measuring IMPACT beyond the bottom line

Why measuring impacts on society makes business sense
“Our obligation as business leaders is to leave the world better than we found it.”

Sam DiPiazza, Global CEO, PricewaterhouseCoopers and Chairman, WBCSD

About the WBCSD
The World Business Council for Sustainable Development (WBCSD) brings together some 200 international companies in a shared commitment to sustainable development through economic growth, ecological balance and social progress. Our members are drawn from more than 30 countries and 20 major industrial sectors. We also benefit from a global network of about 60 national and regional business councils and partner organizations.

Our mission is to provide business leadership as a catalyst for change toward sustainable development, and to support the business license to operate, innovate and grow in a world increasingly shaped by sustainable development issues.

Our objectives include:

Business Leadership – to be a leading business advocate on sustainable development;

Policy Development – to help develop policies that create framework conditions for the business contribution to sustainable development;

The Business Case – to develop and promote the business case for sustainable development;

Best Practice – to demonstrate the business contribution to sustainable development and share best practices among members;

Global Outreach – to contribute to a sustainable future for developing nations and nations in transition.

Development Focus Area Core Team
Chair: Roberto Salas (GrupoNueva)
Focus Area Core Team: AES Corporation, Anglo American, BP, ERM, GE, GrupoNueva, Toyota, The Warehouse Group.

Website: www.wbcsd.org/web/development.htm

Disclaimer
This publication is released in the name of the WBCSD. Like other WBCSD publications, it is the result of a collaborative effort by members of the secretariat and senior executives from member companies. A wide range of members reviewed drafts, thereby ensuring that the document broadly represents the majority view of the WBCSD membership. It does not mean, however, that every member company agrees with every word.
Introduction

Over the past few years, several WBCSD member companies have explored ways to measure the impact of their business activities on the societies in which they operate. These innovations have in turn prompted the WBCSD, with its members, to develop a common approach to measuring business impact that can be used by all business sectors. This publication presents the resulting WBCSD Measuring Impact Framework, and highlights the experiences and lessons learned from those companies that have pioneered the thinking behind the Framework. It explains why measuring and understanding a company’s impact is good for business and good for society.

The members of the WBCSD are not alone in their endeavors to measure impacts. This publication also highlights the parallel work of the International Finance Corporation (IFC), which has developed a new system to track the results arising from its investment portfolio and advisory services.

The business case for measuring impacts

The nature of international business is complex, shaped by globalization and rapid socio-economic and political change. Sustainability issues are increasingly contributing to this complexity, not least climate change, resource constraints, endemic poverty and ecosystem degradation. In response to these trends, the company executives who steer the WBCSD’s Development Focus Area declared their commitment to creating a more sustainable and inclusive form of globalization. They identified four key objectives:

• Develop a deeper understanding of how global issues such as poverty, the environment, demographic change and globalization affect individual companies and sectors;

• Use the understanding of these issues to search for more inclusive business solutions that help to address the issues at both a local and global scale;

• Align core business strategies with the solutions identified;

• Incorporate long-term measures into the definition of success, targeting profitability that is sustainable and supported by a responsible record in managing social, environmental and employment matters.

These companies recognize the risks and opportunities their operations face in developing countries and the important role they play in influencing change. They rely on transparent legal systems, access to markets and infrastructure services, social stability, healthy and skilled employees and suppliers, as well as consumers willing and able to purchase their products and services.

While these conditions are critical for business growth and success, the benefits resulting from the presence of multinational business and the associated in-flows of capital may not reach all sectors of society. The consequence can be a thriving middle and upper class while the low-income segment gets left behind. This can lead to strained relations between business and the communities associated with their activities, increased scrutiny from civil society organizations and greater levels of political pressure from local and national governments, all of which can increase commercial risks for investors.

“Our corporate objective is not only to generate attractive returns for our shareholders, but also to create a positive legacy for the countries and communities where we work.”

Cynthia Carroll, CEO, Anglo American
How measurements lead to better business

Companies have the capacity to positively influence development outcomes. In order to demonstrate this, they must be able to measure their impacts and, armed with these measurements, modify their business models and strategies to further optimize their contribution to both shareholders and society as a whole. It is about going beyond compliance and building a more holistic perspective of value to business and the societies where that business operates.

The diagram illustrates some of the benefits that can arise from measuring impacts and how these can result in better business

“If you cannot measure it, you cannot improve it.”

Lord Kelvin, Mathematical Physicist

Risk management
- Anticipate and adapt to changing societal conditions and needs

New business opportunities
- Product and service innovations
- New markets
- Innovations in distribution
- Supply chain localization

Market share
- Protect market share by engaging broadly to build brand and consumer loyalty
Communities
• Improve relations with communities through better-informed and effective communication

Governments and regulators
• Improve relations to underpin the business license to operate
• Create a platform for discussion on framework condition improvements

Partnerships
• Discover opportunities to partner with other stakeholders to leverage resources to optimize impact

Employees
• Attract and retain employees
• Foster greater productivity by improving employee loyalty and enthusiasm
Examples of business approaches to measuring impact

In this section we present six examples of why companies decided to measure their impacts.

**Anglo American** invested in Socio-Economic Assessment Toolbox (SEAT) to help its operations live up to the company’s stated goal of making a contribution to the economic, social and educational well-being of the communities associated with its operations, a fundamental part of its risk management plans.

The company had taken steps to review its impacts on communities in the past. However, the SEAT tool moved it from an ad-hoc process to a more systematic, company-wide approach to understanding the company’s impacts and assessing the sustainability of their operations – not least in balancing the extraction of natural resources with an enhancement of social and human capital. The company hoped the SEAT would initiate a process of aligning social investment plans with the needs of communities and ensure that community initiatives worldwide are based on engagement and solid facts. This allows communities and the company to work towards agreed goals. The tools also help strengthen their social reporting capacity, develop indicators relevant to local conditions that the company can use to monitor progress over time, and share “best practice” within the firm.

For further details see: www.angloamerican.co.uk

**Unilever** engages with many people around the world as suppliers, distributors and consumers. Yet prior to 2004, the company had very little understanding of how these interactions impacted on the lives of these people and contributed to poverty eradication and societal progress. With the Millennium and Johannesburg Declarations in the backdrop, the company embarked on its first in-depth look at its impacts as a way to understand the role the company and foreign direct investment play in building sustainable livelihoods. To do this Unilever engaged Oxfam in a learning partnership to explore the poverty impacts from its entire value chain in Indonesia, from buying from small-scale producers to selling to low-income consumers in remote locations.

In 2005 the company decided to build on this research to look at Unilever’s impact on the South African economy. Unilever commissioned INSEAD professor Ethan Kapstein to conduct the South African study and, in contrast to the Indonesian study that focused specifically on poverty impacts, it used traditional economic methodologies to measure the direct, indirect and induced impacts from Unilever’s operations.

For further details see: www.unilever.com

**Vodafone** commissioned a study into the Socio-economic Impact of Mobiles (SIM).

The SIM Project aimed to identify how people use mobile communication and how this use affects the social and economic growth of both their communities and countries. The first in the series of studies focused on mobile users in areas in Africa while the two subsequent studies looked deeper into particular ways in which mobiles are used for such things as healthcare and microlending.

For further details see: www.vodafone.com

**Unilever Impact studies in Indonesia and South Africa**

…”companies do not normally measure their social, economic and environmental footprint in the markets in which they operate and, as we all know, communication without facts is tough.”

Patrick Cescau, Group CEO, Unilever

**Vodafone Socio-economic Impact of Mobiles Program**

“Put simply, I believe that mobile technology has enabled people whose views and needs were previously unheard to be active participants in the marketplace.”

Arun Sarin, CEO, Vodafone

**Just 20 years after the launch of the world’s first commercial mobile (cell) phone services, there are more mobile than fixed-line users globally, and nearly as many people have a mobile as a television. Despite the rapid increase in mobile phone users, little evidence existed prior to 2004 on the economic and social impacts of the phones on individuals, business and national economic development. To fill this knowledge gap and build a better understanding of the company’s potential future market, Vodafone commissioned a study into the Socio-economic Impact of Mobiles (SIM).**

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For further details see: www.vodafone.com

**Minning companies are having to understand how best to leverage their core business to create better development outcomes.”**

Cynthia Carroll, CEO, Anglo American

**Why mining companies engage in impact studies?**

**Substantiate claims that the company is “walking the talk” in terms of delivering societal value – including poverty reduction – from their business activities.**
In 2002-2003, the Icelandic government approved one of the largest construction projects and private-public investments in Iceland’s history, the Kárahnjúkar Power Plant Project, the Alcoa Fjarðaál Smelter Project and the transmission line from the power station to the smelter. The government and municipality had a particular interest in the ability of the projects to stimulate sustainable economic activity in eastern Iceland, as well contribute to the stability of the national economy.

The Environmental Impact Assessments found that the impacts could be mitigated through measures defined in the final authorization. They also predicted social and economic benefits from the projects. Despite these findings, some groups remained concerned about the projects and their possible adverse impacts.

In line with their sustainability principles, the two companies leading the projects, Alcoa and Landsvirkjun, wanted to demonstrate a long-term commitment to the well-being of the communities connected to the operations. This resulted in the East Iceland Sustainability Initiative – a systematic approach to implementing sustainability practices for both the construction and operation phase of the projects as well as indicators to monitor progress against specific objectives and concerns raised by the stakeholder group. At the heart of the initiative was a 40-member stakeholder advisory group consisting of both project proponents and opponents.

For further details see www.alcoa.com

StatoilHydro is committed to making decisions based on both the interests of the company and those of the societies where they work. Measuring and understanding the company’s impacts on society is therefore important to fulfilling this commitment. In the case of Snøhvit, Europe’s first liquefied natural gas export facility and the largest ever industrial development in northern Norway, StatoilHydro – together with the Hammerfest municipality and Finnmark county council – initiated a trailing research and monitoring study to document the various impacts from the construction and operation of Snøhvit on the region. As a geographically remote region suffering from a major drop in employment and little private investment, the company is particularly interested in understanding how its operation is affecting small and medium enterprise development and local economic growth. The research project began in 2003 and will continue into the operating phase.

The main objective of the monitoring study is to facilitate a constructive dialogue concerning the course of the project between stakeholders at the local and regional levels, and thus identify opportunities to modify, start or stop relevant activities.

For further details see www.statoilhydro.com

“Understanding and managing the impacts of our operations is a crucial element of sound project execution. It helps ensure our license to operate and the relations of trust with stakeholders needed to succeed in our industry.”

Anders Kullerud, Senior Vice President, Corporate Integrity and Social Responsibility, StatoilHydro
What did the companies learn from the assessment?

The Indonesia and South African studies have provided different but equally important lessons for the company. Not only have the studies helped Unilever and its local operating companies identify areas where it can enhance its societal impact and build business value, they have also contributed to a greater understanding among the wider business community, governments, civil society organizations and academics about the relationship between a multinational business and development.

In Indonesia Unilever expected to see a larger producer and supplier footprint. This was confirmed by the study. They were however surprised by the scale of their impact in the distribution and retail channels where they found they were impacting almost twice as many people (190,000 people) than in the supply chain (100,000 people).

The study in South Africa corroborated the company’s extensive reach beyond its direct impacts and highlighted areas where the company could provide greater support to the South African economy as well as boost its own productivity and competitiveness.

By looking at its operations through the lenses of its partners and external stakeholders, both studies have provided Unilever with extremely useful lessons. In parallel to the two country studies, the company has also started exploring a new tool called “Brand Imprint” that assesses the social, environmental and economic impacts of and challenges and opportunities for its brands.

The impact of mobile phones is far more wide-reaching than Vodafone initially expected. Mobiles are used, valued and owned in the developing world very differently than in established Western markets. Although the absolute rates of mobile penetration are low in Africa, this underestimates the real impact that mobiles are having through the innovative and entrepreneurial ways in which the technology has been extended beyond the model of individual ownership. In Africa, mobiles are informally shared between people and thus the impacts often extend far beyond the number of subscribers alone. Thousands of jobs have been created, and some very successful indigenous companies have emerged as a result of the formation of private resellers of mobile services and the provision of mobile phones for public use, even in rural communities.

Vodafone is currently in the process of exploring new mobile services and products to enhance their socio-economic impact in developing countries. One such program, M-PESA, allows customers to access cash through their mobile phones. With more than a million M-PESA customers in Kenya, the company is currently working with the local government to test a pension payment program and is working with Citigroup to explore remittance payments through mobile phones. The same mobile payment platform that supports M-PESA will be scaled up to other countries like India, Tanzania and South Africa.

Vodafone is also working with governments to both further their understanding of the impact of mobile phones on economic growth, and to establish more favorable regulatory frameworks that can foster the economic potential of the mobile phone. The company sees the SIM studies as part of a new type of market research and plans to continue developing them for the various products and services it offers in regions throughout the world.

Senior management buy-in is critical to ensuring follow-up actions are put in place.

“The SIM project set out to provide a systematic analysis of the impact of mobiles, going beyond the rich but scattered array of anecdotal evidence. This rigorous approach to providing data and estimating impacts is essential for a proper understanding of the part Vodafone is playing in its activities around the world. This in turn can help improve both business and policy decisions.”

Diane Coyle, Chairperson, Vodafone
Stakeholder engagement is important to understanding a company’s role in society and identifying risks and opportunities but needs to be handled carefully.

Any impact study should consider working with external experts to balance internal biases and see company activities through an external lens.

For Alcoa the stakeholder advisory group underscored the need to engage the community at the earliest phase of the project. The sustainability initiative laid the foundation for the company’s integration into the community as well as the formulation of its policies and goals for Iceland at the national and local level. It also helped strengthen relationships between Alcoa and its partner Landsvirkjun by building a culture of open and effective communication.

For Landsvirkjun the project changed its approach to both sustainability and community consultation. The company is now developing its own sustainability principles and is also working with communities more openly and with a broader perspective.

Although StatoilHydro has only assessed the impacts from the construction phase of the Snøhvit project, the study has begun to unravel some of the complexities of the economic and social impacts associated with it. They found a steady increase in the number of local supply contracts from NOK 600 million (US$ 110 million and 6% of the total) in 2001 to more than NOK 1.9 billion (US$ 350 million) in 2007. However several national suppliers have established local branches in Hammerfest, creating a potential overestimate of the “local” sourcing used.

The research also revealed that StatoilHydro’s investments in capacity building and requirements for quality assurance systems for health, safety and the environment have played a positive role in fostering growth and improved performance from business in the region. They also found some negative externalities such as the difficulty in attracting skilled workers due to the doubling of housing prices since 1999. This highlighted that any municipal housing planning processes should start in due time to keep pace with labor migration. In addition the study found that the regional policy instruments – traditionally aimed at countering economic crises – are not fully developed to maximize the growth opportunities and economic linkages created by investments of this scale.

Engaging stakeholders throughout the research and monitoring process has provided extremely important lessons on how the company can adapt its operations to meet both commercial and societal needs. In 2008, the monitoring study is entering the operations phase of the project.

“I was very pleased how Alcoa and others came to the table to discuss the projects and focus on what we need to do to lessen the impact. I would have liked the industrialization to have happened a little slower, but we had no choice. The advisory group has helped us with managing the impacts, and I think the managers of Alcoa and Landsvirkjun are trying their utmost to be responsible in every aspect. These projects have given us renewed hope for the future of our community.”

David Baldursson, Christian Minister, East Iceland resident, and member of the Sustainability Initiative Advisory Group
The International Finance Corporation approach to measuring impact

“Measuring the results of our work is critical to understanding how well our strategy is working – and whether IFC is reaching the people and markets that most need our help.” Lars Thunell, Executive Vice President and CEO, IFC

The International Finance Corporation (IFC) fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to business and governments. Their clients include many WBCSD member companies operating in emerging markets.

Over the past years, IFC has taken major steps to better track, report and understand its development results. In 2007, IFC integrated for the first time financial, sustainability and development effectiveness reporting for its entire portfolio into its Annual Report. IFC is the first multilateral development bank (MDB) to do this and to seek external assurance for the report’s development results. IFC has also led the development of private sector indicators on which several MDBs are going to report in 2008 – a joint effort to help improve development results measurement and reporting. Knowing the results – for example how many people IFC is reaching through its clients – is helping it achieve its vision: that poor people have the opportunity to escape poverty and to improve their lives.

Why did IFC create the Development Outcome Tracking System?

IFC launched the Development Outcome Tracking System (DOTS) in 2005, enabling IFC to track the development results of its activities continuously and contemporaneously, in order to:

• Assess to what extent IFC is achieving its mission of promoting sustainable private sector investment in developing countries, helping to reduce poverty and improve people’s lives

• Calibrate its engagements to achieve more effective operations and refine its business strategy more quickly

• Articulate and report on successes and areas for improvement, to promote learning throughout IFC and to improve transparency and accountability to its stakeholders

• Foster a culture in which achieving development results is a key incentive for staff – development results inform incentives throughout IFC, cascading from a corporate scorecard to individual staff.

Results

The 2007 Annual Report discusses the expected results of the year’s new business as well as the performance and development results of IFC’s entire portfolio.

For example, through the DOTS tracking system IFC was able to report on how its investments touch the lives of stakeholders by collecting data across standard development reach indicators: in calendar year 2006, IFC-supported clients treated 4 million hospital patients, educated 333,000 students, and provided electricity to 9.5 million, water to 15.3 million, and new phone connections to 53 million customers. IFC-supported clients also extended 5 million loans worth US$ 57 billion to micro, small and medium enterprises.

As a comprehensive measure of the development effectiveness of its investments, IFC reports an overall development outcome rating that measures the proportion of the portfolio that outperforms both the market and IFC’s high evaluation standards. For 2007, 63% of IFC’s investments exceeded these performance criteria and had high development results. Having comparable development results across sectors, regions and business lines helps IFC make strategic business decisions. Based on the potential for reducing poverty and generating significant improvement to people’s lives – and based on the superior development results that have been or are expected to be achieved – IFC has emphasized certain sectors. For example, investments in infrastructure are prioritized, given the extraordinary investment need of up to 9% of GDP in some developing countries on the one hand, and the positive development results on the other. Another focus is the development of financial markets, given the importance of stable financial systems and access to finance – where IFC emphasizes particularly underserved groups.

The DOTS tracking system

The new DOTS tracking system builds on IFC’s long-standing framework for evaluating private sector investments. IFC monitors the results of its entire active portfolio of both investments and advisory services through DOTS, assesses development outcomes throughout a project’s life against targets established at the outset, and aggregates and compares performance across industry sectors, regions, programs and business lines using standard performance indicators.

Overall, results monitoring of IFC’s investments in DOTS includes principally:

• A development outcome rating for each investment in IFC’s portfolio, which is assigned at least once a year. The overall assessment of a project’s development outcome is based on four performance components: financial, economic, and environmental and social performance, as well as broader private sector development impacts. Each component captures impacts on key stakeholders affected by the project (e.g., suppliers, employees, customers, community, government and others) and has specific criteria to assess performance. IFC applies specific evaluation standards for financial and non-financial sector projects that are consistent with agreed good practice standards for private sector evaluation. Under the environmental and social component, for example, IFC analyzes the impacts on the surrounding communities and uses its performance standards to assess the project’s performance.

• Industry-specific standard indicators measure the development reach of our investments on stakeholders. For each industry – or business line for advisory services – a menu of standard indicators captures the sector’s typical development impacts. In addition, there are IFC-wide corporate indicators that are mandatory for tracking particular impacts related to environmental and social performance and corporate governance issues. Standard indicators allow IFC to aggregate and compare performance and development reach by sector or region and across IFC. As a result, IFC knows how many people got access to services or job opportunities globally and in every region. For example, in Africa alone IFC’s clients provided 11 million new phone connections in 2006.

Next steps

As more data becomes available with time, IFC will be in a better place to monitor its development impact year-on-year. In the Annual Report 2008, IFC will be able to report on the change in its development effectiveness and deepen its analysis of the factors driving better or worse performing projects.

For further details see www.ifc.org/results
The WBCSD approach to measuring impact

In the spring of 2006, the WBCSD embarked on a two-year effort to develop a framework to assess the contribution of business to the economic and broader development goals in the societies where business operates. This grew out of a request by WBCSD member companies to develop a measurement framework that can underpin their license to operate, improve the quality of stakeholder engagement, help manage risks more effectively and identify ways to enhance the business contribution to society.

The companies requested a clear and practical measurement methodology that could be adapted to different business sectors, be used by operations anywhere in the world and be tracked over time. Unlike environmental impact assessments (EIAs) or environmental, social and health impact assessments (ESHIAs) that are normally carried out as part of due diligence to determine future potential impacts arising from a greenfield or brownfield business investment, they wanted to be able to measure actual impacts at any stage in the life cycle of an operation.

To do this the WBCSD made use of the lessons learned from existing approaches, including those outlined in this publication, to develop an overarching framework for assessments across sectors, sites, product-lines and/or countries.

Features of the WBCSD Measuring Impact Framework

- **Grounded in what business does** – built by business for business
- **Moves beyond compliance** – attempts to answer questions about what business can contribute beyond traditional reporting
- **Encourages stakeholder engagement** – supports open dialogue with stakeholders to create a shared understanding of business impacts and societal needs, and to explore what business can and cannot do to address these needs
- **Flexible** - designed for any business and/or industry at any stage in its business cycle, operating anywhere in the world
- **Complements existing tools** – makes use of what is already out there (for example, the Global Reporting Initiative and IFC Performance Standards).

**Primary users**
The output from the Framework is designed for company decision-makers on a site or product line, and/or at a country level. The assessment itself should be carried out by a skilled practitioner. While the Framework has been developed for operational managers, different people within the company, such as procurement and tax advisors, may also use the Framework to refine company policy and/or strategies.

For more information see www.wbcsd.org/web/measuringimpact.htm

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### Conclusion

Society now expects large companies to do more than generate profits and pay taxes. The WBCSD believes that the leading global companies of the future will be those that do business in ways that also address the world’s major challenges – including climate change, poverty and inequity – through their core business strategies.

Building businesses that are truly inclusive – benefiting both business and society – is not easy. It requires clear measures of success that can be tracked over time. Today it is inconceivable to launch a new product without conducting market research or to establish a major operation without an environmental impact assessment. Increasingly companies are expanding this research to understand the broader impacts of their business on the societies where they operate.

The WBCSD’s Measuring Impact Framework aims to help companies do this.

“The only man who behaved sensibly was my tailor; he took my measurement anew every time he saw me, while all the rest went on with their old measurements and expected them to fit me.”

George Bernard Shaw