WHAT GIVES?

HOW COMPANIES INVEST IN COMMUNITIES

CATALYST AUSTRALIA RESEARCH REPORT

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Against a backdrop of growing public interest in corporate citizenship and responsibility, this report investigates the approach that leading firms are taking to investing in communities. It looks at how, and how well, companies are performing against leading indicators for community investment, and presents some valuable insights for corporations and communities to inform better practice, reporting and outcomes in this important area.

The report charts the activities of 12 sample firms, thus contributing to previous work by Catalyst as part of its Full Disclosure series. The findings reveal that large Australian companies are making a substantial investment in communities. Significantly most companies undertake their community investment activities without a strong framework, strategy or tools to measure the performance, impact or effectiveness of their approach. In many cases, this is because tools and approaches are poorly developed and applied in the Australian context. Additionally, the research shows that existing methods of measuring and reporting community investment do not appear to be meeting the needs of stakeholders. Nor do they address all the aspects of community investment that Catalyst set out to investigate at the level of detail needed. While analytical studies like this can approach comparison through the development of indicators and statistical tools, the general public or interested community stakeholders are unlikely to be able to make accurate or meaningful comparisons. This raises an important public policy issue about improving the quality of disclosures by companies regarding their community investment.

SUMMARY OF FINDINGS

How much do companies invest?

In 2010, ten of Australia's largest companies contributed over half a billion dollars to the community.[1] Size matters when it comes to the amount of funds donated: the two biggest companies in the sample were responsible for 70% of the total funds contributed. These were BHP Billiton and Rio Tinto which contributed $200.5m and $166m respectively.

When profit levels are taken into account, the community investment landscape changes shape. One company (BHP) contributed 1.0 percent of its pre-tax profit, while most others contributed between 0.7 and 0.9 percent of their pre-tax profit. While this was generally higher than the 0.63 percent average identified in the Australian benchmark, three companies in the sample fell below the average and two did not report the total value of their community investment. Five of the 12 sample companies set public targets for their community investment strategy, but only one (BHP) reached that target in 2010.

Profit is a big factor in determining how much is invested in communities. Analysis of the sample showed that for every extra $2 billion a company earned in profit, contributions increased on average by approximately $10 million. Interestingly, profit accounts for only half the difference between what companies invest. The other half is determined by various factors which could include the industry of the company, its culture or the priorities of senior executives and boards.

Relative to profits, contributions to communities rose between 2006 and 2009, before falling in 2010. This contrasts with the international trend which saw firms cut back during the global financial crisis.

As well as making contributions from their own bottom line, Australian firms leverage community contributions from other sources. Eight of the sample raised an additional $63 million through leverage, representing an additional 40% on top of their total contributions. Customers and staff were the main sources companies used for leveraging donations. Topping the list was Wesfarmers, which leveraged extra funds almost one-and-a-half times greater than their direct contribution. Direct contributions and leverage for this company amounted to 2.1 percent of their pre-tax profit.

What form does community investment take?

Between 50 and 80 percent of the value of all contributions comes as direct cash donations. Donations of staff time, typically through volunteering programs, also featured across the sample. However, despite its high public profile, staff time constituted no more than 3 percent of most company's contributions, suggesting the corporate sector could be encouraged to engage much more broadly in volunteering and secondment initiatives. The exceptions to this were the two financial companies in the sample – ANZ and NAB - where contributions of time made up 25 and 15 percent of their respective total community investments. In-kind contributions (ie. non-cash resources) were an important source of donations from four companies: Woolworths, Wesfarmers, Fosters and Coca-Cola.

Half of the sample disclosed management costs associated with their community investment programs and activities. These ranged from 4.6 to 19 percent of contributed funds. This variation is not unusual; an Australian benchmark reports that sector averages range from three to 27 percent. Only one company (Telstra) reported a full breakdown of management costs. This showed that two-thirds of all costs were related to publicity and communications. The report highlights the need for a better understanding of how management practices and costs lead to more efficient investment programs. This can only be achieved with full participation in reporting.

The importance of partnerships

Generally community investment approaches were spread between formal relationships through established, ongoing partnerships, and transactional ones where firms provided one-off grants. Eight of the 12 companies in the sample reported that they had long-term partnerships with particular community organisations. Most reported between five to ten ongoing partnerships. Typically these relationships were held with large, nation-wide not-for-profit organisations with a high profile. Ten of the 12 companies gave one-off grants to community groups and organisations. Generally they made between 100-500 grants each, though three companies granted only a limited number of requests. Companies also facilitated relationships between community organisations and their staff, mainly through staff giving programs administered and promoted by the firm.

Only one company (Rio Tinto) extensively disclosed its recipients by listing all organisations that received of community investment funds and the amounts they received. Seven provided partial disclosure, identifying only major recipients; and four supplied few meaningful details. Two of these companies did extensively disclose recipients of one of their major programs. Catalyst's conclusion highlights that improved disclosure would lead to better understanding of the significant flow of resources from companies to areas of community need.

Improving strategy and policy

Strategy is important in guiding a community investment program and enhancing its effectiveness. Surprisingly Catalyst had difficulty identifying the motivations and approaches that informed decisions about where to invest funds. Policy supporting community investment approaches was scarce, with three companies publishing a community investment strategy and a fourth reporting that one was being developed. A further three companies had publicly available sponsorship/donations guidelines. What existed of the other companies' information was spread through various statements in reports and on their website.

Even more surprising was the finding that benchmarks and measurement tools do not have well-developed indicators to assess the strategic and motivational factors behind community investment decisions. An important recommendation of this research is that these areas need to be further developed. Notwithstanding these deficiencies, Catalyst examined motivations, selection of program areas, distribution of funds, and the level of decision-making. Some consistency between these elements was expected for each company, but instead the research revealed a more complex, varied picture.

Measuring impact and effectiveness

As noted earlier, many of the companies surveyed do not measure the impact or effectiveness of their community investment satisfactorily. This is despite the fact that these firms are leaders in sustainability reporting and – as the figures show – big investors in community initiatives. Only three companies were found to be measuring impact comprehensively: ANZ, BHP and NAB, while one (Rio) had set a deadline of 2013 to roll out comprehensive impact measurement across its entire operations. Four were measuring impact in a selective or limited way. One company did not directly measure impact but claimed its recipients were required to do so. This is not necessarily surprising: in this area it is difficult to link long-term impacts to particular activities and programs, which results in companies focusing only on what they put into their programs, rather than on long-term sustained change arising from community investment.

Current research about impact measurement notes that most of the corporate responsibility standards and guidelines developed over the past decade *provide little guidance on measuring or assessing social impact...*"[2] Catalyst's findings highlight that more work is needed to develop and apply appropriate processes for measuring impact in Australia.

SUMMARY OF CONCLUSIONS

(full conclusions are set out on p.55-57)

How companies invest:

> Companies are making decisions on community investment without a shared understanding of what constitutes good community investment practice.

> More work is needed to improve the links between community investment strategies, policies and activities.

> Strong sectoral trends in community investment approaches indicate particular cohorts of companies are adopting similar approaches to investing.

How companies measure:

> Few companies are currently comprehensively measuring and reporting the impact of their community investment.

> A number of companies are currently piloting approaches to impact measurement, but all companies should move to roll out impact measurement across their investment activities and integrate impacts into their data collection and reporting processes.

> Companies need to be supported by research and guidance on the best ways to measure impact in different situations.

> Companies should then begin evaluating the overall effectiveness of their community investment program by analysing the relative amount of resources contributed to different activities and the impacts that are achieved.

How companies report:

> Many aspects of community investment that were of interest to this project – and identified as important to companies and community stakeholders – were not covered in the identified reporting standards or in company reporting.

> The voluntary nature of sustainability reporting gives companies the choice to selectively apply reporting standards or not to follow them at all. The resulting differences in reporting practices make cross-company comparisons difficult.

> The general public and interested community stakeholders are unlikely to be able to make accurate or meaningful comparisons, but it is critical for them to be able locate and evaluate material if they are to hold companies to account for their performance.

> Those with an interest in community investment need to proactively engage with reporting and benchmarking systems and contribute their expertise to developing them further, ensuring that they are clear, practical and relevant for a broad constituency.

RECOMMENDATIONS

1. A high level consultation group of leading companies, unions and community organisations should be convened by the London Benchmarking Group (LBG) to develop its community investment measurement framework into a reporting standard that can be broadly applied in the Australian context.

   Issues for consideration by this group should include, but not be limited to:

   a. A requirement that all LBG members publicly report information using the same methodology they use to submit it for benchmarking,

   b. The development of guidelines on mandatory and recommended elements to be included in companies' community investment reporting, and

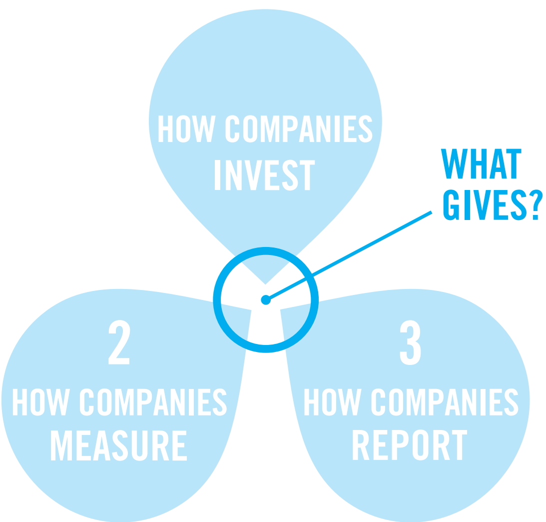
   c. The expansion of its suite of elements to better meet stakeholder needs.

2. The LBG should capitalise on its extensive experience and expansive dataset to develop standards of best practice in community investment for companies to implement and be benchmarked against. This should include the development of sector standards. Community organisations, unions, researchers and sustainability practitioners should support best practice standards by contributing vital knowledge and investigating the links between community investment strategies, approaches and outcomes.

3. Companies should ensure their community investment is underpinned by clear and effective strategies and policies. To do this, companies should establish which internal practices and program approaches deliver the best outcomes, in consultation with their community recipients. As part of this, measuring impact should be given a high priority.

4. Companies should ensure that their approach to reporting provides accessible, clear and comprehensive public information about community investment. To improve current practice, community stakeholders should not only actively evaluate material, but also become involved in shaping innovative new approaches.

5. Civil society organisations should actively interrogate company information and agitate for improvements in reporting and benchmarking systems as noted above. Peak union and community organisations should coordinate whole-of-sector responses to the issues identified in this report.



SNAPSHOT OF COMMUNITY INVESTMENT

How companies invest

Total community investment:	**Total** $513 million (10 companies)	**Range** $500,000 to $200.5 million	**Average** $51.3 million
Community investment relative to profit:	**Range** 0.06% to 1.0% of pretax profit	**Average** 0.66% of pretax profit	
Additional funds leveraged from others:	**Total** $63,048,452 (8 companies)	**Range** $74,157 to $26,180,000	**Average** $7,881,056
Forms of investment:	**Cash** 70% of contributions	**Time** 6% of contributions	**In-kind** 24% of contributions
Management costs:	**Total** $64,794,057 (7 companies)	**Range** 4.6% to 19% of contributions	**Average** 11% of contributions

How companies measure

Measurement of impact:	**Comprehensive** 4 companies (25%)	**Selective** 3 companies (33%)	**Limited** 1 company (8%)	**None** 4 companies (33%)
Reporting of impact:	**Comprehensive** 1 company (8%)	**Transitioning** 5 companies (42%)	**Selective** 2 companies (17%)	**None** 4 companies (33%)

How companies report

Accessibility:	**More** 5 companies (42%)	**Average** 4 companies (33%)	**Less** 3 companies (25%)	**None** 0 companies
Comprehensiveness:	**More** 3 companies (25%)	**Average** 2 companies (17%)	**Less** 4 companies (33%)	**None** 3 companies (25%)
Clarity:	**More** 5 companies (42%)	**Average** 5 companies (42%)	**Less** 2 companies (17%)	**None** 0 companies
Alignment to standards:	**More** 1 company (8%)	**Average** 6 companies (50%)	**Less** 3 companies (25%)	**None** 2 companies (17%)