Assessing and communicating the value of sustainability programs
A new approach
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Introduction

The corporate sustainability function has undergone a significant evolution over the past decade. Increasing investor, customer, and regulatory requirements regarding sustainability disclosures, the proliferation of information across digital media, and the ongoing development of legislative responses have elevated the sustainability agenda into the mainstream. As a result, we are witnessing the evolution of the sustainability function from peripheral to a strategic function that is intimately intertwined with the corporate decision-making process.

Diagram 1: Why undertake a performance review?

With this evolution comes a greater emphasis on accountability. Increasing cost pressures have meant that the managers of sustainability functions are now increasingly being asked to demonstrate the value of the organisation’s sustainability programs; having to be able to answer such questions as:

- How much are we spending on sustainability, and where?
- What are the direct and indirect benefits of our current and planned programs? Which stakeholders receive these benefits?
- What are the financial returns on our spending?
- Is our spend contributing to better outcomes for our stakeholders, both internally and externally? Are these outcomes flowing through to improved stakeholder relationships?
- Are the programs in which we are investing actually adding value? Have we determined how we can optimise the value that we are adding?

These are difficult questions to answer. Mapping spend on sustainability programs can be complicated where personnel from multiple teams or departments are involved. And quantifying the intangible returns that result from effective risk mitigation, improved stakeholder relations, or maintaining brand integrity is also highly complex, and inherently subjective.
Social Return on Investment (SROI) provides one framework that sustainability managers have turned to in responding to some of these questions, to evaluate both existing and future programs. While a powerful tool, SROI remains a complicated quantitative assessment methodology that can require significant resources and time to be performed effectively. Therefore, it currently doesn't offer the flexibility needed to perform a relatively rapid program assessment that can inform business decision-making. SROI is also relatively prescriptive in its outputs - whereas internal performance reporting requires much greater flexibility in its approach and therefore presentation. This is where an effective performance review process fits in. By performing a targeted performance review, the Sustainability Manager can develop a substantive analysis of the programs in operation, and be equipped with the most appropriate tools to answer the questions above.

In this paper we explore how you can better understand and demonstrate the value of your sustainability programs using the concepts of SROI assessment - but achieve more relevant, targeted outcomes. Specifically we will discuss:

- The concept of the performance review process, including where it fits in the context of your broader sustainability strategy, and under what scenarios you would undertake such a performance review
- How you can employ EY’s proprietary Sustainability Performance Review Model (EY-PRoMO) - a strategic approach to undertaking sustainability program performance assessments, designed with flexibility to align to different business objectives and stakeholder requirements
- Key considerations that should be taken into account when designing and implementing the performance review
Many organisations fail to understand or demonstrate the value that is being realised from their sustainability programs. We commonly see that an initiative has been introduced or implemented in isolation of the broader corporate strategy, without a clear linkage or ‘joining of the dots’ back to the organisation’s overall sustainability strategy. Or, while a sustainability program may be aligned with the organisation’s critical sustainability issues, there is no formal review of its performance to understand how it could be optimised and enhanced.

Diagram 2 shows EY’s proprietary Sustainability Program Framework that sets out the process for establishing effective sustainability programs. This Framework is applicable whether you are considering a business wide strategy, or one that is specific in scope such as a community investment strategy. Applied correctly, it helps drive an organisation to focus on the sustainability issues that matter most, and subsequently, implement targeted and relevant sustainability programs.

A critical step in any sustainability strategy or program is the performance review step, shown as step 15 in the diagram above. Very few organisations incorporate performance reviews as they are intended in Diagram 1. Once a program has been designed and delivered, most organisations tend to limit reviews to checking whether controls are in place and operating effectively, whether targets have been achieved and outcomes are communicated (e.g. in a monthly report to the Board or in an annual public sustainability report). There is often no consideration as to whether the program aligns with the strategy or material risks.

Performance reviews should involve assessing the organisation’s sustainability strategy, activities and outcomes to assess performance in both achieving targets but also the effectiveness of the program to achieve the strategic objectives. Undertaking a performance review in the context of the broader sustainability strategy thus allows the organisation to assess the effectiveness of programs (or to compare alternative programs) and in the areas that matter most to the business.

### Diagram 2: EY Sustainability Program Framework

<table>
<thead>
<tr>
<th>Phase</th>
<th>Identify</th>
<th>Diagnose</th>
<th>Design</th>
<th>Deliver</th>
<th>Sustain</th>
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<tbody>
<tr>
<td>Stage</td>
<td>1. Define drivers and scope for the programs</td>
<td>5. Map material topics and/or critical risks for the program</td>
<td>8. Define available program options</td>
<td>12. Develop implementation plans</td>
<td>14. Build and implement measurement framework</td>
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<tr>
<td></td>
<td>3. Collate material topics and/or critical risks</td>
<td>7. Validate outcomes of the materiality process</td>
<td>10. Assess current state against programs aspiration</td>
<td>13. Execute deployment plan</td>
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Conducting a performance review

The performance review phase involves not only assessing outcomes to gauge performance in achieving targets, but also reviewing the effectiveness of the program to achieve the organisation’s sustainability strategy objectives.

The approach you apply to undertake a performance review will differ, depending on such factors as:

- Who has requested the outcomes of the review - e.g. the CFO, functional manager, or an external stakeholder group?
- Where the outcomes will be communicated - e.g. to government, Board of Directors, or to an investment committee?
- What level of detail is required in the assessment - e.g. quantification of benefits or qualitative assessment, translation to a financial benefit/cost, etc.

More often than not, you will find that a combination of the above factors is relevant. For example, you may want to undertake a performance review in order to:

- Identify who is supporting and delivering sustainability programs
- Assess the effectiveness of existing programs
- Evaluate the social, economic and environmental outcomes resulting from sustainability programs
- Quantify the benefits of existing programs and understand the return on investment for internal stakeholders
- Demonstrate the societal returns of sustainability programs to external stakeholders
- Perform a detailed program review to identify key areas for optimisation
- Prioritise investment in programs or elements of programs that deliver better outcomes

The level of rigor and associated resources allocated to the performance review should be reflective of the objective(s) of undertaking the performance review. EY-PRoMO, as illustrated in Diagram 3 on page 7, considers this. It allows for the fact that the effort required to apply the SROI method is not always necessarily justified.
A new approach to assessing and communicating the value of sustainability programs

**Objectives:**
1. I want to know how much I am spending on my programs.
2. I want to understand who is delivering and supporting my programs.
3. I want to understand program performance.
4. I want to quickly demonstrate the returns of my programs to the CFO.
5. I want to perform a detailed program review to identify key areas for optimisation of sustainability programs.

**Objectives:**
6. I want to demonstrate to external stakeholders (e.g. government) the social returns of my programs.
7. I want to understand and evaluate the broader social, economic and environmental impacts of my sustainability programs.

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**ROI Assessment**
- Develop and implement engagement strategy for material stakeholders.
- Determine assessment criteria for assessing performance of the program under review.
- Collate relevant data and other information to support assessment.
- Assess program performance against criteria and quantify outcomes.
- Identify gaps in information and/or performance.
- Prioritise program optimisation actions to improve ROI.

**Formal SROI Assessment**
- Develop detailed engagement strategy for material stakeholders.
- Identify key inputs and outcomes and validate with stakeholders.
- Evidence outcomes and determine supporting indicators.
- Engage with stakeholders to measure inputs and outcomes and establish impact.
- Identify relevant financial proxies and assumptions.
- Calculate SROI.

**Map existing programs**
- Identify existing sustainability programs across corporate, businesses and sites.
- Understand responsibilities for programs and key stakeholders.
- Map program under review inputs e.g. resources, cash, in-kind, materials, FTE allocation.
- Determine outcomes based on program objectives and interviews with management.

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**Assess return on investment**

**Communicate Outcomes**
- Management report including KPIs e.g. social returns per dollars spent.
- SROI Report (e.g. External Government).
Key considerations

The extent of the performance review process should be dictated by the underlying objectives of the review, and the relative scope of the program under review. Programs with larger operational costs are likely to warrant more rigorous performance reviews than smaller programs.

Using the example of a relatively small program requiring a rapid performance assessment, a limited ROI assessment would be performed. This is based on desktop reviews of associated documentation and interviews with a small sample of key internal stakeholders. This assessment measures performance against a small number of assessment criteria, and results most likely in a brief report to management.

Alternatively, for programs with larger associated spend and stakeholder interactions, a more rigorous assessment may be required. In this instance, the reviewer would look to undertake a detailed ROI assessment process, incorporating extensive stakeholder engagement with both internal and external stakeholders to establish and measure program performance. Multi-variable assessment criteria would be employed, with reference to leading practice in other organisations. A detailed performance assessment would identify and prioritise key optimisation actions, and could therefore recommend associated deadlines and responsibilities.

In some instances, though, a more formalised SROI assessment is required. This SROI process can be incorporated into EY ProMo, following the SROI guidelines stipulated under the SROI network1. For this approach, a greater focus on external stakeholder engagement and valuation is required, with a more detailed assessment and quantified assessment of the material outcomes needing to be adopted.

It should be noted that these reviews can either forecast (considering the expected performance of planned programs and initiatives) or evaluate (considering the performance of existing strategy and programs) performance. This can make it useful from the perspective of both understanding current performance and for planning purposes, when looking to justify future sustainability programs.

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Conducting a performance review for the first time is inherently complex, and there are a number of potential pitfalls that must be taken into consideration when designing the assessment. These include:

- Validating the ‘scope’ as a critical sustainability issue
- Clarifying objectives of the performance review
- Agreeing concepts of value
- Identifying inputs to programs under review
- Establishing robust assessment criteria
- Identifying program optimisation opportunities
- Communicating the outcomes

Validating the ‘scope’ as a critical sustainability issue

An effective sustainability strategy is underpinned by a robust assessment and understanding of the organisation’s critical sustainability issues. By undertaking a comprehensive materiality assessment process, the organisation will be able to clearly articulate the key sustainability risks and opportunities and prioritise resources appropriately. Too often organisations deliver sustainability programs and initiatives that are not aligned with these critical sustainability issues. The first step of any performance review should be to confirm that the program under review aligns with the organisation’s critical sustainability issues. If not, why not? Is it a hangover program, a ‘pet’ project of a site manager, or at worst a misallocation of resourcing?

Clarifying objectives of the performance review

As we discuss above, the objective of the performance review should reflect the associated resourcing, rigour and communication. Whereas a full SROI analysis may be justified when looking to demonstrate the societal outcomes associated with a local employment program to regulators and community stakeholders, it likely to be too detailed for the CFO as part of the annual budgeting process. Clearly establishing the objectives of the performance review will provide strong foundations for the assessment, and in selecting the most effective and efficient approach.

Confirming concepts of value

Critical to these objectives is agreeing the concept of value with the stakeholder requesting the review. For example, a recycled packaging initiative may result in improved brand reputation and increased sales. It is important to confirm that the recipient of the performance review understands and agrees with this theory of value in the preliminary stages to confirm their buy-in at the communication stage. This is best undertaken once the Sustainability Manager has a view on the potential outcomes of the program (i.e. during the mapping stage). Demonstrating the value of a sustainability program relies on the ‘buy-in’ of the audience, and performing this step will effectively facilitate the communication phase later on.
Identifying inputs to programs under review

Mapping the resources deployed into the program under assessment can be surprisingly complex. Often programs will be delivered or supported by operational personnel. While inputs will generally be limited to money and time invested, the nature of these costs means that they are not necessarily ‘itemised’ on a general ledger, if recorded at all. This is further complicated if the activity spans across multiple departments and geographies or is financed from several sources. Some initial analysis of the input costs associated with these activities will be required, and assumptions applied to the quantification of time inputs. While professional judgement will be required, it is important to spend the necessary time to make these estimates as robust as is reasonably practicable to ensure accuracy and credibility.

Establishing robust assessment criteria

Most programs will have existing objectives and associated performance criteria. It is easy to fall into the trap of assuming that the established assessment criteria (e.g. the current suite of KPIs) are the most meaningful way of assessing its effectiveness. By reassessing these criteria in light of the relevant critical sustainability issues, the performance reviewer may identify that the key requirements of managing the issue are not addressed, that associated targets are set too low, or are set outside the ‘line of sight’ of the program. Criteria can take many forms. They might include a positive social return on investment, social returns above a certain hurdle rate, or reduction in absenteeism at site. Establishing these criteria is a crucial step in the performance review process, and is highly vulnerable to error.

Identifying program optimisation opportunities

The key objective of the performance review process is to evaluate the effectiveness of resource allocation. The key output of this process is to determine actions to optimise both the program mix and program delivery. The second part of this process is often the most complicated, and needs to be considered at every stage of the performance review process. The performance review is intended to ‘flush out’ the hidden costs and unforeseen consequences of a program. Internal stakeholders will often provide useful insights regarding program inefficiencies, as well as anecdotal evidence for elements of the program that have worked well. Focusing not just on how well a program is performing, but why it is performing this way is an important mindset to apply throughout the process.

Communicating the outcomes

It is important to target key stakeholders when communicating performance review outcomes. Each of these stakeholders will have different requirements. Whereas a CFO is most likely to focus on return-on-investment or contribution-to-cost reductions, a Chief Risk Officer’s focus may well be on the effectiveness of program to mitigate key risks. External stakeholders such as government may, however, be interested in the full SROI assessment, including details of any assumptions or financial proxies. Local communities, on the other hand, may have a focus on the tangible benefits in terms of outcomes and actions (e.g. jobs created, facilities or infrastructure constructed, etc.) rather than estimates on any financial value. Failure to adapt your communication to each of these stakeholder needs is likely to undermine the effectiveness of the performance review.
Applying the EY-PRoMO - A case study

In response to tightening commodity prices, a major mining company is implementing an efficiency program aimed at reducing ‘non-core’ expenditure across the organisation. As part of this initiative, the Sustainability Manager is requested by the CFO to review current investment on community programs and identify potential budget efficiencies. By conducting a performance review of the organisation’s community investment programs, the Sustainability Manager aims to identify and prioritise programs that maximise the organisation’s return on investment.

Below is an example of how you would apply the EY-PRoMO in this scenario.

Initiation stage

Determine scope: In line with the CFO’s requirements, the assessor defines the scope of the performance review as community investment programs. Given the company operates programs at both a corporate and site level, the assessor recognises the need to include all these projects in the review.

Validate scope as a critical issue: A review of the organisation’s most recent materiality assessment confirms that ‘community investment’ has been identified as a critical sustainability issue, primarily due to its contribution to maintaining the organisation’s social license to operate.

Define objectives: The objectives of the assessment, taking into account the request of the CFO can be defined as:

- Understanding and measuring investment in community programs across the site and corporate
- Gauging associated performance of the programs
- Demonstrating the value associated with the community programs to company’s management

Mapping existing programs

Identify programs: The assessor develops a map of all programs associated with community assessment - this included donations, infrastructure and community development, community employment and capability building initiatives.

Understand responsibilities: The assessor discovers that management of these initiatives within the company is not well documented, is fragmented across site and corporate personnel, and that there is significant duplication of effort in terms of targeted outcomes for stakeholders.

Map inputs: The assessor maps the inputs to the programs by taking account of expenditure assigned to the general ledger, and applying assumptions associated with employee time and company resources required to manage the existing community investment programs.
Determine outcomes: The assessor conducts interviews and discussions with management personnel and community representatives, which identify a range of anticipated outcomes associated with the programs. In summary, it was found:

- Capability building and community employment program outcomes focus primarily on building support in local communities around existing mining operations, but also target reducing operational costs through generating a local labour supply and developing local businesses to provide necessary materials and services.

- A certain percentage of donations and sponsorships are directed to initiatives associated with employees rather than the broader community (e.g. sporting clubs dominated by employees). While these programs have limited impact on external stakeholders, they appear to contribute to job satisfaction and employee engagement. While these programs are therefore not in alignment with the critical sustainability issue they were intended to address, the assessor confirms that staff retention is a critical sustainability issue for the organisation.

- Infrastructure and community development programs are identified as a cost of business. In the absence of strong government in developing countries, resources companies are often required to build roads, electrify the local area and develop access to water resources. Extending these services to the local community is an expectation of operating in these countries, and the company expects to continue to need to invest in community infrastructure with little anticipated flexibility in this budget.

Assessing return on investment

Determine assessment criteria: The assessor quickly identifies that consistent performance criteria across the diverse community initiatives poses some difficulties. Given the two critical sustainability issues identified relate to both employee and community support, it is determined that stakeholder perception should drive the criteria to perform the assessment process. By identifying the programs perceived by these stakeholders to be the most effective and popular, the assessor gauges the effectiveness of these programs in addressing the critical sustainability issues.

Collate relevant data and information: Data is collected in two steps. Firstly, a stakeholder mapping process is performed to identify material community stakeholders for the purposes of community investment activities. This allows the assessor to identify how targeted each of the initiatives is. Secondly, the assessor reviews existing feedback on investment programs where available, with a focus on benefits associated with local employment. Where external feedback has not been provided, ‘proxy’ internal stakeholders who have consistent interactions with the relevant stakeholder group (e.g. community relations officers) are used to represent external stakeholder views. By overlaying the outcomes of steps 1 and 2, a macro-view of the effectiveness of community investment programs in addressing key stakeholder requirements is obtained.

Assess the program: When calculating the ROI of the program, the reviewer takes into account the value of direct employment in mine programs, as well as the indirect value associated with local business development and employment outside the mine boundaries. These assumptions, and the initial mapping of inputs, drive an assessment of the ROI of each of the programs.
From this information, the assessor determines that for the mining company under review:

- Community employment and capability development programs generate the greatest return. More specifically, a suite of programs providing apprenticeship training and support as well as associated work experience has significantly strengthened the communities surrounding remote operations, and assisted in addressing associated local unemployment issues. When applied in conjunction with capability development programs (which assist in the establishment of local businesses) community support has skyrocketed.

- While sponsorship and donations programs generate strong employee engagement, they are not highly valued by community stakeholders. This support is often rolled over year-on-year irrespective of the needs of the recipient.

- Infrastructure and community development programs are perceived to be a minimum standard for mining companies in the community. While they do not necessarily increase community support, failure to provide roads and electricity supply in some remote locations will quickly undermine community support.

- In addition, it is identified that the mine has very low female representation as part of local employment programs, meaning that a large section of the local community are not directly addressed by the program.

Prioritise program optimisation actions to improve ROI:
Using the outcomes of the above, the assessor identifies the following program optimisation strategies:

- Rationalising all donations and sponsorships into a single corporate wide mechanism that sets out a participatory mechanism for site employees to direct a reduced pool of funds on a quarterly basis. This is intended to increase employee engagement with the program, while ensuring a more targeted distribution of funds, generating a savings of 5-10% of total spend.

- Reviewing infrastructure and community development programs across all sites to target initiatives that address basic living standards such as roads, sewerage and electrification. Programs additional to meeting these needs are redeployed to expand capability development programs.

- Reassessing local employment programs to target female community members. Mapping of material stakeholders identified that female community members represent a significant stakeholder in near-mine communities that were under-serviced by the company’s local employment programs. The benefits for the local economy associated with female employment are determined to have a greater potential return due to high unemployment rates, and the social and cultural dynamics of the local population.

Communicating outcomes: The assessor prepares a brief report summarising the work performed and outcomes and submits to the CFO. Not only has the process identified potential cost efficiencies associated with rationalising donations and sponsorship programs, and restricting infrastructure and community development programs to core requirements only, but has validated the role of the community programs and strategic role Sustainability Managers can play within organisations.
Let’s continue the conversation.

EY is a leading brand for sustainability services, according to the 2013 Verdantix survey. Find out how we can help you tackle your sustainability challenges at ey.com/au/sustainability.