REPORTING TRILOGY – RESEARCH ON REPORTING DISCLOSURES: PART 2

Disclosures on social investment

Foreword

This is the third report in the second trilogy of research projects carried out by ACCA Australia & New Zealand Limited, in collaboration with Net Balance Foundation Limited. The theme of this ongoing research is to analyse disclosures on specific areas of non-financial performance by the Australian Securities Exchange Top 50 companies (ASX 50).

This research report:

- analyses disclosures relating to social investment (SI)
- highlights the strengths and weaknesses of Australian companies reporting on this issue
- makes recommendations to improve future reporting.

What is social investment?

SI is understood as company resources (eg capital, human, assets) that are contributed to charities and community organisations not necessarily directly associated with a company's core business.

Different SI vehicles include:

- corporate community investment (CCI)
- community partnerships
- charitable donations
- grant-making foundations.

Why are social investment disclosures important?

Corporate community investment is sometimes considered as the earliest expression of the wider concept of corporate social responsibility. It is one way companies can fulfill their societal obligations and expectations by giving something back to the community[1].

Nottingham University recently identified the following drivers that have contributed to increased attention to social investment disclosures:

- increased general awareness of community involvement as a source of competitive advantage
- growth in corporate social activism making corporate social responsibility a relevant issue in public debate
- a need to respond to financial lenders demands for investment that is socially responsible eg Equator Principles
- increasing demands for ethical investments, for instance, socially responsible investment (SRI), which offer investors the opportunities to invest in companies that are in the forefront of promoting sustainable development
- increased general awareness of community involvement as a source of competitive advantage for companies.

Furthermore, community groups are increasingly supporting social infrastructure and services that have historically been provided by the state.

In 2005, World Watch Institute estimated of the top hundred economies, 51 are corporations[2]. Given the significance of their impact on global development, it is appropriate that they should report the extent they invest in the communities they operate in.

Companies understand that stakeholders are paying more attention to how responsibly they behave towards their communities. Employees, customers, governments and investors are now asking for information on organisations' sustainability performance and social investment is an important part of this. SI provides a way to demonstrate that they are responding to societal expectations.This can have a positive influence on stakeholder relationships and enhance their licence to operate[3].

At the same time, economic uncertainty is placing emphasis on the need for community initiatives to demonstrate their value to company boards and investors. They are being asked to show why they remain a sound investment in the face of cost-cutting and drives for efficiency. The challenges associated with measuring and communicating the less tangible, more qualitative benefits that are realised through SI makes this task particularly difficult.

Corporate philanthropy and cash donations are evolving into more collaborative and focused forms of community partnerships. Measurement and reporting of these activities should therefore be similar to disclosures on other investments. Creating the best possible outcome for the funds invested in social activities should be a goal pursued with the same rigour as financial objectives.

Social investment and sustainability

There are benefits from SI for both companies and community stakeholders. The extent to which organisations are accepted or supported by the communities they impact essentially determines their license to operate. Perceptions of how sincere their social responsibility is can negatively effect, or enhance organisational capital such as:

- brand reputation and resilience
- marketing efforts and increased sales and market share
- the quality of talent they attract and retain
- investor and customer decisions whether or not to invest in or purchase their products.

The Centre for Corporate Citizenship Germany comments[4]:

"The most effective course of action for firms facing controversies is to increase transparency, implement internal CSR policies, and engage stakeholders."

If an organisation does not have a positive image in the community, the long-term viability – or sustainability – of the business is in jeopardy.

Working with not-for-profit and community partners offers companies access to skills, resources and knowledge to which they might not otherwise be exposed. Furthermore encouraging employees to volunteer or fundraise for a cause has proven benefits for their professional development, levels of innovation, improved engagement and company loyalty.

The UK based Charities Aid Foundation notes that CCI *involves reciprocal social relationships by which companies and their partners can create social capital "connecting" or "empathising" with customers*[5].

The traction that is created with the wider community when volunteers from a company contribute their time to CCI activities, plants seeds over the longer term that position the company in a more positive light, thus making it more resilient to future challenges.

There are also benefits to the wider community such as:

- enhanced social cohesion (capacity building of the NFP sector)
- cultivating a caring culture in the society
- improved quality of life
- the building of new community infrastructure
- improvements to the environment[6].

The resources provided by companies – in the form of cash, time, infrastructure, knowledge and skills and networks – are irreplaceable in helping community projects to thrive. By leveraging off these features, community groups can increase the reach of their impacts and ultimately generate improved outcomes for their recipients.

There is an important distinction between company social investment in communities and their community engagement activities. Community engagement is focused on capturing feedback and demonstrating responsiveness to community sentiment or demands. Social investment is chiefly concerned with carrying out charitable purposes to create improved social outcomes.

Community engagement is still an important piece of wider social investment. Creating and maintaining strong relationships between companies and their communities will facilitate improved understanding of their respective motives and needs. However, engagement alone is not primarily concerned with charitable purposes.

Early sustainability, or corporate social responsibility reporting, was often integrated into companies' community reports. Social investment activities are now widely accepted as one of the key pillars of complete reporting on an organisation's sustainability commitments. These disclosures are now more frequently incorporated into sustainability reports.

How are the ASX 50 reporting on social investment?

Disclosures are not yet comprehensive or detailed. The ASX 50 average score against our criteria is 28%. The Top 10 average is 59% which is lower than the Top 10 average scores for corporate governance, stakeholder engagement and anti-bribery and corruption, but higher than for human capital management and climate change.

There has been little innovation in measuring and communicating SI. No standard is yet generally accepted for measuring social value in the same way businesses report profits or shareholder value. When faced with the challenges of measuring social impact convincingly, external assurance still seems to be the key.[7] There is also the use of some benchmarking through the London Benchmarking Group and Corporate Responsibility Index.

Reporting still has a strong focus on the benefits to community of particular investments, projects or partnerships with very little reported on benefits realised by the organisation. This one-way view of value creation distorts the information available to stakeholders by only telling half the story and concentrating on one side of the transaction. Further, it entrenches the roles of "donor" and "recipient" and limits the ability to create the much sought after "partnership" by not recognising the exchange of value which takes place. This raises some pertinent questions:

- are companies still apprehensive to admit that social investment is not an entirely altruistic endeavour and that they get something back from the transaction too?

- are they still not confident on how to measure and communicate the social value created?

- is this an example of the *"If you're not going to use what you measure, don't measure"*; the principle employed at Microsoft. Measurement is recognised as valuable only when it will be used to inform future activity.

The future of social investment reporting

The results of our research into the SI disclosures of the ASX 50 indicate a need to measure more comprehensively the benefits organisations see from SI and equally important is the value they create for the community. This reflects the challenges identified by the Charities Aid Foundation that need exploring in future research to better understand how to improve disclosures on social investment:

- is the potential strain on company resources to measure and evaluate their CCI programmes leading to the creation of generic CCI programmes?

- how relevant are the current benchmarks for CCI given that relatively few companies overall appear to subscribe to them?

- while there has been an increase in the number of modes that companies use in community investment, the major causes supported through strategic partnerships have remained largely the same. Even when companies focus on relevant aspects of the issues, do customers perceive a difference between, say, one company's educational initiative and another's? If not, how can companies create a distinctive CCI programme with confidence?[8]

Furthermore, with disclosures clearly focused on what resources and skills companies provide to their communities, reporting is only covering one side of the story – or only half of the transaction between organisations and the community. Ultimately, companies are effectively giving an incomplete picture of the value creation resulting from their SI activities.

'A lack of corporate transparency on ESG issues impedes effective assessment by investors and NGOs of relative performance and externalities; it facilitates conflicts of interest by controlling access to information.'[9]

Recommendations by UKSIF and Oxfam call for measures to facilitate improved transparency in reporting. In *'Financial Reform for a Sustainable Recovery: NGO and Responsible Investor Priorities'*, they encourage the Financial Services Authority (FSA) to publish voluntary indexes and similar assessments of sustainable and responsible behaviour to highlight good practice and set norms.

Eventually they envisage this might reward high ranking institutions more explicitly eg, with lighter touch regulation or lower fees. While this type of legislative framework may be far into the future, convincing companies of the importance of comprehensive and thorough disclosures on social investment should be a priority in the context of achieving transparent, high quality sustainability reporting.

1 Nottingham University Paper Series - (Corporate Community Investment: *Trends, Developments and Attitudes* - Jeremy Moon and Judy Muthuri).
2 State of the World 2005: Redefining Global Security - World Watch Institute (2005).
3 Charities Aid Foundation Report: An evaluation of corporate community investment in the UK current developments, future challenges (2006).
4 Centre for Corporate Citizenship Germany - Mirvis/Googins: Moving to Next Generation Corporate Citizenship.
5 Charities Aid Foundation Report: An evaluation of corporate community investment in the UK Current developments, future challenges (2006).
6 Charities Aid Foundation Report: An evaluation of corporate community investment in the UK Current developments, future challenges (2006).
7 Goldman Sachs (2004).
8 Charities Aid Foundation Report: An evaluation of corporate community investment in the UK Current developments, future challenges (2006). http://www.cafonline.org/pdf/CCI%20research%20report.pdf
9 Financial Reform for a Sustainable Recovery: NGO and Responsible Investor Priorities http://www.uksif.org/cmsfiles/UKSIF-_Oxfam_sustainable_investment_priorities_V2_05.06.09.pdf

Research methodology

This report summarises the findings of research carried out by Net Balance Foundation analysts on the ASX 50 (by market capitalisation) as at 30 September 2009. The ASX 50 companies are listed in Figure 1 below. The research on company disclosures was conducted between 3 August and 30 September 2009.

Assessment of research findings was based on a series of criteria developed by Net Balance Foundation Limited and ACCA Australia & New Zealand Limited. The criteria are broken down into ten main areas of performance.

Figure 1 – ASX Top 50 companies at 30 September 2009

Company	Sector
AGL Energy	Utilities
Amcor	Materials
AMP	Financials
Australia and New Zealand Banking (ANZ Bank)	Financials
ASX	Financials
AXA Asia Pacific Holdings	Financials
BHP Billiton	Materials
Bluescope Steel	Materials
Brambles	Industrials
Commonwealth Bank of Australia	Financials
Coca-Cola Amatil	Consumer staples
CFS Retail Property Trust	Financials
CSL	Health care
Crown	Consumer
Foster's Group	Consumer staples
Fortescue Metals Group	Materials
GPT Group	Financials
Insurance Australia Group	Financials
Incitec Pivot	Materials
Leighton Holdings	Industrials
Lihir Gold	Materials
Lend Lease Corporation	Property
Macquarie Airports	Industrials
Macquarie Infrastructure Group	Industrials
Macquarie Group	Financials
National Australia Bank	Financials
Newcrest Mining	Materials
News Corporation	Consumer
Origin Energy	Energy
Orica	Materials
Oil Search	Energy
Onesteel	Materials
Qantas Airways	Industrials
QBE Insurance Group	Financials
Rio Tinto	Materials
Stockland	Property
Sonic Healthcare	Health care
Santos	Energy
Suncorp-Metway	Financials
Tabcorp Holdings	Consumer
Transurban Group	Industrials
Telecom Corporation of New Zealand	Telecoms
Telstra Corporation	Telecoms
Toll Holdings	Logistics
Westpac Banking Corporation	Financials
Westfield Group	Financials
Wesfarmers	Industrials
WorleyParsons	Energy
Woolworths	Consumer staples
Woodside Petroleum	Energy

Evaluation criteria indicators

The criteria for evaluating organisations covered ten key areas. The following list provides a summary of the criteria groups – more detail on each is included in the ‘criteria group results’ sections later in this report.

Strategic intent	8%	To what extent has the organisation recognised the strategic importance of social investment for the success of the business?
		Has it identified a comparative advantage through integrating social investment strategy with core business strategy?
Materiality	8%	Does the organisation describe how it has identified the material issues for the communities it operates in; and, the material issues for the organisation and its success model?
Alignment with reporting frameworks	8%	Has the organisation disclosed how it aligns social investment with externally verified, recognised management and reporting frameworks?
		Points awarded mirror the organisation’s maturity along this journey, reflecting the extent of their demonstrated commitment.
Governance and leadership	11%	Does the organisation report appropriate governance structures in place to manage the organisation’s social investment from the very top?
		Are accountabilities for delivering outcomes linked to board and senior executive KPIs and rewards?
Community partner engagement	10%	Has the organisation described programmes in place for community partners to input into decision-making?
		Have they described issues community partners have raised as material and disclosed ways in which the organisation seeks to respond to these issues?
Company values and employee engagement	10%	Does the organisation disclose a commitment to the importance of social investment embedded in the culture described within the company?
		Is there evidence of behaviours to support these commitments such as reward and recognition or participation in communities of support?
Evidence of measures and reporting	8%	Does the organisation identify its approach to measuring social investment?
		Is there a framework for transparent and comprehensive reporting of social investment programmes?
		Does it provide detail of the structure of social investment programmes and why they are in the described format?
Inputs and activities	17%	Does the organisation comprehensively describe it’s modes of social investment and associated activities?
Measuring value to the community	10%	Does the organisation disclose processes for measuring the value social investment programmes create in financial and non-financial outcomes for the community?
Measuring value to the organisation	10%	Does the organisation disclose processes for measuring the internal value social investment programmes create in the form of financial and non-financial outcomes?

Research results

- Overall scores ranged from 3% to 66% with disclosures from ANZ Bank achieving the highest of all ASX 50 companies.

- The average score for all ASX 50 companies was 28%, which is the fourth highest score from the trilogy research series produced to date. It ranked lower than anti-bribery and corruption, corporate governance and human capital management, the same as stakeholder engagement but higher than climate change

- Individual criteria group scores ranged from 0 to 100%; however this has been a recurring trend through the last four trilogy research subjects as criteria have been designed to demand higher standards of reporting while acknowledging examples of good practice in reporting transparency and accountability.

- The average score for the Top 10 performing companies was 59% and their performance can be seen in Figure 2.

- Overall percentage scores for all criteria groups across all ASX 50 companies ranged from 48% for 'Evidence of measures and reporting' to 3% for 'Measuring value to the organisation'.

- The Top 10 performed highest in the 'Strategic intent' and 'Evidence of measures and reporting' criteria groups with lowest scores achieved in 'Measuring value to the organisation'.

Figure 2 – Average percentage in each criteria group for the ASX 50 companies

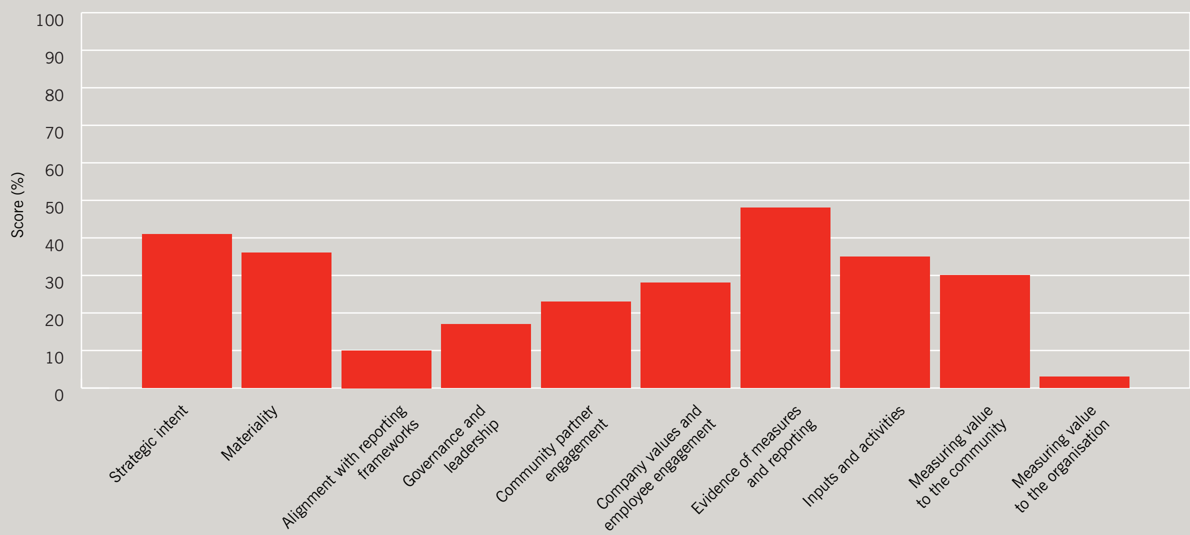
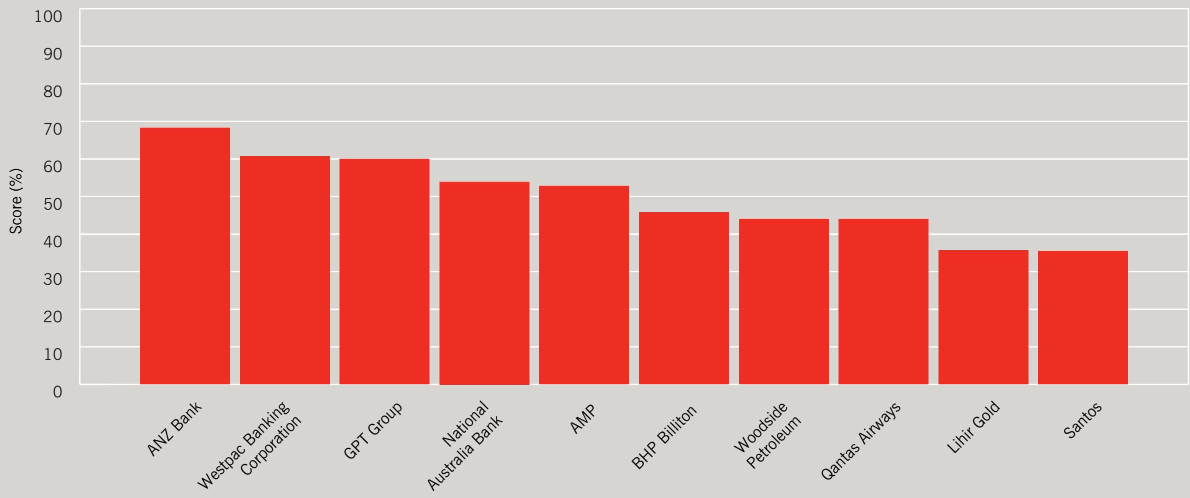


Figure 3 – Average scores for the Top 10 performing companies



The Top 10 scoring companies were from four main industry areas. Fifty percent were from the financial sector, 20% were from the materials sector, 20% were from the energy sector and 10% were from industrials. This could indicate certain industries have more mature processes for reporting on social investment based on the nature of their operations and impacts. Addressing and responding to community expectations about social investment activities may be a higher priority and more frequently identified as a material issue in their sectors.

Criteria group	Top scoring company	Score in criteria group	Average score of Top 10 performing companies	Average score of all ASX 50 companies
Strategic intent	Westpac Banking	100%	86%	41%
Materiality	GPT Group	100%	84%	36%
Alignment with reporting frameworks	ANZ Bank	88%	43%	10%
Governance and leadership	AMP	64%	35%	17%
Community partner engagement	Westpac Banking	80%	61%	23%
Company values and employee engagement	Westpac Banking	100%	62%	28%
Evidence of measures and reporting	ANZ Bank	100%	86%	48%
Inputs and activities	ANZ Bank	71%	62%	35%
Measuring value to the community	GPT Group	65%	65%	30%
Measuring value to the organisation	GPT Group	60%	16%	3%

Criteria group results

1. Strategic intent

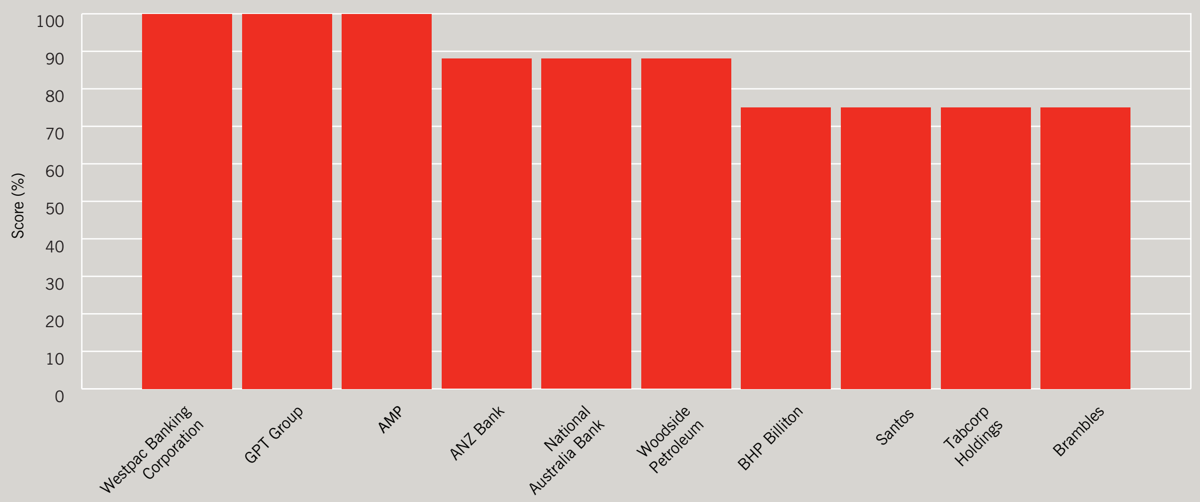
Criteria in this section looked at:

- to what extent has the organisation recognised the strategic importance of social investment for the success of the business?
- has it identified a comparative advantage through integrating social investment strategy with core business strategy?
- the overall quality of disclosures.

Performance can be summarised as follows:

- performance by the ASX 50 companies against the 'Strategic intent' criteria ranged from 100% to 0% with average score being 41%
- the top five scoring companies were all from the financial sector
- the average score of the Top 10 performing companies was 86% as shown in Figure 4
- 90% of companies included some recognition of social investment as important for the company in their disclosures.

Figure 4 – Top 10 performing companies in the 'Strategic intent' criteria group



Strategic intent – Westpac

Westpac's 'Our principles for doing business' states the company's belief that they have a responsibility to support the community and that community involvement is an integral component of sustainable business practice. The document details Westpac's principles for engaging with communities. These principles are exemplified in the three components of Westpac's community involvement strategy:

1. **Employee involvement** – making it easy for employees to get involved in the community and support the community group of their choice.
2. **Community partnerships** – collaborating with key community partners to help address key community issues.
3. **Capacity building** – helping community groups improve their operational effectiveness through training and access to business and finance tools.

Westpac has found that the three components of its community involvement strategy provide a competitive advantage by having a positive effect on employee commitment and differentiating the Westpac brand in terms of image and reputation.

www.westpac.com.au

2. Materiality

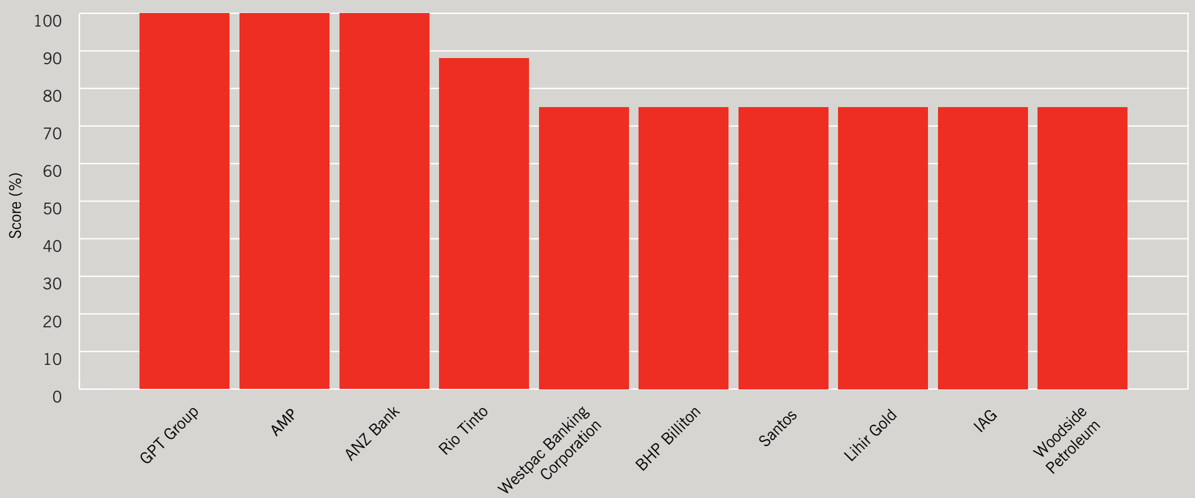
This criteria group examined how far an organisation describes how it has identified the material issues for the communities it operates in. It also looked for disclosures of how the company identifies the material issues for the organisation and its success model.

Performance can be summarised as follows:

- the average score for the ASX 50 companies was 36%
- the Top 10 performing companies scored an average of 84%, with three achieving 100% for their disclosures. This indicates these organisations have transparently articulated how they identified material issues in relation to their social investment strategy and core business model.

  This will include the process involved, who was engaged to provide input and what issues were identified as important to their community stakeholders and also material to the organisation.

Figure 5 – Top 10 performing companies in the 'Materiality' criteria group



Materiality – ANZ

Since 2003, ANZ Bank has undertaken regular research into levels of adult financial literacy, financial exclusion, and causes of financial difficulty in Australia.

In response to findings of this research, ANZ Bank has adapted its business operations and developed programmes to improve financial literacy, with a particular focus on the most disadvantaged members of the community.

ANZ Bank's major research projects on financial literacy include:

- Australia's first ever national survey of Adult Financial Literacy in 2003
- follow-up Adult Financial Literacy surveys in 2005 and 2008
- a 2004 study on Financial Exclusion (undertaken on ANZ's behalf by Chant Link and Associates)
- a 2005 qualitative study on the Causes of Financial Difficulty among adult Australians.

www.anz.com

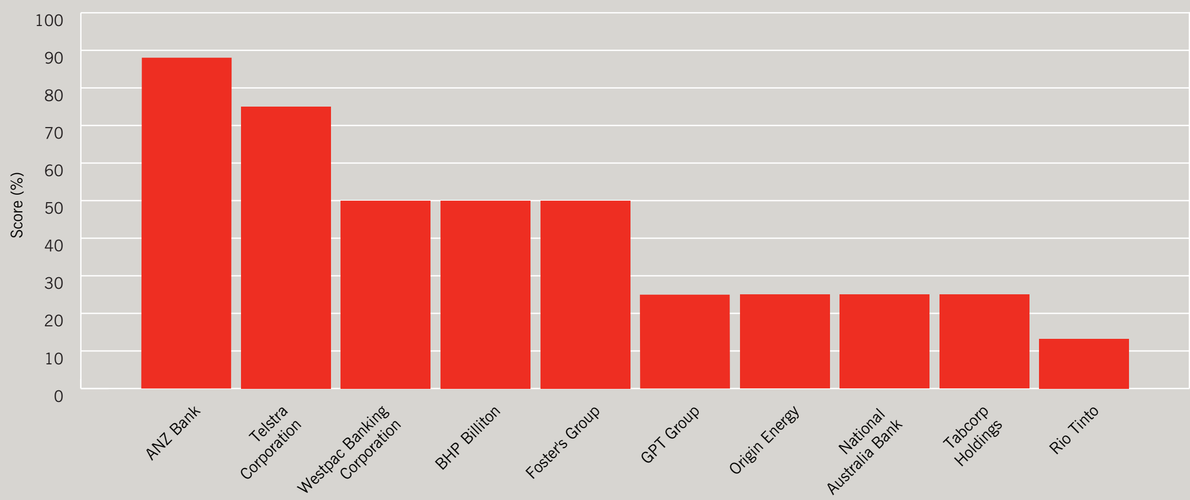
3. Alignment with reporting frameworks

This criteria examined where organisations have disclosed how they align social investment and reporting with externally verified, recognised management and reporting frameworks.

Points awarded mirror the organisation's maturity along this journey, reflecting the extent of their demonstrated commitment. This includes how many years they have taken part in an index or subscribed to a reporting framework and where they sit on a steering committee or leaders group.

- The ASX 50 companies scored an average of 10% against the criteria.
- The Top 10 performer's average was 43%.
- This is a reasonably low average for the ASX 50 but half of the Top 10 performers in this criteria group are also in the Top 10 against the overall criteria. This group includes ANZ Bank, Westpac Banking, BHP Billiton, GPT Group and NAB. This could imply that alignment with reporting frameworks does raise the standard of overall social investment disclosures for companies.

Figure 6 – Top 10 performing companies in the 'Alignment with reporting frameworks' criteria group



Alignment with reporting frameworks – Telstra

The corporate responsibility index (CRI) is a strategic management tool that provides a systematic process that assists companies to identify their non-financial risk, as well as develop and improve corporate responsibility in line with their business strategy.

In 2007/08, Telstra participated for the first time in the Corporate Responsibility Index and presented their results in the Telstra 2008 Corporate Responsibility Report. The organisation achieved a rating of 100% in community management and 87% overall.

To measure their contribution to the community, Telstra has participated in the London Benchmarking Group (LBG) process since 2007. LBG provides a framework by which organisations measure and benchmark their corporate community contribution.

As reported in the Telstra 2008 Corporate Responsibility Report, Telstra's corporate community contribution in 2007/08 was valued at $29.2 million, up from a contribution of $18.8 million during 2006/07.

www.telstra.com.au

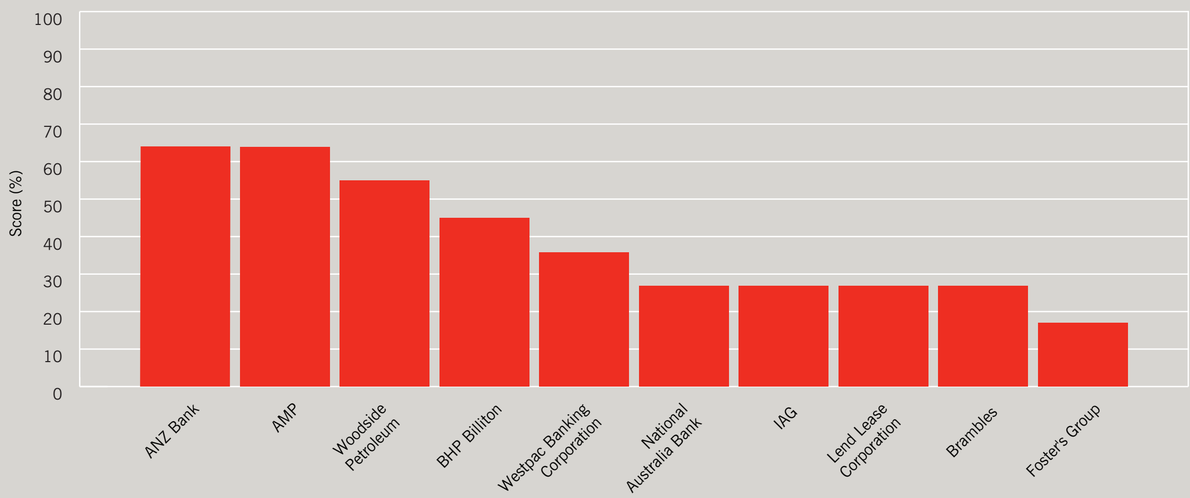
4. Governance and leadership

This criteria looked at whether an organisation reports on appropriate governance structures in place to manage the organisation's social investment from the very top.

This includes whether accountabilities for delivering social investment outcomes are linked to the board and senior executive KPIs and rewards. It also looked for policies demonstrating the integration of social investment with core business and policies outlining how senior management and board should behave to achieve social outcomes.

- The ASX 50 average score was 17%.
- The Top 10 performing companies in this criteria group achieved the average of 39% with scores ranging from 64% to 18%.
- 35% of the ASX 50 have a committee whose remit includes social investment.

Figure 7 – Top 10 performing companies in the 'Governance and leadership' criteria group



Governance and leadership – AMP

The AMP Foundation was formed in 1992 and is the main body through which AMP invests in the community. The names and responsibilities of the Foundation Board and staff are listed on AMP's website. The Foundation's activities correlate with AMP's core skills as a wealth management business.

The Foundation's two areas of focus are capacity building and community involvement.

AMP's capacity building investments concentrate on enhancing the educational and employment outcomes of disadvantaged youth (especially indigenous youth), and on building the capacity of the non-profit sector so that it operates more effectively and efficiently.

The AMP Foundation encourages community involvement through two programmes that it manages:

- the Volunteering AMP Programme for AMP employees
- the AMP Community Fundraising Programme for AMP Financial Planners.

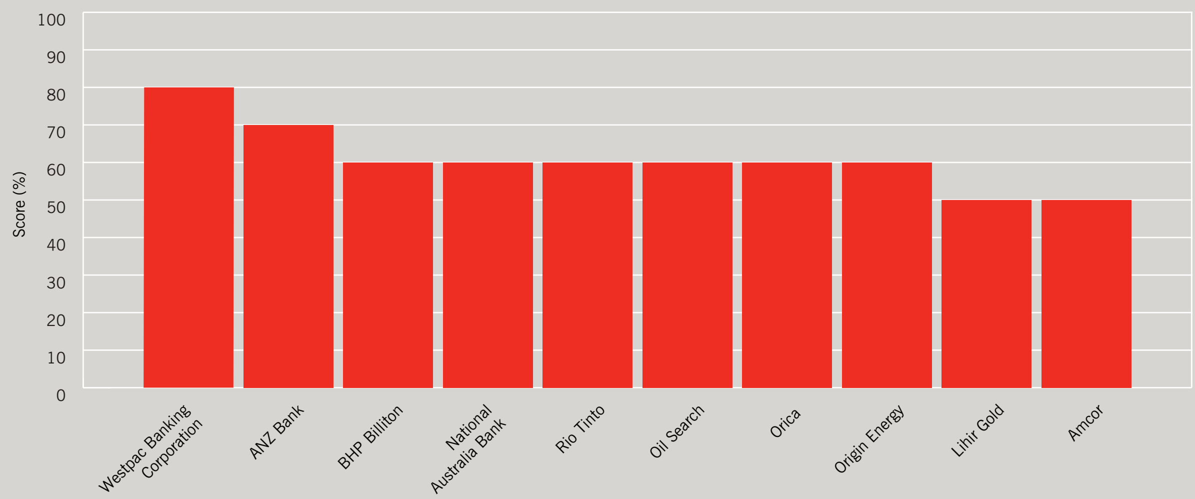
www.amp.com.au

5. Community partner engagement

This criteria group looks at whether an organisation has described programmes in place for community partners to input into decision-making. It also looks at whether they have described the issues community partners have raised as material and disclosed ways in which they seek to respond to these issues.

- The ASX 50 average score was 23%, the fourth lowest scoring criteria group.
- The Top 10 performing companies achieved an average of 61% with a fairly small range from 50% to 80%.
- The Top 10 performing companies were largely drawn from two sectors – financial and materials. These industries require higher levels of community stakeholder engagement as part of their wider licence to operate which may feed into overall depth and breadth of engagement with their community partners.

Figure 8 – Top 10 performing companies in the 'Community partner engagement' criteria



Community partner engagement – BHP Billiton

BHP Billiton's 2008 Sustainability Report, states an aim to place local people at the centre of development by helping to build their capacity to control their own development. Regular and transparent communication with key stakeholders is achieved through a variety of engagement activities including:

- meetings with people who have specific interests (eg, environmental interest groups, residents groups, government and regulatory authorities)
- site visits
- public open days
- participation in civic events
- stakeholder forums
- perception surveys
- newsletters
- public sustainability reporting through corporate and site-based reports.

Twice a year, BHP Billiton conducts a forum on Corporate Responsibility chaired by Marius Kloppers, BHP Billiton Chief Executive Officer. The forum brings together representatives of BHP Billiton's senior management team, leaders of key non-government organisations and community opinion leaders to discuss and debate social and environmental matters relevant to BHP Billiton and its activities. Forum members have an opportunity to provide advice and to challenge the views of BHP Billiton's senior management on broad sustainable development issues of mutual interest.

BHP Billiton has also made a number of voluntary public commitments to human rights including:

- United Nations Universal Declaration of Human Rights
- United Nations Global Compact
- The Voluntary Principles on Security and Human Rights
- World Bank Operational Directive on Involuntary Resettlement.

www.bhpbilliton.com

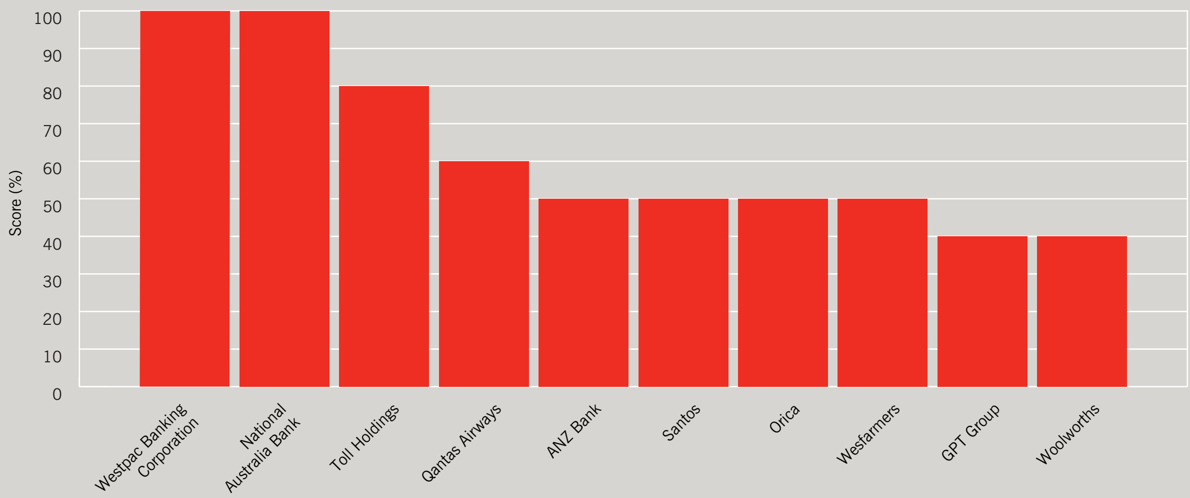
6. Company values and employee engagement

The criteria on company values and employee engagement looked for disclosures on programmes for employee input into community programme decision-making. When decision-making for selecting community partners is decentralised, there are more often opportunities for employees to influence who benefits. They are then more likely to be motivated to make a difference in the community where they live.[1]

The criteria also looked for disclosure of the topics identified in employee engagement and how the organisation responded to these issues. For example, if employees expressed in an opinion survey they would like the opportunity to volunteer and it is introduced as a result. It also looks for any issue specific awards in relation to social investment the organisation has won.

- The average score for the ASX 50 companies was 28% compared with the Top 10 performing companies who had an average of 62%.
- NAB and Westpac both scored 100%.

Figure 9 – Top 10 performing companies against company values and employee engagement criteria



Company values and employee engagement – NAB

In consultation with staff, customers and key community stakeholders, NAB conducts an annual review of the organisation's Corporate Responsibility Strategy. As part of the 2008 review, NAB staff said that they would like to be part of a community initiative that they could get involved in regardless of which part of our business they were in. NAB responded to this request by launching Schools First in October 2008.

Schools First seeks to put schools at the centre of the community by providing opportunities for students, schools, community and business leaders to work together to improve student outcomes. The programme, which was developed in collaboration with three community groups, will be tested initially in Australia before being customised for implementation across all NAB international offices.

www.nab.com.au

1 Charities Aid Foundation Report: An evaluation of corporate community investment in the UK Current developments, future challenges. (2006)

7. Evidence of measures and reporting

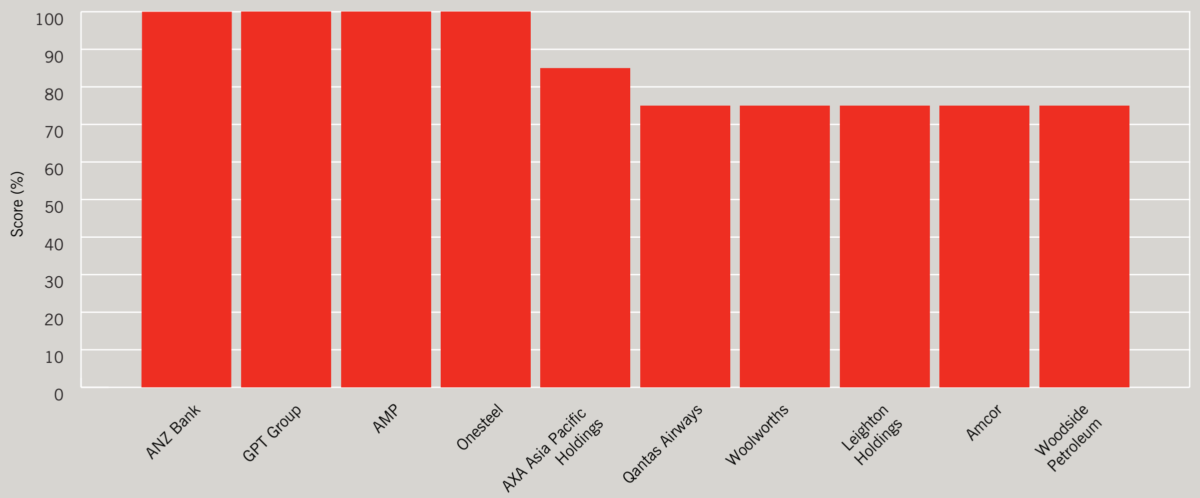
This criteria group looked for how far an organisation discloses details of its approach to measuring social investment. It looked for evidence of a framework for transparent and comprehensive reporting of social investment programmes. Furthermore, criteria asked for detail of the structure of social investment programmes and why they are in the described format.

- The average score for the ASX 50 companies was 48%, which was the highest scoring criteria group. It was noted that 92% of the ASX 50 companies provide some form of disclosure on their approach to measurement and reporting.

- The average score for the Top 10 performing companies was 86%, the highest scoring criteria group, tied with 'Strategic intent'. Scores ranged between 100%, achieved by four companies, and 72%.

- The research found that 66% of the ASX 50 report the total amount invested as a percent or dollar sum.

Figure 10 – Top 10 performing companies in the 'Evidence of measures and reporting' criteria group



Evidence of measures and reporting – Woolworths

In their *2008 Corporate Responsibility Report*, Woolworths reports on their 2007/2008 financial year community contributions in Australia and New Zealand, as calculated under the London Benchmarking Group process.

Woolworths reported their investments (including management costs) under the following categories:

- charitable donations
- community investments
- commercial initiatives
- total investments

Woolworths believes that measuring the effectiveness of community investment will enable them to assess the real value of the company's community partnerships and help them identify new ways in which they can develop and extend their commitments.

For instance, Woolworths partners with the Country Women's Association (CWA) and Landcare Australia through National Drought Action Day, a day when all Woolworths and Safeway stores across Australia donate a full day's profits to support drought affected communities.

The Drought Action Day aims to raise awareness within the broader Australian community of the continuing plight of families still suffering due to the prolonged drought. In 2008, Woolworths raised $5.856m, 25% more than the previous year's total. Two thirds of the funds raised were distributed through the CWA to families needing assistance with basic household expenses and one third was used to fund sustainable farming programmes through Landcare.

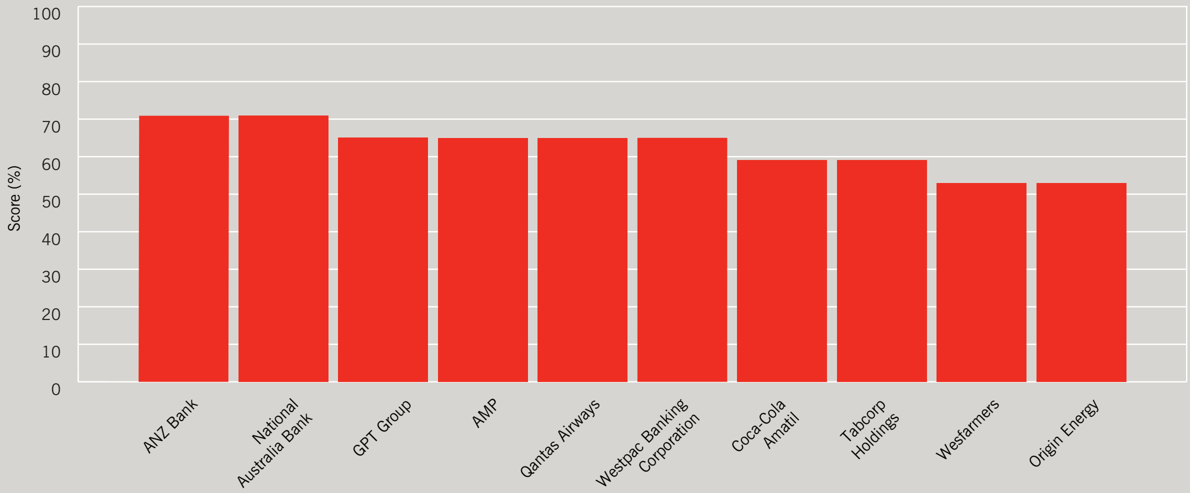
www.woolworths.com.au

8. Inputs and activities

This criteria looked for how far an organisation comprehensively describes its modes of social investment and associated activities. For example describing the programme, disclosing the value for each mode, breaking down reporting into different types – gifts in kind, volunteer time, facilitated giving and so on.

- The average score for the ASX 50 companies was 35% compared with a Top 10 average of 62%.
- The research found that 58% of the ASX 50 discloses the value of their social investment activities.
- It was also noted that 60% disclose information on employee volunteering opportunities, 68% disclose on facilitating employee giving and 22% disclose details of facilitated giving for customers or suppliers.

Figure 11 – Top 10 performing companies in the 'Inputs and activities' criteria group



Inputs and activities – Qantas

Community investment can take many forms because it is built upon the many skills and resources that businesses posses. Qantas has structured its community investment programmes to enable it to share a wide range of its resources with the community.

Under its "Sharing the Spirit" initiative Qantas offers a suite of community investment programmes and events. All activities are detailed on the Qantas website and include:

- direct giving by Qantas to partners in the fields of community development, arts, sport and the environment
- facilitated giving by staff and customers
- staff volunteering time, labour and skills in Australia and internationally to raise funds for charity and undertake development activities
- administration and operation of the Qantas Foundation charitable trust.

An example of one of Qantas' staff driven community investment programmes is the Qantas Cabin Crew Team which helps those less fortunate by providing support and practical assistance to disadvantaged people around the world.

The Cabin Crew Team was founded in 1979 by Qantas flight attendant Laurie Curley, who realised he could use his days off overseas to assist the locals in need. Now the Cabin Crew Team has approximately 200 members, drawn from cabin crew, technical crew, ground staff, family and friends.

Within Australia, the Cabin Crew Team has supported a number of organisations working with the homeless as well as facilitating a Careers and Customer Service Workshop for disadvantaged students at Cleveland Street High School, Sydney. The team also conducts two trips to Bangkok and two trips to Africa every year where they support various children's homes in Bangkok and Harare.

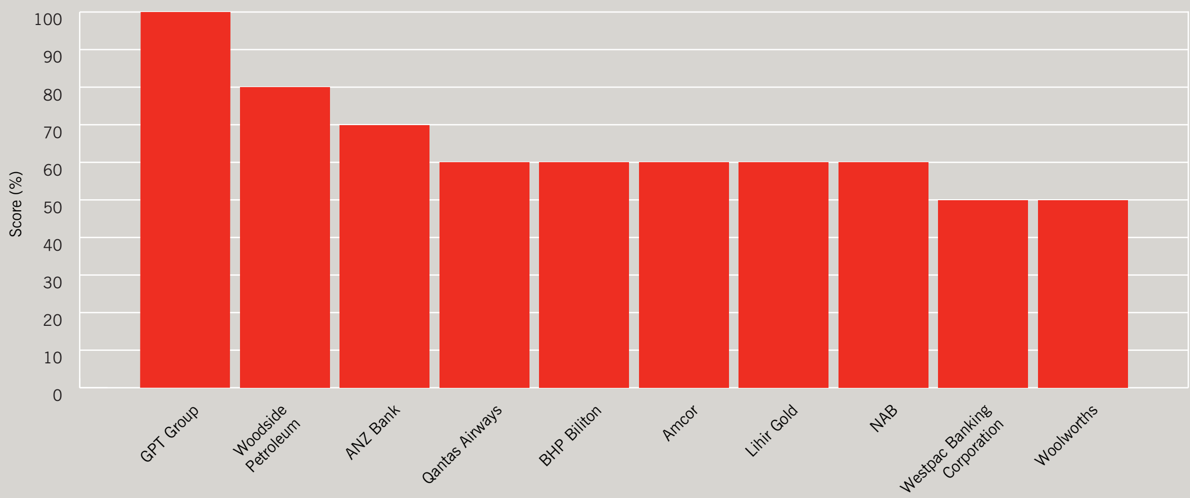
www.qantas.com

9. Measuring value to the community

This criteria looks at whether an organisation discloses processes for measuring the value social investment programmes create in financial and non-financial outcomes for the community. Including full disclosure of clear, measurable targets, progress towards targets and evidence of review and responsiveness all led to higher scores.

- The average for the ASX 50 companies was 30% compared with an average for the Top 10 performing companies of 65%.
- 26% of the ASX 50 companies disclose targets for the value they create to the community.
- Only GPT Group achieved 100% against all the criteria.

Figure 12 – Top 10 performing companies in the 'Measuring value to the community' criteria group



Measuring value to the community – Woodside

Woodside understands that effective community investment needs to be underpinned by transparent targets and measurement to enable progress to be charted and reported back to the community. Woodside does this with its Roebourne Pathways Project.

Many of the indigenous communities living near Woodside's Pilbara operations face social and economic disadvantages. Woodside helps to support these communities address these issues by providing an active engagement and investment programme.

An example of Woodside's community support is the Roebourne Pathways Project. This project was established in 2006 to increase the participation, retention and completion rates of indigenous students enrolled at Roebourne School, a school with about 260 students. Since 2006, 89 students have been accepted into the Roebourne Pathways Programme.

At the outset a target was set to ensure at least 70% of participants remained engaged in the programme. This target has been achieved each year and the school attendance rate of 15 to 17 year olds involved in the programme has doubled.

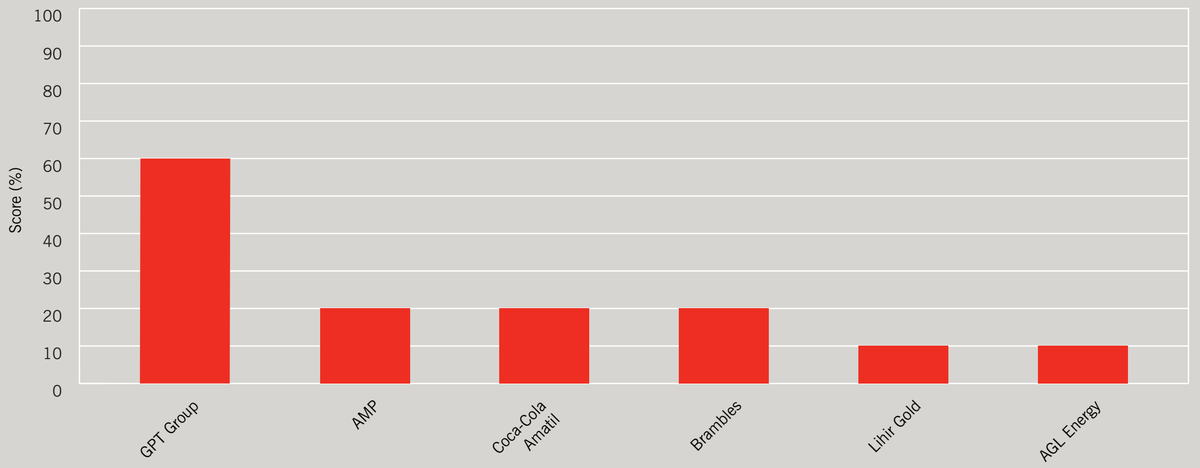
www.woodside.com.au

10. Measuring value to the organisation

This criteria looked for whether an organisation discloses processes for measuring the internal value social investment programmes create in the form of financial and non-financial outcomes for the organisation.

- The ASX 50 companies average score was 3%.
- Only six companies disclosed details of measuring value to their organisation, which equated to 16% of the Top 10 companies.

Figure 13 – Top 6 performing companies against the 'Measuring value to the organisation' criteria



Measuring value to the organisation – GPT Group

GPT's community investment vision is to improve the social and ecological capital of the communities they touch. They realise that providing greater value to communities can also generate greater value for the business. Hence to assist in fulfilling their vision, GPT has identified the following principles to define their social investment and build value within both the community and the company:

- must be areas in which GPT can apply core skills
- must resonate or raise empathy with GPT's people and community and be located in areas in which GPT operates and
- must involve GPT's people.

An example of where these principles were applied is the project to facilitate local employment at the Rouse Hill Town Centre.

In 2007/08 GPT worked with retailers and the local community to create a website that advertised local employment opportunities at the newly established Rouse Hill Town Centre. 659 separate positions were advertised, with 550 staff from the following community segments placed in work: local, school-aged, people with disabilities and parents returning to the workforce.

For GPT the benefits included building a stronger relationship with its retailers and the local community, and fulfillment of the social and environmental objective of the development to have a reduction in employees' commuting distance.

www.gpt.com.au

Case study box – social enterprises

Social enterprises – an organisation or venture (within an organisation) that advances a social mission through entrepreneurial, earned income strategies or that achieves its primary social or environmental mission using business methods (Social Enterprise Alliance).

A social enterprise – a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. www.businesslink.gov.uk

These include local community enterprises, social firms, mutual organisations such as co-operatives, and large-scale organisations operating nationally or internationally.

LC3 – The US has introduced a new legal vehicle for social enterprises – the low profit limited liability company (LC3). This is a hybrid of a profit and a non-profit organisation, designed to attract private investments and philanthropic capital in ventures designed to provide a social benefit. Distinct from an LLC, an LC3 has an explicit primary charitable mission and only a secondary profit concern. However unlike a charity the LC3 is free to distribute the profits after taxes to owners or investors.

A principal advantage of the LC3 is its qualification as a programme related investment (PRI), an investment with a socially beneficial purpose that is consistent with and furthers a foundation's mission. Also, because the foundation's share of the tier does not carry a share of the profit – this takes away the risk, so that the company can borrow at a commercial rate.

CIC – The UK government has recently established Community Interest Companies – a new type of legal form designed for social enterprises that want to use their profits and assets for the public good. This is based on a belief that by using business solutions to achieve public good, social enterprises have valuable roles to play in helping create a strong, sustainable and socially inclusive economy. To support the growth of the sector they have created a modern and appropriate legal vehicle to help raise their profile.

CICs are distinct from charities in that they do not have the same tax advantages that CICs have and are therefore not subject to such onerous regulation. A regulator has however been established to encourage the development of the CIC brand and provide guidance and assistance on matters relating to CICs.

Because they do not have to be established exclusively for charitable purposes, they are free to operate more 'commercially' than charities and shares can pay dividends to shareholders – subject to cap.

They will be required to submit a community interest report and are subject to restrictions such as an 'asset lock' that prevents assets being distributed except as permitted by legislation. For more information see www.cicregulator.gov.uk.

Case study box – getting the measure

Community investment professionals are increasingly challenged from inside and outside their company, to account more robustly for the programmes they oversee. Continued commitment to social investment will be increasingly justified on the ability to address the question of '*what difference are we making?*'.

In 1994 six leading UK-based international companies came together to form the London Benchmarking Group (LBG).The LBG model provides a consistent set of measures to determine a company's contribution to the community, including cash, time and in-kind donations, as well as programme management costs. This information enables them to measure and report their programme in detail, and to benchmark themselves against other companies on a like-for-like basis.

There are now over 250 member companies in the international network, including LBG Australia and New Zealand, which was set up in 2006, and now has 42 leading companies in membership.

The challenge is to develop a tool which looks at the benefits in two ways:

- to society, in specific measurable outcomes or improvements for the targeted beneficiaries or causes – the Social Return on Investment (SROI)

- to the business, through aligning community engagement more explicitly to core business objectives, so it contributes to sustaining or improving business performance – the Return on Social Investment (ROSI).

This approach will need to use and build on initiatives already around, and must be robust and as simple as possible to introduce and use. It will need to provide companies with a credible and comprehensive public reporting structure for their social investment programme. Only by measuring and managing the benefits from Social Investment to both the community and organisations will a complete picture of the value created be available to stakeholders.

Jerry Marston
JJ CSR Consulting
October 2009

Case study box – social return on investment

Social return on investment (SROI) is a process of understanding, measuring and reporting on the social, environmental and economic value created by an organisation. The approach captures social value by translating social objectives into financial and non-financial measures.

It aims to help organisations measure the true impact of their activities. This means they can get a better understanding of the processes that affect their stakeholders and allows funders to compare competing requests for investment funding more accurately.

SROI was developed from social accounting and cost-benefit analysis and is based on seven principles. These principles underpin how SROI should be applied and they are:

- involve stakeholders
- understand what changes
- value the things that matter
- only include what is material
- do not over-claim
- be transparent
- verify the result.

Judgment is required throughout the SROI process, the key features of which include:

- **Triple bottom-line measurement:** A measurement tool for comparing not only the economic costs and benefits of an organisation or a potential investment, but also its social and environmental costs and benefits.
- A **SROI ratio** that acts as a powerful, simple and clear indicator of the full return an organisation makes to the stakeholders it affects through its operations.
- **Consistency:** It uses a tried and tested methodology, based on solid principles, which allows organisations to compare different investment opportunities.
- **Change management:** Through engaging with stakeholders to build a clear understanding of it’s impacts, the SROI process allows an organisation to better understand impacts and how they might need to change.
- **Sustainability:** It means organisaitons can look more closely at the sustainability of their existing operations or planned investments by identifying and measuring the full costs and benefits.
- **Proving and improving:** By making stakeholders central to the process, SROI can uncover a detailed story about where an organisation is creating value and how it can maximise the benefits it delivers to its stakeholders

About nef
nef (the new economics foundation) is an independent ‘think and do’ tank that combines research, consulting and advocacy to develop practical initiatives and tools to build an economy that is socially inclusive and environmentally sustainable. nef has an exceptional record of social innovation and has established itself as the leading UK research and policy organisation. nef was voted Think Tank of the Year in 2002/3.

nef has been at the forefront of SROI development in the UK since 2003. The development work led to a tool based on social accounting methodologies, making it comparable to organisations’ existing accounting procedures.

For more information visit the nef website:
www.neweconomics.org
www.nef-consulting.co.uk
nef consulting will be delivering training on SROI at Net Balance offices in Australia in early 2010.

Conclusion and recommendations

Conclusions

1 There is a strong trend towards higher quality social investment reporting within certain sectors or industries. Companies from the financials and materials sectors dominate the Top 10 reporters in this research.

2 More established reporters provide strong disclosures on how they have aligned their social investment with their core business strategy. They acknowledge the competitive and comparative value this can give them.

3 The financial and materials sectors in particular performed well in disclosing a transparent process for identifying their material social investment issues. This relates to both the company's own operations and those for the communities in which they operate.

4 The high proportion of Top 10 companies who align their reporting with guidelines or benchmarking frameworks suggests these are effective in raising the quality of reporting.

5 Aside from a few leading companies, disclosures on the governance and leadership of social investment are still poor.

6 Community engagement enhances community partner engagement, but is not the same practice. In many instances, reporting on opportunities for community partners to input into social investment strategy and programme design still does not describe a structured process for responding to feedback.

7 Disclosures on how organisations respond to employee feedback on community programmes scored fairly low. High performers have articulated a commitment to social investment in their company values.

8 The research found that 92% of the ASX 50 disclosed some evidence of measurement and reporting on social investment.

9 Employee volunteering and employee facilitated giving are still the most popular vehicles for social investment that organisations report on.

10 There is a clear and unbalanced focus on reporting the value created to the community by social investment with few disclosing value realised for the organisation.

Recommendations

1 Companies should disclose how they align their social investment programmes with core business strategy. A transparent process for identifying material issues supports this. Community engagement is not the same as community partner engagement. The former is solely a stakeholder engagement exercise with no focus on social investment.

2 If we really want to encourage social investment and reporting – demonstrating the benefits to the organisation of the social investment exchange is critical. By failing to do this, companies risk giving stakeholders an incomplete picture of their value.

3 Companies should demonstrate a collaborative and responsive process for social investment strategy. This includes disclosing processes in place for community partners and employees to input into the programme design.

4 Using guidelines and benchmarking frameworks to encourage better standards of disclosures.

5 Companies should embed processes to measure and evaluate social investment in programme design. This will help improve their management of social investment programmes and reduce the burden on community partners to capture and provide data.

6 Companies should think outside the box when deciding how to measure and report the value social investment programmes bring to all parties. Innovation, brand traction, personal development and wider community benefits can all be explored to identify positive outcomes.

7 While there is no accepted standard for reporting acknowledged, external assurance provides confidence in the veracity of any information included in sustainability reports.

8 Companies need to remember that social investment disclosures are an important part of communicating their brand value to key stakeholders – investors, customers, suppliers, current and future employees and potential business partners.

Appendix 1

About the authors

The Association of Chartered Certified Accountants
ACCA has been contributing to the sustainability debate, with the overall aim of promoting transparency and responsible business practices around the world.

We have been closely involved in:

- promoting and rewarding transparency both through the ACCA Awards for sustainability reporting and by supporting the GRI Readers' Choice Awards
- the evolution and launch of the Global Reporting Initiative (GRI) Guidelines
- the emerging trends in reporting and assurance, including integrated disclosures in annual reporting, different communication methods, e-reporting
- the development of carbon accounting and reporting standards
- government consultations on sustainability related issues
- lobbying for the transition to a low carbon economy
- the move towards mandatory reporting
- the evolution of social accounting practices.

In terms of ACCA's own, internal work in the area of sustainability, please refer to www.accaglobal.com/sustainability

Net Balance Foundation Limited
Net Balance has made a commitment to inspire organisations of all types and sizes to sustainable business practices. This commitment is brought to life through the Net Balance Foundation.

The Net Balance Foundation is a not-for-profit entity which draws its resources (human capital, intellectual property, premises, networks, etc) from Net Balance Management Group (www.netbalance.com) sustainability advisory and assurance firm.

The Foundation conducts research and provides sustainability advisory services to SMEs, not-for-profit organisations and industry associations on a non-profit basis, thereby giving these organisations access to sustainability research and advisory services which may otherwise be inaccessible to them.

At Net Balance Foundation we believe that the fundamental purpose of business is to grow shareholder value by providing goods and services that reflect market and community needs at affordable prices, and reflecting actual value that incorporates environmental and social costs and benefits.

We believe that this approach will contribute to stakeholder value creation in business, thereby reducing reputational risk and preserving the license to operate. More importantly, externalising such costs, we also believe, will only contribute to losing competitive advantage over the longer term.

The results of the research conducted by Net Balance Foundation are made freely available for the public benefit. These can be found on our website at www.netbalance.org

Appendix 2

Acknowledgements

Michaela Campbell, ACCA Australia & New Zealand
Rachel Jackson, ACCA
Vicky McAllister, ACCA
Steve Priddy, ACCA
Rebecca Allonby, Net Balance Foundation
Camille Aylmer, Net Balance Foundation
Kate Clark, Net Balance Foundation
Nicole Joffe, Net Balance Foundation
Ross Wyatt, Net Balance Foundation

Appendix 3

Glossary

ACCA (Association of Chartered Certified Accountants) ACCA Australia & New Zealand – was incorporated as a company limited by guarantee on 6 October 2008. It forms part of ACCA (The Association of Chartered Certified Accountants), which is the global body for professional accountants. A full definition of ACCA is provided on page 25.

CCI Programmes – refers to business involvement in social initiatives by way of contributing financial, in-kind support, and human resources (e.g. time and skills) to meet the social and economic needs of the community in which they operate. CCI focuses on the relationship between the company and the communities, through forms of company support such as employee volunteering, sponsorships, donations (both in cash and in kind) and community projects usually through partnerships and strategic alliances.

Corporate Responsibility Index (CRI) – a strategic management tool licensed to St James Ethics Centre to help improve corporate responsibility by providing a systematic process that measures non-financial risks and develops and improves corporate responsibility in line with their business strategy. It provides a benchmark for companies which are committed to managing, measuring and reporting their impact on society and the environment.

Facilitated giving – when an organisation uses its infrastructure to enable others to donate money.

Gifts in Kind – contributions of equipment, supplies, or other property as distinct from monetary grants.

GRI – the Global Reporting Initiative – produces one of the world's most prevalent standards for sustainability reporting guidelines. GRI Guidelines are regarded to be widely used. As of January 2009, more than 1,500 organisations from 60 countries use the Guidelines to produce their sustainability reports. (http://en.wikipedia.org/wiki/Global_Reporting_Initiative)

London Benchmarking Group – the London Benchmarking Group (LBG) is a business membership organisation whose members commit to measuring and benchmarking their corporate community investment contributions.

Materiality – For the purpose of sustainability reporting, material information (materiality) is information which enables stakeholders and management to make sound judgments and take action which influences the organisation's performance. Further information regarding materiality may be found in AccountAbility's The Materiality Report; Aligning Strategy, Performance and Reporting, www.accountability21.net

Mission-related investment – a particularly strong form of SRI - looks for a 'blended return' – a lower return than they could get on the financial markets but which also delivers a charitable or social return consistent with their charitable objects.

nef (the new economics foundation) – an independent 'think and do' tank that combines research, consulting and advocacy to develop practical initiatives and tools to build an economy that is socially inclusive and environmentally sustainable.

Philanthropy – The effort or inclination to increase the well-being of humankind, as by charitable aid or donations.

The Corporate responsibility index (CRI) – a strategic management tool licensed to St James Ethics Centre to help improve corporate responsibility by providing a systematic process that measures non-financial risks and develops and improves corporate responsibility in line with their business strategy. It provides a benchmark for companies which are committed to managing, measuring and reporting their impact on society and the environment.

Socially responsible investments (SRIs) – investments where financial outcomes are the primary objective.

Social Return on Investment (SROI) – an estimate of the total social and economic value and community impact generated by a non-profit organisation.

Appendix 4

Bibliography

Philanthropy UK newsletter: inspiring giving, March 2009.
http://www.philanthropyuk.org/Newsletter/Mar2009Issue36/Inrecessioninvestorsseekadifferentsortofreturn

Charities Aid Foundation Report: An evaluation of corporate community investment in the UK Current developments, future challenges (2006). http://www.cafonline.org/pdf/CCI%20research%20report.pdf

Highlights of Foundation Centre Yearbook July 2009. http://foundationcenter.org/gainknowledge/research/pdf/fy2009_highlights.pdf

Using Performance Metrics to Assess Impact - Stephanie Bell Rose in 'Generating and Sustaining Nonprofit Earned Income' published by Jossey Bass, copyright 2004. Edited by Sharon Oster et al.

Corporate community investment: Trends, Developments and Attitudes - Jeremy Moon and Judy Muthuri. No. 52-2008 ICCSR Research Paper Series – ISSN 1479-5124

Responsible Investing – A Paradigm Shift from Niche to Mainstream' Robeco and Booz & Company.
http://www.robeco.com/eng/images/Whitepaper_Booz&co%20SRI_final_tcm143-113658.pdf

UK social investment forum. http://www.uksif.org/resources/faqs_facts

ACCA Australia & New Zealand Limited
Published March 2010

ACCA Australia & New Zealand
Suite 402, 68 York Street Sydney NSW 2000 Australia
tel: +61 (2) 8245 0222 fax: +61 (2) 8245 0211 www.accaglobal.com