significance of the letter to CEOs from BlackRock CEO Larry Fink cannot be overstated. Here is an excerpt from his letter:

*...[A] company's ability to manage environmental, social, and governance matters demonstrates the leadership and good governance that is so essential to sustainable growth, which is why we are increasingly integrating these issues into our investment process.*

*Companies must ask themselves: What role do we play in the community? How are we managing our impact on the environment? Are we working to create a diverse workforce? Are we adapting to technological change? Are we providing the retraining and opportunities that our employees and our business will need to adjust to an increasingly automated world? Are we using behavioral finance and other tools to prepare workers for retirement, so that they invest in a way that that will help them achieve their goals?*

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BlackRock controls over \$6.3 trillion dollars in assets; they are the largest investment firm in the country. This letter is the very definition of the term game-changer for this profession. It also validates, in the strongest possible way, what you told us in 2016. Creating business value in addition to societal impact is the benchmark for the profession and indeed, is how the profession will sustain and thrive while helping businesses do the same.

Second, for those of you that want to determine the best path forward to align both societal issues and your company priorities, let me offer this thought. If you want to increase your funding stream and ensure that your budget isn't the first to be cut in a downturn, offering a ROI to the business is the best place I know for you to start. The report you are about to read will give you some great ideas on how to do just that.

The bottom line is that The Business ROI of Social Investments finds that we can develop clear steps, processes, and strategies for Corporate Citizenship to meet societal impact aspirations while delivering tangible financial value to the company. That is a result worth striving for.

Mark W. Shamley  
ACCP  
President & CEO

## I. Background

The Business ROI of Social Investments builds upon the research and findings from Project ROI, the landmark study conducted by IO Sustainability and Babson College with the support of convening sponsor Verizon and supporting sponsor The Campbell Soup Company. Project ROI identifies the potential financial benefits from Corporate Responsibility (CR) and Sustainability.<sup>1</sup>

Project ROI investigated over 300 studies from leading academic and peer reviewed sources, as well as respected thought leaders and institutions. It supplemented this research with interviews of executives and corporate responsibility practitioners and from the authors' experience advising, studying, and training hundreds of companies across industries.

The Business ROI of Social Investments focuses on a critical element of CR and Sustainability – Social Investment (SI).

### *Box 1*

#### THE DEFINITION OF SOCIAL INVESTMENT

We define SI as the voluntary contributions companies make to support the well-being of communities, individuals, and/or environmental systems. SI typically involves monetary grants to accredited non-profit organizations; employee volunteering; in-kind grants of products, services, technology, or physical assets; and partnerships formed to address specific challenges and improve conditions.

As with Project ROI, The Business ROI of Social Investments asked what, if any, potential ROI can SI deliver? We assessed:

- What are the strategies, tactics, and practices likely to create ROI while also identifying implications regarding impact on community well-being?
- What lessons should executives and managers take regarding their approach to and measurement of SI practices?

Our approach started by convening a cross-industry cohort of leading companies. In alphabetical order, these companies include:

- ArcelorMittal
- BD
- Kellogg Company
- KPMG
- Novo Nordisk
- Southwest Airlines
- Symantec
- WWE

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<sup>1</sup> Rochlin, Steve, Bliss, Richard, Jordan, Stephen, Kiser, Cheryl, "Project ROI: Defining the Competitive and Financial Advantages of Corporate Responsibility and Sustainability": IO Sustainability, 2015. P. 3.

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These companies actively participated in a process that involved the following steps:

- Evaluating Project ROI's research to assess the relevance of its findings for SI-specific practices
- Supplementing Project ROI's research by reviewing and incorporating several dozen additional studies that focus on the ROI of SI
- Conducting a Project ROI Diagnostic Assessment process with each cohort member to assess the value-creating potential, focusing on financial ROI but also assessing community impact potential, of each company's current SI approach. The Project ROI Diagnostic Assessment determines the strengths, weaknesses, gaps, and under-leveraged assets of a company's SI approach. The companies in the cohort received a private, customized report of findings and guidance for action.
- Assessing the practices and lessons learned across the cohort.
- Supplementing lessons learned with external benchmarking of publicly available information on companies respected for their value-creating SI approach.

The resulting Report identifies the potential business case for SI, and the key practices necessary to deliver business value and community impact.

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*Companies that commit to SI approaches that are aligned to a company's business strategy, and genuinely aim to generate positive impacts on community well-being stand the best chance of delivering financial and business value.*

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While our research concentrates on the business case, it is important to underscore a key finding that reinforces the original Project ROI research. Commitment and authenticity matter. Companies that align SI approaches to business strategy, and authentically commit to optimize their SI impact in communities stand the best chance of delivering financial and business value.

## II. Executive Summary

Social Investment (SI) has the potential to generate tangible financial and competitive value for companies if it is done well.

### Box 2

#### THE BUSINESS ROI OF SI

When done well, SI has the potential to generate financial returns that include:

- up to a 6% boost in share price;
- a 20% increase in sales;
- a 13% jump in productivity;
- a 50% decrease in employee turnover;
- and a boost to reputation worth up to 11% of a company's market cap.

The financial returns that SI has the potential to generate extend into the millions – potentially even billions – of dollars. For example, IO Sustainability worked with a global, *Fortune* 1000 company outside of the project cohort to apply its Project ROI methodology and assess the potential return on investment (ROI) from its corporate citizenship (CC) portfolio. Findings showed that if the company took the kind of leading edge, strategic approach to CC as its major competitors, it had the opportunity to generate a healthy *triple digit percentage increase* from its current CC investments generating *over a billion dollars* in financial value. But if it stayed the course, allocating operating expenditures to a CC approach that was not strategic or aligned with business key performance indicators (KPIs), the losses crept over a \$100 million.

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*The financial returns that SI has the potential to generate extend into the millions – potentially even billions – of dollars.*

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A key implication is that companies do not get points for showing up. Simply maintaining a SI function doesn't promise results. As with any function in the business, SI must be well designed, managed, and integrated into the business to meet its potential to generate financial and competitive value. A SI program that is poorly designed, managed, and not connected and aligned to core operations is likely to be perceived as a cost center, and worst case, generate losses.

Companies that successfully create value for the business and impact in communities, adhere to a framework shown in Figure 1: fit, commit, manage, and connect. They *fit*, or align, giving priorities to the company's core purpose, strategies, products, and competencies. They *commit* to make an impact in those areas of fit by allocating resources, time and energy. They *manage* with clear objectives and measures in mind. Finally, they *connect*: communicating clear messages about their efforts; involving communities, customers, employees, and shareholders in SI design and delivery; and finding opportunities to partner.

Figure 1: Key Practices that Drive Business ROI and Community Impacts

 <b>Fit</b>	<ol style="list-style-type: none"> <li>1) Define priority issues</li> <li>2) Define and brand a Strategy that: a) aligns and reinforces the CR and sustainability approach; b) improves lives in a tangible and large-scale way; c) uses products, business processes, and/or employees</li> <li>3) Explicitly ties to business objectives and needs at the ground level</li> </ol>
 <b>Commit</b>	<ol style="list-style-type: none"> <li>4) Differentiate by expressing big, clearly stated commitments to be a leader in addressing priority issues and related ESG risk areas that could impact revenues and costs through reputation, the regulatory environment, or the social license to operate</li> <li>5) Promote and communicate activities through partnerships</li> </ol>
 <b>Manage</b>	<ol style="list-style-type: none"> <li>6) Focus on impact, improvement, and scaling-up (don't focus on expanding giving budgets)</li> <li>7) Set measurable targets and make a wide-range of executives, managers, and teams responsible for meeting them</li> </ol>
 <b>Connect</b>	<ol style="list-style-type: none"> <li>8) Promote the Strategy to key stakeholders that influence Sales, Brand/Reputation, Customer Purchasing, Investment, Regulation; the Social License to Operate, and HR</li> <li>9) For community issues that are not easy to address, begin dialogue with multiple stakeholders</li> </ol>

The research conducted in the Business ROI of Social Investments process, finds that to optimize SI's ROI potential and bring the "fit-commit-manage-and connect" framework to life, companies can follow a value-creating roadmap.

## The SI Value-Creating Roadmap

- |  |  |
|--|--|
| <p><b>1.</b> Design strategies that truly align and integrate with the business while setting stretch goals for community impact</p> | <ul style="list-style-type: none"> <li>• Define the business key performance indicators (KPIs) that SI will support</li> <li>• Define the SI strategy around galvanizing stretch goals</li> <li>• Utilize the company's capabilities</li> <li>• Develop the right internal partnerships with business lines and staff functions</li> <li>• Communicate and build awareness among key stakeholders</li> <li>• Deepen connections with key stakeholders</li> <li>• Complement the company's overall corporate responsibility and sustainability practices</li> </ul> |
| <p><b>2.</b> Re-balance the SI portfolio to allocate sufficient resources to initiatives that relate to strategic priorities</p>     | <ul style="list-style-type: none"> <li>• Goodwill Driven</li> <li>• Community Impact Driven</li> <li>• Business Benefit Driven</li> </ul>  |
| <p><b>3.</b> Capitalize on the set of unique, and value-creating assets that SI possesses</p>  | <ul style="list-style-type: none"> <li>• Key asset #1: Networks</li> <li>• Key Asset #2: Trust</li> <li>• Key Asset #3: Expressing Purpose</li> <li>• Key Asset #4: Bringing Corporate Performance Excellence to Life</li> </ul>   |
| <p><b>4.</b> Develop a measurement portfolio</p>   | <ul style="list-style-type: none"> <li>• Measure community impact</li> <li>• Measure business benefits.</li> </ul>   |

Many companies only partially follow the Roadmap’s steps. Companies often face a mix of constraints that despite good intentions give their SI approach only a low or moderate probability of creating value. Day-to-day, SI approaches are influenced by a variety of considerations such as:

- Maintaining long-standing legacy programs;
- Responding to the expectations, needs, and squeaky-wheel voices of senior executives, communities, activist shareholders, employees, and customers;
- A perspective among executives that the company should not try to build awareness for SI activities; and
- Allocating only enough resources to measure outputs but not outcomes and impacts.

These factors can lead companies unwittingly into strategic traps and counter-productive analysis. The company may view SI as a necessary burden that feels like a voluntary tax and compliance program. This may create a contradictory attitude towards SI where executives become comfortable compartmentalizing a SI strategy that allows a well-conceived strategic signature program to stand next to activities that appear to distribute resources into the community without a plan. This in turn leads to a chaotic approach to communications that veer from silence to overly assertive bragging and everything in between.

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*SI is increasingly becoming a necessary factor in sustained, long-term business success.*

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Staying locked into these programs, habits, and processes leaves substantial financial value and community impact on the table. While no one will claim that SI is sufficient to drive a company towards financial and competitive success, a mix of compelling research and observed experience suggest that SI done well, can be a vital contributor to sustained, long-term business success. The letter from Larry Fink, Chairman and CEO of the world’s largest investor, BlackRock, to the CEO’s of the leading companies in which its clients are shareholders underscores this trend (Box 3).

*Box 3*

**BLACKROCK’S 2017 LETTER TO CEOS**

*“[S]ociety increasingly is turning to the private sector and asking that companies respond to broader societal challenges. Indeed, the public expectations of your company have never been greater. Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate...Your company’s strategy must articulate a path to achieve financial performance. To sustain that performance, however, you must also understand the societal impact of your business as well as the ways that broad, structural trends – from slow wage growth to rising automation to climate change – affect your potential for growth....[A] company’s ability to manage environmental, social, and governance matters demonstrates the leadership and good governance that is so essential to sustainable growth, which is why we are increasingly integrating these issues into our investment process.” – Larry Fink, Chairman & CEO, BlackRock*

### III. The Business Case for Social Investment

The Business ROI of Social Investment finds that if done well, SI has great potential to deliver financial returns on investment (ROI) as well as related business and competitive benefits. SI can support returns related to:<sup>2</sup>

- Corporate share price performance
- Sales
- Employee turnover
- Employee productivity
- Reputation
- Financial risk
- Costs.

#### *Corporate share price performance*

- SI, when seen by stakeholders as a proxy for overall CR and Sustainability performance, can increase share price by up to 6%
- In particular, well-timed, strategically aligned, high profile, large, cash and/or in-kind contributions (such as for disaster relief) can boost share price up to 1%.<sup>3</sup>

#### *Sales*

- SI can help increase sales by up to approximately 20%.

Unilever, for example, credits a 26% increase in sales between 2009-2012 to the adoption of its Sustainable Living Plan.<sup>4</sup> Many of the specific examples it cites shown in Box 4 (below) that have generated increased sales relate to the company's integration of SI and marketing.

Evidence indicates that business-to-business (B2B) business models as well as business-to-consumer (B2C) business models can see boosts in sales results. For example, Hewlett Packard Enterprise – which focuses on B2B customers – credited a \$500 million increase in sales over a five-year period to a SI related education initiative.<sup>5</sup>

#### *Employee turnover*

- SI, when seen by employees as a proxy for overall CR and Sustainability performance, can reduce employee turnover by as much as 50%. Estimates suggest that it can cost up to the equivalent of a

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<sup>2</sup> Unless otherwise noted, the following business case statistics can be found in Rochlin, Steve, Bliss, Richard, Jordan, Stephen, Kiser, Cheryl, "Project ROI: Defining the Competitive and Financial Advantages of Corporate Responsibility and Sustainability": IO Sustainability, 2015. P. 3.

<sup>3</sup> Sources: Patten, 2008; and Madsen, et al, 2013.

<sup>4</sup> Rochlin, et al, 2015. P. 27-28.

<sup>5</sup> Source: Sustainable Brands New Metrics '15 presentation, <http://bit.ly/2oGOai1>

former employee's annual salary to fill a vacant position. The HR savings from well-conceived SI programs can be substantial.

For example, IBM cites a \$600 million return on a \$200 million investment for its SI program, the Corporate Service Corps<sup>6</sup>

In addition, SAP finds that for each percentage point in change in the company's business health culture index (BHCI), the impact on operating profit is between EUR65 million (\$70.7 million at the time of drafting) and EUR75 million (\$81.6 million). A one percentage point change in employee retention impacts SAP's operating profit by about EUR40 million (\$43.5 million) to EUR50 million (\$54 million). The company is using a range of CC approaches – including SI – to generate these returns.<sup>7</sup>

#### Box 4

#### UNILEVER'S SALES OUTCOMES<sup>8</sup>

- Lifebuoy has reached 119 million people since 2010 with its handwashing behavior change program and achieved double digit sales growth.
- Concentrated and compacted laundry detergent – which cuts CO2 by up to half – have doubled in sales.
- Signal's brush day and night health campaign has reached 49 million people so far and helped sales grow by 22%.
- Dry shampoos, such as TRESemme and Dove, which result in 90 percent less greenhouse gas emissions compared to washing hair in heated water, grew by 19 percent in 2012.
- Calorie-controlled Max and Paddle Pop children's ice creams grew in the high double digits in 2012.
- Hellmann's sustainable agriculture program campaign launch led, in two weeks, to 80 million interactions with consumers in 3,500 cities in 110 countries and a 10% jump in market share which transformed ketchup sales in Latin America.
- Sunlight: In drought-affected South Africa, halving the number of rinses required to wash laundry has made a real difference by liberating women's time as well as saving water – delivering a 2.6% increase in market share in 2016.

#### Reputation

- SI, when seen by stakeholders as a proxy for overall CR and Sustainability performance, can:
  - Boost reputation value that adds up to 11% to market cap
  - Function like a reputation insurance policy that protects up to 7% of the company's market cap.

<sup>6</sup> Rochlin, et al, 2015. P. 29.  
<sup>7</sup>

[http://www.sustainablebrands.com/news\\_and\\_views/new\\_metrics/mike\\_hower/sap\\_increased\\_employee\\_engagement\\_helping\\_bottom\\_line](http://www.sustainablebrands.com/news_and_views/new_metrics/mike_hower/sap_increased_employee_engagement_helping_bottom_line)

<sup>8</sup> Sources: Rochlin, et al 2015. P. 27-28; <https://www.unilever.com/news/Press-releases/2016/Commitment-to-sustainability-delivers-even-faster-growth-for-Unilever.html>; <https://www.unilever.com/news/Press-releases/2017/unilevers-sustainable-living-brands-continue-to-drive-higher-rates-of-growth.html>

## Financial risk

- SI, when seen by stakeholders as a proxy for overall CR and Sustainability performance, can:
  - Reduce the cost of equity by 1%
  - Reduce the cost of debt by 40% or more
  - Reduce share price volatility by as much as 10%
  - Reduce systemic risk by 4%
  - Avoid market losses from crises.

There are also several ways in which SI helps reduce enterprise risk directly:

- SI acts like an insurance policy that helps reduce litigation risk to the degree where the presence of the SI function can add 2-4% to firm value<sup>9</sup>
- SI can help reduce negative media reports<sup>10</sup>
- Firms with publicly communicated SI strategies have stronger stakeholder relationships.<sup>11</sup>

## Costs

SI can help support cost reduction in at least four ways.

1. Support for Human Resource goals such as reduced turnover and increased productivity help reduce operating costs and expenditures
2. SI can be extremely supportive of Government Relations<sup>12</sup> as firms strong in SI on average lower their tax burden by more than double that of weak SI firms<sup>13</sup>
3. New research from IO Sustainability and Babson college finds that supporting community health and well-being has the potential to reduce a company's employee-related health expenditures by 50% or more. This is a compelling opportunity as the private sector accounts for 20% of national annual spending on health care<sup>14</sup>
4. SI can support good community relations which helps companies manage and protect their social license to operate. This in turn helps reduce or avoid costs from slow approval times, work stoppages, litigation, and PR crises.<sup>15</sup>

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<sup>9</sup> Koh, Ping-Sheng, Qian, Cuili and Wang, Heli. (2014). "Firm Litigation Risk and the Insurance Value of Corporate Social Performance." *Strategic Management Journal*, 35: 1464-1482 (2014)

<sup>10</sup> Jia, Ming and Zhang, Zhe. (2014). Donating Money to Get Money: The Role of Corporate Philanthropy in Stakeholder Reactions to IPOs.

<sup>11</sup> Fosfuri, Andrea, Marco S. Giarratana, and Esther Roca. "Walking A Slippery Line: Investments In Social Values And Product Longevity." *Strategic Management Journal* 36:1750-1760 (2015).

<sup>12</sup> Wang, Heli and Qian, Cuili. (2011). "Corporate Philanthropy and Financial Performance: The Roles of Social Expectations and Political Access." *Academy of Management Journal* ., 54(6) , 1159-1181. Research Collection Lee Kong China School Of Business.

<sup>13</sup> Garcia, Joanna, The Influence of Corporate Social Responsibility on Lobbying Effectiveness: Evidence from Effective Tax Rates (February 2016). Available at SSRN: <https://ssrn.com/abstract=2745506>

<sup>14</sup> Rochlin, Steve, Jordan, Stephen, Kiser, Cheryl, "Driving Corporate Involvement in Community Health and Wellbeing." Babson College, 2018.

<sup>15</sup> For examples, see <https://www.fvtool.com/case-studies/>

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## *Innovation*

- Corporate giving can drive firm innovation. Research suggests that the exposure of company staff to community stakeholders, their needs, and the development of solutions helps spark an exchange of imaginative ideas that supports innovation.<sup>16</sup>

These findings represent SI's value-creating potential. The challenge for companies is taking the necessary steps to meet this potential.

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<sup>16</sup> Bereskin, F. L., Campbell, T. L. and Hsu, P.-H. (2016), Corporate Philanthropy, Research Networks, and Collaborative Innovation. *Financial Management*, 45: 175–206. doi:10.1111/fima.12078

## IV. Quantifying and Projecting ROI

The business case findings described in Section IV have enabled IO Sustainability and ACCP to work with companies to project the potential ROI from SI, utilizing the kinds of formulas and analytical frameworks applied by a company's Finance Department.

In one case, IO worked with a Fortune 500 company, outside the cohort, to forecast the potential financial ROI from its corporate citizenship approach.

The process started by applying the Project ROI Diagnostic Tool to determine whether the company had practices in place that would support financial value creation and community impact. The results of the Diagnostic painted a picture familiar to many corporate executives that manage SI. On one hand, the company manages a full complement of SI programs including corporate and foundation giving, volunteering, partnerships, employee matching, dollars-for-doers, and related initiatives. It has defined key focus areas that address community needs while aligning, at a high-level, to the characteristics of a company that relies on a highly educated work force, uses sophisticated technology in its manufacturing processes, and serves both consumers and business customers. It has developed two signature programs that provide solutions to key community needs while creating opportunities for business lines to grow markets and to reduce the costs and risks of its global supply chain.

On the other hand, the company invests few resources to build awareness regarding its programs. The majority of SI's resources and programming go to activities that are outside of the SI strategy's priority focus areas. Over 50% of SI resources go to respond to local community requests and the giving and volunteer interests of executives and employees. SI connects with partners in Business Lines or Staff Functions through two signature programs. However, the SI strategy does not specify ways in which the company will support the business. Nor does the strategy set measures that define success in improving the well-being of communities and individuals.

This Diagnostic Process concludes that the value-creating potential of the company's current SI approach ranges between low and moderate. It's likely that outside of the signature programs, most of the effort that the company is not delivering the business case outcomes defined Section III.

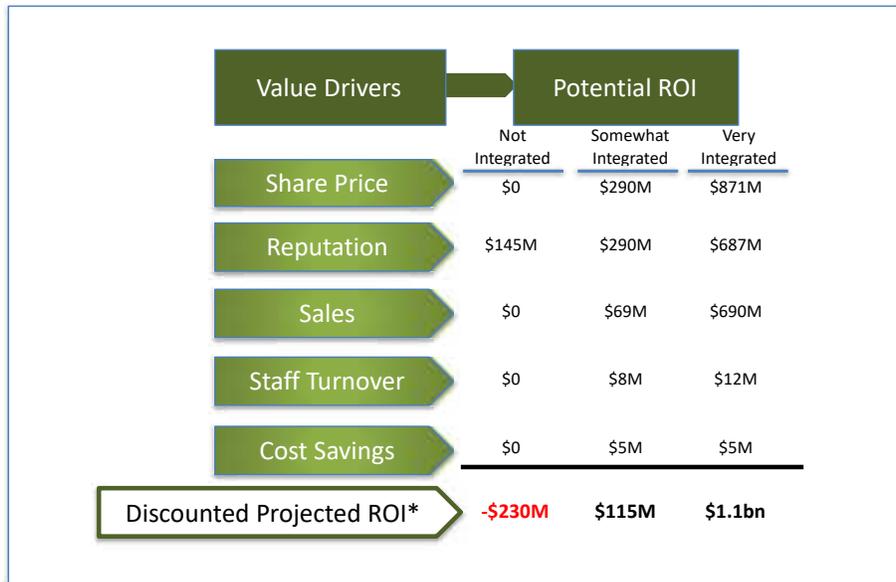
From this, IO is able to build three scenarios, summarized in Figure 2 from a project conducted with a company outside the project cohort. The baseline scenario is labeled "low-integration," to signify that SI remains removed from business strategy and objectives. The second scenario imagines a situation where SI begins to develop stronger alignment and integration with the business. The final scenario depicts a case where SI integrates and embraces practices that have high value-creating potential. Each scenario is compared and evaluated against peer company benchmarks and Project ROI's business case research, to test the reliability and validity of findings and assumptions.

IO then applies a discounted cash flow analysis to compare the annual costs of running the SI programs against the financial returns well designed SI approaches could deliver.

The differences in results across the three-scenarios are eye-opening. In the baseline case, the company (which was investing well north of \$100 million a year on corporate citizenship activities and staffing) can expect to lose over \$200 million over three years. As SI begins to embrace good practices, it delivers a

healthy ROI of over 30%, generating positive returns of over \$100 million. In the best case, SI becomes a catalyst that supports the business in generating financial value. The three-year payback exceeds \$1 billion.

Figure 2: Projected Financial ROI from SI<sup>17</sup>



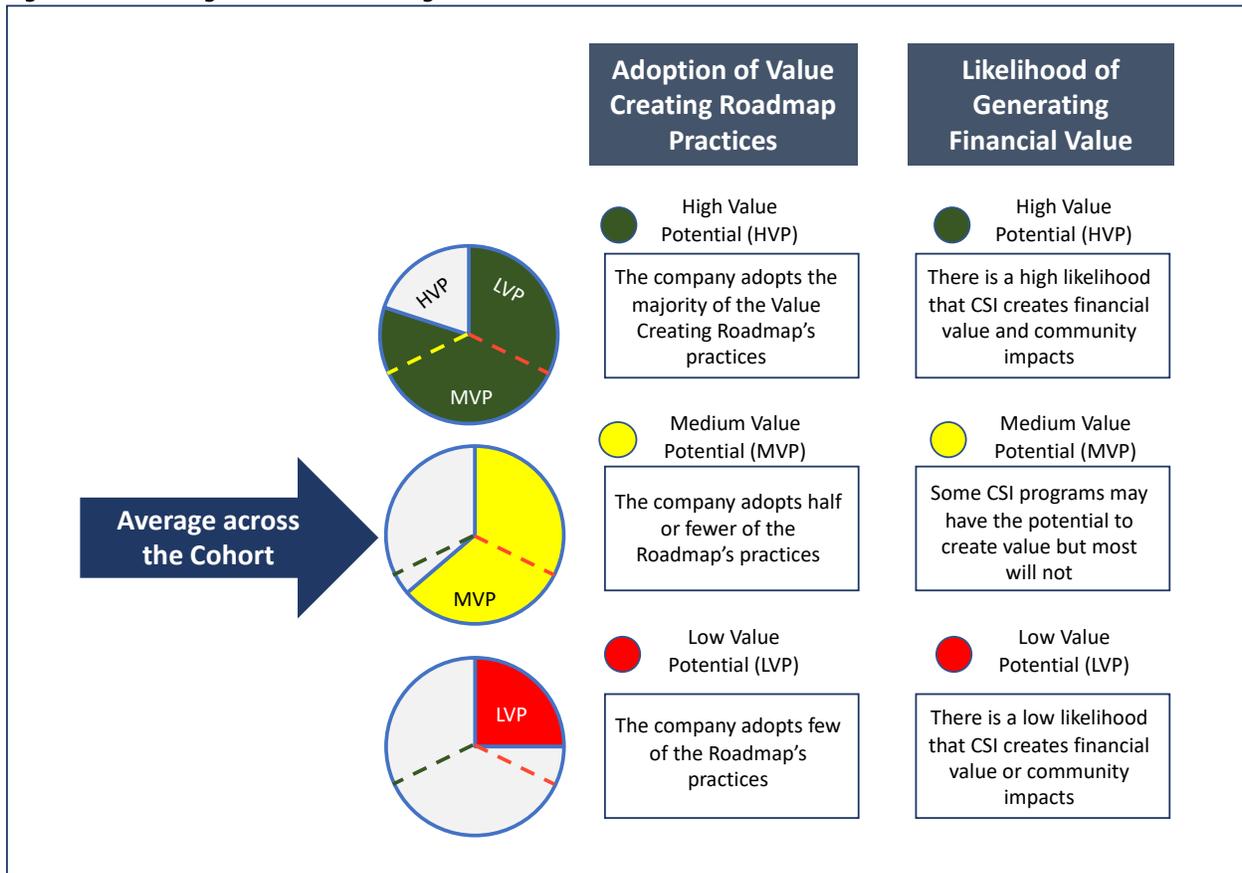
\* A discount factor used by the company was applied to the calculations

Figure 2 teaches two lessons. First, by itself, SI won't deliver financial success. However, strong SI practices can enhance business performance to deliver additional ROI as well as make up for certain deficiencies in business performance to preserve, protect, and even grow financial ROI. At its highest potential, the impact that SI can deliver is substantial and material.

Second, many companies are not engaging in the kind of practices that will deliver either financial value or community impact. IO and ACCP applied a diagnostic tool to assess the value creating potential of a cohort of companies representing a wide-range of industries including B2B, B2C, extractive, fast moving consumer goods, healthcare, high-technology, manufacturing, media, professional services, and transportation. The diagnostic rated whether the SI approach had high, medium, or low value-creating potential based on the good practice criteria developed in Project ROI. Figure 3 shares the average across the cohort.

<sup>17</sup> This figure is the © Copyright of IO Sustainability, 2017

Figure 3: Assessing the Value-Creating Potential



A company that scores in the “low value creating potential range” has not adopted many – or any – of the practices outlined in the SI Value Creating Roadmap (detailed in Section VI). A company scoring in this range should expect a low likelihood that its SI approach will generate either financial value or community impact. Typically, a company with this score will need to take action to redesign its SI approach to better align and integrate with the business.

A company that scores in the “medium value creating potential range” has partially adopted the practices in the SI Value Creating Roadmap. A company scoring in this range may find that serendipity generates instances where SI tangibly supports business KPIs and financial performance. However, these results will be difficult to track and replicate. In cases when SI does create value, it will be unlikely to deliver the optimum, high-end potential listed in Section IV’s business case categories above. This means that support for an area such as sales will not approach the 20% ceiling. In addition, there will be many instances in which SI has no effect on business or community outcomes. A company with this score will need to commit to leverage the strengths of its approach, close gaps, and refresh its overall SI strategy.

A company that scores in the “high value creating potential range” has almost fully adopted the practices in the SI Value Creating Roadmap. If the company invests the time and resources to measure results, it will likely find evidence that it is supporting business KPIs and financial performance while improving community well-being. In the event that measures suggest the company is falling short of these results, it will generally mean that the SI strategy needs tweaking and modification, but its direction and processes should put the company on a pathway to generate impact and business benefits.

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The research team finds that the average across the cohort falls into the range of medium value creating potential. To meet SI's full potential, companies need to reach the high-value creating potential zone. Section VI provides guidance on ways to get there.

## V. The Value-Creating Roadmap

Companies that do SI well take a disciplined approach driven by a clear strategy. They follow the SI Value-Creating Roadmap.

### 1. Design strategies that truly align and integrate with the business while setting stretch goals for community impact

High-value creating strategies include the following elements. These strategies:

- **Define the business-related key performance indicators (KPIs) that SI will support.** High-value creating approaches set targets regarding how SI will support and enhance business strategy and the company's key performance indicators (KPIs). This means understanding the company's objectives for generating revenues, growth, cutting costs, increasing productivity, enhancing brand and reputation, winning the war for talent, and/or beating the competition.



*For example, one of Symantec's biggest challenges is addressing the significant shortage of qualified candidates prepared to fill cyber security roles. An estimated 500,000 to one million jobs remain unfilled in the United States alone, and this gap is expected to grow three times faster than other IT jobs to a staggering 1.5 million by 2020. The Symantec Cyber Career Connection (Symantec C3) program, launched in 2014, opens the door to the cyber security field for underrepresented young adults and veterans. By addressing five key challenges across the workforce pipeline, which are Excite, Recruit, Train and Certify, Prepare for Jobs, and Launch Careers, Symantec C3 aims to prepare 1 million students to be ready for a career in cyber security through STEM (science, technology, engineering, and math) education by 2020 with an investment of \$20 million. The initiative supports three KPIs: it expands the pipeline of trained professionals the company can hire; it reinforces the company's diversity and inclusion targets; and it broadens the so-called "ecosystem" of trained professionals that can provide technical support to Symantec's institutional customers.*

#### Box 5

##### AVOIDING TRAPS – EQUATING FOCUS AREAS FOR KPIS

A common trap involves equating a focus area with a business KPI. For example, STEM education relates well to the characteristics and capabilities of a high technology company. However, defining STEM as a focus is the beginning of a strategic plan, not the end. The essential next step is for a company to define clearly how the STEM focus area will support specific KPIs and improve community well-being.



*For example, Kellogg has set a goal to create 3 billion “Better Days” by the end of 2025, measured by: providing 2.5 billion food servings; expanding feeding and nutrition education programs for 2 million children; supporting 500,000 farmers with Climate Smart Agriculture practices; committing to 45,000 volunteer days; and engaging 300 million people in its efforts to fight hunger.*

#### Box 6

#### AVOIDING TRAPS – UNALIGNED STRETCH GOALS

If a company sets a stretch goal that does not align with the business and its KPIs it can backfire, and risk alienating shareholders, customers, and employees. It is vital to ensure that the community impact goal aligns with the company’s strategy, products/services, and culture in ways that make sense to key stakeholders.<sup>18</sup>

- **Utilize the company’s capabilities.** SI resources that go beyond checkbook philanthropy and traditional volunteer programs to utilize products, business processes, and employee skills to support community impact objectives generate two benefits. First, they hold the potential to deliver more impactful and longer-lasting benefits to communities. Second, they impress customers, employees, shareholders, and wider community stakeholders.



*For example, BD’s Volunteer Service Trips sends teams of BD associates to developing countries to help strengthen local health systems through hands-on training, education, laboratory services and construction projects. The program is designed to enable BD to share the Company’s collective knowledge while also providing associates with a unique opportunity to pursue the Company’s purpose of advancing the world of health.*

**Develop the right internal partnerships with business lines and staff functions.** SI performs a catalytic role in supporting business KPIs. To be effective, SI will be most supportive when it forms explicit partnerships with key business lines and staff functions. For example, if SI sets an objective to support sales, it should design strategies and initiatives that engage Sales and Marketing teams as partners in the design, delivery, and measurement of related SI programs.

However, SI teams should avoid forcing the issue. If for example, the Sales and Marketing team is unwilling or unable to partner, then SI should pivot to address another business KPI – such as supporting HR and the war for talent – where more enthusiastic partners can be found.



*For example, KPMG’s focus on building next generation leaders through lifelong learning, plus its strategy to empower individuals to advance in their education and career from pre-K to the C-suite, aligns with the firm’s priority to foster the development of a diverse talent pipeline, uniquely prepared to embrace the challenges of the global marketplace.*

<sup>18</sup> see Rochlin, et al, 2015.

- **Communicate and build awareness among key stakeholders.** Key stakeholders include customers, employees, shareholders, and wider community representatives. Awareness and favorability are prerequisites for a value-creating approach. Without them, SI stands little chance of creating financial value, and in many instances may not be able to generate meaningful community impact either. No one-size-fits-all communications approach exists for SI. Leading companies utilize different communication tactics depending on the strategic objectives and audiences they are seeking to engage. These can range from engaging communities and key stakeholders to core business KPIs. For example:

Context #1: Local Communities: if the intent is to build the favorability of local communities, then companies should pursue tactics that:

- Use peer-to-peer information exchange
- Involve community partners to discuss and promote SI programs and the company's support
- Use appropriate communication collateral such as newsletters, radio spots, and localized chat forums on social media.



*For example, ArcelorMittal uses a variety of these tactics – including regular meetings with neighbors and community leaders – to build awareness and support near its facilities.*



*WWE and Southwest Airlines collaborate with key community partners to distribute content via social media and traditional media.*

Context #2: Key influencers: if the intent is to reach key influencers, opinion leaders, elected officials, and those that can shape the company's brand and reputation, then communication tactics can include:

- Presentations at conferences
- Participation in convenings and gatherings of key leaders such as the World Economic Forum, Aspen Institute, and regional policy and thought leadership events
- Placing articles and opinions in issue-based and industry-based trade publications
- Holding meetings and sending communiqués to community leaders

Context #3: Business KPIs: if the objective is to directly support business KPIs (such as sales), then communication tactics can include:

- Advertising
- Cause marketing
- Sponsorships
- Vehicles that connect directly to customers (or if related to key objectives, employees and/or shareholders)



*For example, WWE integrates information about its community partners and programs into its live primetime programming such as its Monday Night Raw and SmackDown Live television programs, including in-show and in-ring promotions. WWE also heavily integrates its celebrity performers (i.e. WWE Superstars) in promoting the missions of its community partners and their programs. John Cena, WWE's biggest crossover star and one of the most popular celebrities in world, is heavily involved through social media, traditional media, and appearances that promote community programs.*

- **Deepen connections with key stakeholders.** Research finds that the ability of SI to create financial value substantially increases when companies involve key stakeholders – particularly customers, employees, and shareholders – in the design and deliver of strategies and programs.
- **Complement the company's overall corporate responsibility and sustainability practices.** Ideally the SI approach should coordinate and reinforce at least one if not several of the company's material sustainability issues. This helps in two ways. First, it manages risk by ensuring that SI programs do not appear to “greenwash” and divert attention away from the company's overall environmental and social performance. Second, it provides a creative mechanism to demonstrate the company's commitment to address its material issues often by creating imaginative solutions.

*For example, ArcelorMittal defines sustainability as one of its core business values. The company looks at sustainability through the lens of creating resilience for its own business, its customers' businesses, and the communities where it operates. It defines a goal to make “a more sustainable future possible.”*



*This has led the company's US operations to create a new community program, Building Resilience: Investing in Nonprofit Sustainability. The program reaches beyond traditional programmatic funding for nonprofits in communities near ArcelorMittal facilities and invests in areas of nonprofit management traditionally underfunded by foundations and corporations. Funding will help to ensure grantees have the necessary resources to complete projects in the following areas:*

- *Strategic planning*
- *Program enhancement or expansion*
- *Professional or leadership development*
- *Technology implementation and data management*
- *Fundraising enhancement or expansion.*<sup>19</sup>



*Moving from a B2B to a B2C example, Kellogg links SI programming to help address some of the most challenging sustainability issues affecting food manufacturers – addressing the conditions and livelihoods of small farmers in developing countries that provide ingredients to the company's global supply chain. Kellogg's SI partners with organizations such as Technoserve, a global organization that promotes business solutions to poverty, to empower small farmers through sustainable agriculture.*

<sup>19</sup> <http://usa.arcelormittal.com/news-and-media/announcements/2017/dec/12-13-2017>

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## 2. Re-balance the SI portfolio to allocate sufficient resources to initiatives that relate to strategic priorities

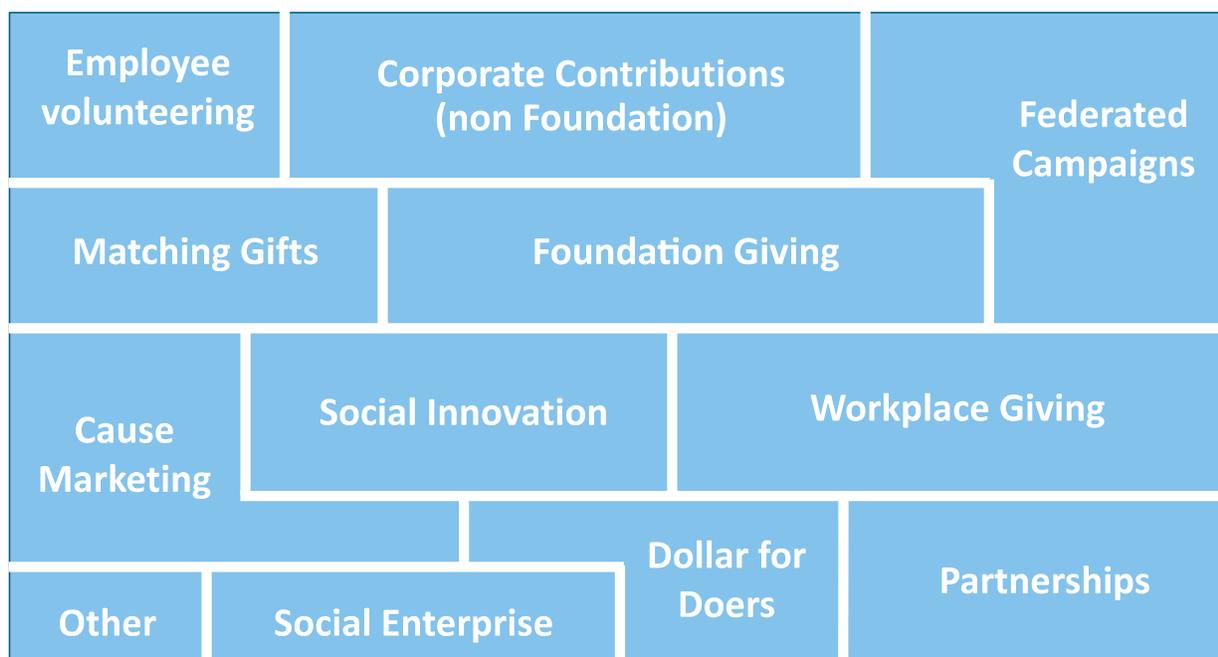
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A common trap occurs when companies define strategic priorities but then allocate the majority of their SI resources to programs and activities that fall outside of those priorities. Often these outside activities will lack clear objectives or metrics for financial ROI or community impact.

In a review of a company outside of the cohort, the SI strategy researched defined five strategic focus areas, and then a catch-all “community support” category that enables local grants, volunteering, and support for federated campaigns. This bucket lacks specific performance objectives or metrics, yet over half of the company’s giving goes to the “community support” category. This means that more than half of SI’s expenditures and programs are not tracked, measured, or assessed against performance objectives.

The first step in avoiding this trap involves accepting that **not all SI programs are created equal**. A SI function typically covers some, if not all, of the programs listed in Figure 4.

Figure 4: Common SI Programs



Companies may have good reasons for investing across all or most of these programs. However, these programs typically vary in their ability to either make a measurable difference for communities or to add value to the bottom line.

The potential impact of certain programs may change over time. For example, programs such as matching gifts, workplace giving, and dollars for doers may boost employee morale and engagement when they are first launched. As they mature, one sees examples where employees become accustomed to them. They

begin to see them as a core part of an employee benefit package that their employer is obligated to provide. The positive benefits that help support HR goals such as reduced turnover may degrade over time.

The lesson for companies is to take a clear-eyed view regarding the potential of certain programs to deliver value and impact. Companies seeking to maximize value do not fall in love with programs. They fall in love with the targeted results they seek to achieve.

The second step in avoiding this trap is to understand and assess the giving portfolio that SI functions often unknowingly create. Our research finds that most SI programs, contributions, and volunteering projects can be divided into one of three categories.

- Goodwill Driven
- Community Impact Driven
- Business Value Driven.

Figure 5 shows the average SI resource allocation across the companies researched. On average, Goodwill Driven and Community Impact Driven programs receive the largest allocation of resources, trailed by Business Value Driven.

*Figure 5: The SI Giving Portfolio*



Companies with such a portfolio may find it possible to generate business value and community impact, but they will likely fight an uphill battle. A key lesson is for companies to identify the proportion of resources that go across the portfolio, and assess whether this balance supports strategic goals, objectives, and outcome measures.

- **Goodwill Driven.** These SI programs have the primary intent to make stakeholders feel positively about both the company and charity and/or cause it supports. Goodwill Driven programs typically lack clear performance objectives and related metrics. The rationale for making Goodwill Driven contributions is often explained as “it’s the right thing to do”; “it’s important to give back”; “it’s important for local relationship building”; “it’s important to show the company is a good citizen”; or “it’s about building a virtual bank account of goodwill.”

Programs such as dollars for doers, federated campaigns, matching gifts, and workplace giving can often be categorized as Goodwill Driven. Giving and volunteering programs that fall into general “community support” buckets are often Goodwill Driven.

Goodwill Driven contributions do have a place in a value-creating SI approach *if they have clear performance objectives and metrics*. Goodwill Driven contributions have the potential to generate business value and community impact, however they typically do so indirectly. The vital metric for these programs is to track measures of key audience awareness and favorability.

Box 7

**AVOIDING TRAPS – KEEPING QUIET ABOUT GOODWILL PROGRAMS**

Across industries, corporate executives appear to be more growing more comfortable about communicating their company’s SI signature programs. However, they seem perpetually skittish about promoting Goodwill Driven programs. In many instances, executives will express a gut instinct that the company will be better off providing support quietly. This is ironic, because the way Goodwill Driven programs create value *for both the bottom line and for communities is by building awareness*. The more companies resist building awareness for Goodwill Driven programs, the less impact they are likely to have.



*Southwest and WWE each make a concerted effort to build widespread awareness regarding their support for Make-A-Wish. Each company develops plans to promote and feature contributions via social media, traditional media, and in some cases through events and flights that reach customers directly. The companies track awareness and measures of favorability. They find that customers and employees are both highly aware relative to other areas the companies support. Those who are aware have strong positive attitudes toward the corporate brands. In addition, Make-A-Wish reports that the recognition they receive from their partnership with these two leading brands helps to enhance the support it obtains and the impact it makes.*

- **Community Impact Driven.** These SI programs have specific, measurable objectives to improve the well-being of communities, individuals, or environmental systems. For example:



*Novo Nordisk is making a multi-year investment in the health of Trenton’s children and families. Through a program called the Ready, Set, Healthy!, which is overseen by the NJ Partnership for Healthy Kids, Novo Nordisk is helping to cultivate healthy lifestyles among grade school children, including healthy food choices and physical activity, along with educational programming for their parents. The Collaborative supports the work of its member organizations in two areas: preventing early onset of type 2 diabetes and increasing the proportion of children at a healthy weight. Funding supports programs within four main pillars: empowering parents and caregivers, providing healthy food in schools, improving access to healthy, affordable foods, and increasing physical activity.*

*Novo Nordisk's Ready, Set, Healthy! brings together Isles, Inc., The Boys & Girls Club of Mercer County, the YMCA of Trenton, the YMCA State Alliance, George Street Playhouse, GoNoodle, Wellness in the Schools (WITS), The College of New Jersey, and the Trenton Health Team. The collaboration works jointly on in-school and afterschool programming plus district-wide wellness policies and their implementation. In a city where 39 percent of the adults are deemed obese and 16 percent suffer from diabetes, the focus is on fostering a culture of health for students and their families through education, opportunities to be physically active, and support for great decisions about food and nutrition. Through dramatic presentations, school gardening, cooking demonstrations, taste tests, interactive technology, and targeted physical play activities and exercises, students, teachers, families and school staff explore the physical, emotional, and academic benefits of a culture of health.<sup>20</sup>*



*ArcelorMittal's partnership with National Fish and Wildlife Foundation's Sustain Our Great Lakes program restores and protects fish, wildlife and habitat by leveraging funding, building conservation capacity, and focusing partners and their resources on key ecological issues.*



*BD's Helping Build Healthy Communities initiative, funded by BD and implemented together with Direct Relief and the National Association of Community Health Centers (NACHC), provides awards to community health centers to support innovative approaches to the delivery of primary and preventive healthcare to underserved and vulnerable populations. The program focuses on aiding in the prevention and treatment of diabetes, cervical cancer, HIV and medication therapy management. The initiative, launched in 2013, includes a commitment by BD of \$3.6 million in cash and \$6.4 million in product, for community health centers and clinics nationwide. In 2017, five awards of \$200,000 were provided to community health centers in Fort Meyers, FL, Nashville and Knoxville, TN, Minneapolis, MN, Gulfport, MS in support of innovative programs in Medication Therapy Management, which closely aligns with BD's Medication Management Solutions business. The funding is to support programs that operate over a two-year period.*



*In March of 2018, through KPMG's Family for Literacy effort, 4 million books will have been distributed to children in the US from low-income families. The firm is now driving that same literacy effort across the globe in places including India, Kenya, Mexico and South Africa.*



*Southwest's Heart of the Community program revitalizes essential public spaces that act as an engine of inclusive economic growth and community development.*

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<sup>20</sup> <https://trentonhealthteam.org/news-announcements/announcements/novo-nordisk-community-health-collaborative-focuses-healthy-lifestyles-trenton-youth/>

Even though they prioritize community impact, these programs often have great potential to support the business because they showcase the company making a substantial commitment of money, time, staff, and ideas to support a vital need. When a company applies its talent and capabilities, participates not only as a funder but as a partner, and aligns its support to community challenges that relate to its corporate mission and purpose, then Community Impact programs can help with competitive positioning. If companies make the effort to build awareness among customers, employees, shareholders, and wider community stakeholders, then Community Impact Driven programs have an opportunity to support the business case areas listed in Section IV.

- **Business Value Driven.** Business Value Driven programs should not look very different from Community Impact Driven programs. At their core, they should set objectives to improve the well-being communities, individuals, and/or environmental systems. The key distinction is that these programs should define a specific objective to support one or more business KPIs related to brand and reputation, cost reduction, government relations/public affairs, growth, HR, innovation and R&D, risk management, sales, or share price. Ideally, a Business Value Driven program should involve either a line and/or staff function as a design and delivery partner.

*For example, the BD Volunteer Service Trip (VST) Program is a key way for BD associates to participate in pursuing the company’s purpose. With this program, BD is providing opportunities for associates to serve in some of the most disadvantaged places in the world. In developing the program, a number of criteria and principles evolved:*

- *Ensure that we are addressing a global health need; address a variety of diseases.*
- *Put various BD capabilities to work.*
- *Ensure geographic diversity.*
- *Work with a partner organization and meet their needs.*
- *Transfer knowledge to local residents.*
- *Engage more associates for a shorter time, rather than fewer for longer.*
- *Measure our impact.*
- *Sustain the program.*



*Charitable giving strategies are most effective when they leverage the Company’s strengths and resources. To that end, the BD Social Investing mission includes the statement that, “BD will mobilize its financial, product and human resources to focus on issues where we can have a significant influence on the health of at-risk populations around the world.” When associates volunteer their time, good things happen. They not only make contributions to society, they also benefit personally from the experience.*



*Business benefit objectives can be set for the near term or longer term. For example, Southwest’s Heart of the Community initiative will help support market growth over the long term. As key cities strengthen their economic development and refurbish tourist sites, they will become more attractive destinations for both business and personal travelers. In the shorter term, the company will be able to enhance its reputation among key stakeholders as it builds awareness among key stakeholders.*



*ArcelorMittal’s Steelworker for the Future® program helps the company address projected work force needs that will arise in the near future. Launched in 2008, the program combines classroom learning at a participating community college with paid, on-the-job training at an ArcelorMittal facility. At the completion of the program, students graduate with an associate in applied science degree in industrial technology*

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*with a concentration in electrical or mechanical maintenance, which makes them eligible for a position at ArcelorMittal, but also highly marketable across the manufacturing industry.*

There is no one way to balance the SI portfolio across Goodwill, Community, and Business driven programs. The key lesson is to assess whether the current portfolio aligns with SI strategy. In some of the companies researched, they do not. When misalignment exists, the vital next step is to ensure that the balance of the portfolio synchs with strategic objectives and priorities.

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### *3. Capitalize on the set of unique, and value-creating assets that SI possesses*

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Research suggests that SI possesses at least four unique assets that drive the business case results summarized in Section IV. Companies should understand these assets and build strategies to capitalize on them.

#### **Key asset #1: Networks**

Strong SI programs build strong relationships across a range of stakeholders such as:

- Activists and campaigning organizations
- Employee resource groups (such as networks based on gender, race, and ethnicity)
- Charities and NGOs
- Community anchor institutions such as schools, hospitals, Chambers of Commerce, federated campaigns, community development corporations, arts institutions, universities, and others
- Community leaders
- Employees (particularly employee volunteers and those that take advantage of programs such as workplace giving, matching gifts, and dollars for doers)
- Environmentalists
- Media outlets with an interest in CSR
- Organizations committed to sustainable development and corporate responsibility such as CSR intermediaries, thought leaders, grant makers, social innovators, and social entrepreneurs
- State and local elected officials

In the past, company executives and Wall Street investors often called these stakeholders a distraction. Currently attitudes are changing. These stakeholders have proven their ability to influence business, as collectively they have had a substantial influence in driving the contemporary corporate responsibility movement. They have the ability to influence the company's social license to operate which creates financial, operating, litigation, and PR risks.

Smart companies increasingly recognize that instead of a distraction, these stakeholders can be a vital asset to support competitive positioning. A good word from these stakeholders can make a considerable difference in enhancing brand/reputation, swaying consumer buying decisions, and supporting talent acquisition and recruitment. Access to these networks helps companies become more innovative.<sup>21</sup>

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<sup>21</sup> Bereskin, 2016



*SI is unique among functions in a company in its ability to develop relationships and partnerships among these stakeholders. Consider Kellogg's SI objective to engage 300 million people in its effort to deliver "Better Days" to individuals and communities. Engaging citizens and our own employees in purpose-driven communication and initiatives not only helps them understand what Kellogg cares about, but it brings value to our business that attribute-focused product advertising cannot. Instead of just building product awareness and feature-based desire, SI communication has the ability to attract new consumers who share our values and strengthen relationships with current consumers who already support our company. Activation around SI initiatives also demonstrates that Kellogg is putting tangible creativity, skills, and talent towards improving the livelihoods of individuals and communities in addition to its ability to deliver on its brand purpose.*

#### Box 8

#### STRATEGIC NETWORKS

- Novo Nordisk has formed deep relationships with nearly every major element of the health system tied to its major therapeutic areas such as diabetes and hemophilia. Its educational programs encourage healthy living and increase disease awareness, prevention, optimal treatment, and management in its therapeutic areas of interest. The company partners in the design of curriculum with media outlets such as Discovery Communications. The company estimates that 38 million students and 3.5 million educators engage with these curriculum materials – over half of the schools in the US. Education materials placed on public web sites receive 2.2 million unique monthly visitors, yielding 39 million monthly page views (465 million annually). Sixty-nine percent of these visitors are parents. Each year, it provides funding to hundreds of independent educational grants that provide continuing education to practicing health care professionals and those in training, as well as members of the community, patients, and their caregivers. Novo Nordisk also supports health in a variety of Native American Tribes. Its Day of Service program connects hundreds of its employees with community leaders and representatives. Collectively, this outreach gives the company connection to a wide network of health professionals, community leaders, and households.
- ArcelorMittal has taken a leadership role in the Sustain Our Great Lakes program, a public-private partnership with the National Fish and Wildlife Foundation, U.S. EPA, U.S. Fish and Wildlife Service, USDA Forest Service, the National Oceanic and Atmospheric Administration, and USDA Natural Resources
- BD has formed deep relationships with nearly every major element of the healthcare system and providers across the United States and the globe
- The core of KPMG's SI strategy focuses on lifelong learning (LLL) with a sub-focus on literacy. KPMG's approach has the potential to create a value chain of literacy (i.e., what the firm refers to as the "Lifelong Learning Continuum" that meets an individual's career development needs at every stage of life starting from early education through post-secondary. The firm has trusted relationships with leading education and work force development non-profits starting from those that support pre-K learning through those that help low income and minority students receive support to obtain doctorates
- Symantec has the objective to introduce a million individuals STEM and computer science education
- Southwest has formed partnerships with well known and loved organizations such as Make-A-Wish, Miracle Flights for Kids, Dream Foundation, American Red Cross, Team Rubicon, National Forest

Foundation, Student Conservation Association, HACU (Hispanic Association of Colleges and Universities), Project for Public Spaces, Points of Light, Knights of Heroes, Folds of Honor, Honor Flight

- WWE has formed partnerships with well-known and respected organizations such as Make-A-Wish, Special Olympics, Susan G. Komen, Boys & Girls Clubs of America and Hire Heroes USA.

As these networks express their support for companies they see as good corporate citizens, the potential to deliver the business cases detailed in Section IV grows more likely. The lesson is to design SI strategies that delicately but purposefully build these relationships so that favorability grows to the point where stakeholders would voluntarily take action to support the company by encouraging:

- Activists to give a fair hearing to the company's positions
- Elected officials to give a fair hearing to the company's requests
- Investors to acquire stock
- Job-seekers to apply for employment
- Media to report positive stories
- Customers to buy products and services
- Peers to trust the company's brand and reputation.

### Key Asset #2: Trust

Trust is a vital asset that underpins market valuation, risk management, brand/reputation, sales, and employee engagement. High trust environments enable companies to conduct business with lower regulatory supervision, less media scrutiny, fewer internal audit processes, and more employee empowerment. Low trust environments lead to what the economist, Ronald Coase called "higher transaction costs". Trust can take years to earn and evaporate overnight. Stephen Jordan has written that in a world suffering from too much information and a lack of time for the kind of relationship-building required for trust to develop organically, stakeholders of all kinds need to find "trust substitutes" that can reliably serve as proxies indicating whether a company is trustworthy.<sup>22</sup>

Research finds that SI has the potential to serve as this kind of trust substitute.<sup>23</sup> The implication for companies is to identify how the design, delivery, and communication of SI programs can reinforce trust.

Key tactics include:

- Ensuring, as noted earlier, that SI aligns and reinforces the company's sustainability and corporate responsibility priorities
- Engaging in stakeholder outreach to involve communities, customers, employees, and even shareholders in the development, design, and delivery of SI strategies and programs.



*For example, the SI team at Novo Nordisk has developed strong relationships with community stakeholders at key locations. As a result, leaders such as Mayors, media commentators, and non-profit executives have publicly praised the company for being an exceptional partner and corporate citizen*

<sup>22</sup> Jordan, Stephen C., "Values Matter: Emerging Business Policies and Practices for Building Trust and Good Will," 2007: US Chamber of Commerce.

<https://www.uschamberfoundation.org/sites/default/files/publication/ccc/ValuesMatterBCLCreport2007.pdf>

<sup>23</sup> Koh, et al, 2014

- Setting up two-way communications with community stakeholders so that the company hears and responds to concerns.



*For example, ArcelorMittal's SI team has put in place communication processes to engage with neighbors surrounding facilities, and with local and national environmental organizations. Establishing communication is vital for a mining and manufacturing company as communities and NGOs have the ability to interrupt if not derail operations.*

### **Key Asset #3: Expressing Purpose**

Purpose has become a galvanizing management framework for business. Purpose clearly defines the difference that a company will make in the world and for its customers, employees, shareholders, and communities. Purpose defines the firm's reason for being, brings employees together as a high performing team, and drives organizational culture. Purpose fuels product innovation, growth and sales. Purpose builds and protects corporate reputation as well as engages and inspires customers and employees.

Companies such as [example withheld until approval is provided], IBM, Johnson & Johnson, Patagonia, PwC, REI, Starbucks, and Unilever have adopted Purpose as either a core driver of organizational performance, or as a more targeted approach to build shared-value initiatives.

Research suggests that SI can help bring a company's purpose to life in the eyes of key stakeholders, and particularly for employees. In this way, SI and purpose work together to enhance employee engagement, productivity, and commitment that leads to reduced turnover and enhanced talent recruitment.<sup>24</sup>

BD, Southwest Airlines, and KPMG are examples of companies that have been able to use SI to gain the attention of employees. Each invests time to communicate its SI activities to the employee population. Each provides a variety of mechanisms for employees to get involved in SI, particularly through traditional and skills-based volunteering.

### **Key Asset #4: Bringing Corporate Performance Excellence to Life**

SI can serve as a proxy indicator of good management for shareholders, Wall Street analysts, customers, and the business press. When stakeholders perceive SI as done well, it creates a halo effect that signals that the company manages intangible assets (such as its brand, reputation, talent, and innovative capability) well, too. It also signals that the C-Suite is highly strategic, forward-looking, and effective at handling a wide range of contingencies. Finally, it suggests that the company has a positive outlook for its future financial performance.<sup>25</sup>

For SI to spark this kind of virtuous cycle it needs to adopt the practices described in the value-creating roadmap. Companies that fall short of adopting these practices will be under-leveraging one of the most powerful assets that SI possesses.

<sup>24</sup> Gong, Ning and Grundy, Bruce D. (2017) Can Socially Responsible Firms Survive Competition? An Analysis of Corporate Employee Matching Grant Schemes (April 15, 2017). **Available at SSRN:** <https://ssrn.com/abstract=2007643> or <http://dx.doi.org/10.2139/ssrn.2007643>

<sup>25</sup> See Rochlin, et al, 2015; and Wang, et al, 2011

## 4. Develop a measurement portfolio

A measurement portfolio does not try to evaluate all of SI as a single entity. Instead, it embraces the diversity of objectives and programs that SI covers. Figure 6 provides a framework for the measurement portfolio. It suggests that companies map programs according to their purpose and potential for impact.

Figure 6: The Measurement Portfolio



Companies do not necessarily need to develop statistically rigorous evaluation methods that prove causation. Such methods take time and resources and require extensive training to execute. These methods unfortunately are not bullet proof and are open to criticism.

A more practical approach is to collaborate with internal business partners and community partners to define metrics that reasonable people can agree likely suggest causation.

*Southwest has developed a variety of approaches to measure its community impact. The company starts by collecting helpful input and output metrics for its focus areas. For example, last year:*

- Southwest donated 2,293 Tickets for Time awards to support the mission organizations Southwest employees value (a \$917,200 value)
- More than 6,400 employees donated 145,000 hours valued at a level of \$3 million



*It then works with community partners and evaluation experts to determine the benefits of its signature program –Heart of the Community – on community well-being. Heart of the Community’s mission is to build connections that bring people together and strengthen communities for a more resilient future. Launched in 2014 with lead partner,*

*Project for Public Spaces, the Heart of the Community grants provide financial and technical assistance to local community partners who seek to bring new life to their public spaces. The goals of the Heart of the Community grants are to:*

- *Help communities bring new life to their public spaces, transforming them into vibrant places that connect people and strengthen communities*
- *Raise awareness of Placemaking as a mainstream approach and a catalyst for building sustainable, healthy, inclusive, and economically viable communities*
- *Encourage activation, participation, and volunteerism in public spaces to benefit local communities.*

*Projects have revitalized a downtown park in Atlanta, connected downtown areas in Indianapolis, and creating a public space in the Courtyard of Philadelphia's iconic City Hall.*

*A sample of its exciting outcomes include:*

- *Southwest's seed investment of \$735,000 helped generate \$3.4 million in investments for community development that led to:*
  - *147 New jobs created*
  - *\$7.7M in visitor spending.*



*In 2016, Symantec invested \$6,078,500 which helped engage 745,446 students in STEM education. It also finds that as of April 2016 its Symantec C3 program reached 300 students. Seventy-two percent have graduated, and 87% of graduates are employed in cyber security and IT jobs or pursuing additional degrees. Furthermore, 95.7% of the nonprofits receiving software donations from Symantec report that the donations enabled them to better fulfill their missions.*



*BD reports that one of its signature programs, BD Helping build Healthy Communities impacted nearly 45,000 patients and encouraged behavior change and preventative care related to diabetes and medication compliance.*

## **Measuring Business Benefits**

Practical steps that companies can take to measure business benefits include the following:

- **Measuring brand and reputation**
  - Survey key stakeholders

Brand and reputation surveys should include questions that determine the awareness of individuals for the company's SI. Data analysis can track whether those familiar with SI tend to have positive, negative, or neutral attitudes towards the company's brand and reputation.



*For example, ArcelorMittal regularly conducts a reputation survey of key stakeholders that shows SI is a core driver of favorability and reputational capital.*



*WWE finds that recognition and favorability of its main community programs is high among key audience demographics. Those that are aware of WWE's SI tend to feel positively about the WWE brand.*

- Capture stories and anecdotes



*For example, anecdotal evidence shows that ArcelorMittal's environmental grants and partnerships are building trust and that community leaders are asking questions before making accusations.*



*WWE's SI has received compliments and favorable anecdotes that show how programs have the potential to enhance reputation.*

While imprecise, at a high-level, media impressions and views can nevertheless serve as a useful proxy for awareness, brand, and reputation.



*For example, WWE has been able to generate hundreds of millions of media impressions from core programs such as Make-A-Wish, Connor's Cure for pediatric cancer/V Foundation, and the More than Pink campaign with Susan G. Komen.*

### Shorter-term metrics

- Assess the change in sales and correlate to SI Impact and SI Awareness metrics
- Compare sales in a tightly defined geographic market that is highly engaged in the SI approach vs one that is not
- Compare sales in a tightly defined market where SI favorability is high. Then compare sales in a tightly defined market where SI favorability is low
- Create an external "net promoter" metric that highlights key stakeholders and communities who are highly committed to the firm, and very willing to promote the firm to the public and key

opinion leaders. Track how engagement and awareness of SI increases the number of net promoters.

#### Longer-term metrics

- As SI begins to generate community impact results (such as increased numbers of graduates, increases in jobs, increases in income, etc.), companies can assess the increase of the size of potential consumers and growth in market size
- Compare sales for new demographics (e.g., lower income families) that are supported by SI programs vs. those that are not.
  
- **Measuring risk management and cost control**
  - Compare license to operate related metrics (which tend to affect operating costs) between communities with extensive SI programming and those with limited activity. Assess the difference between the following kinds of indicators (and then do the same in comparing to peer companies from within the industry and to industries with similar profiles):
    - Permitting and approval times
    - Community opposition, activism, and negative media
    - Other community-related delays, costs, or fines.
  - Track a metric of key stakeholder trust and favorability towards the company
  - Record the behaviors and stated willingness to act from key stakeholders on key areas such as speaking positively about the company as a corporate citizen.
  
- **Measuring Human Resource benefits**
  - Measure recruitment and talent acquisition
    - Track the numbers of individuals that participate in work force development and/or education programs that meet HR's criteria for potential employment
  - Measure employee engagement
    - Define employee engagement metrics: for those that engage in SI programs; track employee engagement scores; compare the employee engagement scores of those aware of SI programs vs. those that are unaware
    - Work with HR to create an internal employee "net promoter" metric that highlights staff who are highly committed to the firm, highly involved in SI, and very willing to promote the firm to colleagues, potential recruits, clients, and the public. Track how engagement and awareness of SI increases the number of net promoters.
  - Measure employee turnover
    - Compare the turnover rates between:
      - Employees that are very aware of SI programs vs. those that are not
      - Employees that participate in SI programs vs. those that do not

For example, BD has measured the HR benefits of the Volunteer Service Trips program. It is finding that participants feel more loyal to BD.

## VI. Looking Ahead

Lessons learned from the Business ROI of Social Investing have powerful implications for the management and practice of SI. The *Field of Dreams* “build it and they will come” strategy will not work: benefits won’t accrue simply because a company supports a variety of SI activities. This is not bad news. No executive or investor would trust claim that any kind of SI program of any kind of quality will deliver financial returns and community impact. The Business ROI of Social Investing finds that to succeed, SI needs to demonstrate the same kind of discipline, strategy, and execution as any other part of the company.

The good news is that a well designed and implemented SI approach does have the potential to improve the quality of life for communities while generating quantifiable returns at levels any business line leader would envy. This means that companies and their managers can exert some measure of both choice and control over the business-related benefits that their SI will deliver. Like other investments, some SI initiatives will pan out and others won’t. Rather than debate whether or not SI creates or destroys value in the abstract, a more productive approach will be to develop business-aligned and integrated SI strategies. This includes applying to SI many of the same management disciplines as any other business function.

As such, this Report begins to define a value-creating roadmap and points out promising new directions for continued investigation and improvement in the years to come.

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