FULL DISCLOSURE
WHAT GIVES?
HOW COMPANIES INVEST IN COMMUNITIES

5

CATALYST

… There is a genuine appetite… to move beyond traditional philanthropy towards more strategically aligned partnerships … There are a number of drivers behind this trend, including consumer and shareholder pressure for ethical businesses, and growing recognition of social and environmental crises around the world.

WORLD VISION INTERNATIONAL AND NET BALANCE FOUNDATION 2011[1]

Against a backdrop of growing public interest in corporate citizenship and social responsibility, a new report by Catalyst looks at the approach that leading firms are taking to investing in communities.

The report charts the activities of 12 sample firms, in line with Catalyst's *Full Disclosure* series (see below).

As well as presenting information about how much and how companies invest in communities, the research breaks new ground in reviewing the strategy and motivation behind different company approaches.

Significantly, it shows there is a lack of guidance about what constitutes good practice in community investment. 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 frameworks are poorly developed and applied in the Australian context. This has implications for the effectiveness of the programs companies support and, ultimately, may prevent programs reaching their full potential for communities.

The research adds a further dimension to the Catalyst's *Full Disclosure* series, by highlighting what companies give back to communities. At the same time, the series shows community investment largesse is just one small part of the corporate responsibility landscape and corporates need to be judged across the full range of their social and environmental activities. The approach companies take to environmental and labour standards, the manner in which they treat their employees, interact with customers and communities and the integrity of internal governance systems also greatly impact on communities.

As with other reports in the *Full Disclosure* series, this research evaluates the quality and accessibility of company disclosures and of the reporting tools used. The project reviewed two leading indicators that guide community investment – *the Global Reporting Initiative* (GRI) and the *London Benchmarking Group* (LBG) – both of which are considered 'best of breed' reporting tools. Companies apply these tools to both measure their performance and publish their results (typically in sustainability reports available on company website).

Catalyst's analysis identified several gaps in each of these instruments. As a result, many of the issues identified as important to this project were not covered in the standards or in company reports in sufficient detail. While analytical studies 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. Thus the report raises an important public policy issue about improving the quality of disclosures by companies regarding their community investment.

Taken together, the *Full Disclosure* papers are beginning to build a clear picture about corporate sustainability reporting. A common theme across this work is that civil society organisations need to be more involved in shaping corporate reporting systems. This will ensure the benchmarks companies select and apply meet the community's expectations. In the area of community investment, broader engagement with communities would ensure initiatives are not simply focused on corporate public relations but have a measurable and positive impact for the communities companies set out to support.

THE COMMUNITY INVESTMENT BALANCE SHEET

In 2010, ten of Australia's largest companies contributed over half a billion dollars to the community. 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. Two companies did not report the total value of their community investment (Bluescope and Qantas).

Only one company in the sample (BHP) contributed 1.0 per cent of its pre-tax profit – a level considered internationally as good practice. Five of the 12 sample companies set public targets for their community investment strategy, but only one (BHP) reached that target in 2010.

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. A similar decline may have been offset by the response of corporates to local disasters.

GIVING TIME

Volunteering is a topic of keen public interest, but comprised on average only 6 per cent of the amount of contributions across the sample. The exceptions to this were the two financial companies in the sample – ANZ and NAB – where contributions of time made up 25 and 15 per cent of their respective total community investments.

The report notes volunteering has the potential to play a large part in capacity building and skills transfer to community organisations and suggests greater alignment of volunteering initiatives towards skilled contributions to increase its value to community organisations.[2]

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 which ranged from 4.6 to 19 per cent of contributed funds. Only one company (Telstra) reported a full breakdown of management costs.

HARNESSING CONTRIBUTIONS FROM OTHERS

As well as making contributions from its own bottom line, companies can leverage community contributions from other sources. Examples are payroll giving programs, counter charity boxes and the like. These are reported as additional to the sort of direct donations that are outlined above.

Eight of the sample firms reported about this, raising a combined amount of $63 million through various leveraging initiatives. Topping the leverage list was Wesfarmers, which raised extra funds almost one-and-a-half times greater than their direct contribution. Customers and staff were the main sources companies used for leveraging donations.

COMMUNITY INVESTMENT RELATIONSHIPS

Eight of the 12 companies in the sample reported they had long-term partnerships with particular community organisations… 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 making between 100-500 grants each, although three companies granted only a limited number of requests.

Only one company (Rio Tinto) extensively disclosed its recipients by listing all organisations that received of community investment funds and the amounts they received. Catalyst's report concludes that improved disclosure about recipients would lead to better understanding of the significant flow of resources from companies to areas of community need.

STRATEGY AND POLICY

Strategy is important in guiding a community investment program and enhancing its effectiveness. Suprisingly only three companies (ANZ, Rio Tinto and Woolworths) published a community investment strategy and a fourth (Telstra) reported that one was being developed. A further three companies had publicly available sponsorship/donations guidelines. The other companies' information was spread through various statements in reports and on their website.

Even more surprising was that benchmarks and measurement tools do not have well-developed indicators to assess the strategic and motivational factors behind community investment decisions.

Catalyst had difficulty identifying the motivations and approaches that informed decisions about where to invest funds. Policy supporting community investment approaches was scarce.

An important recommendation of this research is that these areas need to be further developed, and the research examines several areas where such development could occur.

MEASURING SOCIAL IMPACT AND EFFECTIVENESS

Firms in our sample are leaders in sustainability reporting, but not all measured the social impact or effectiveness of their community investment. Only three companies were found to be measuring impact comprehensively: BHP, ANZ 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: as it can be difficult to link long-term impacts to particular activities and programs. As a result, companies tend to focus on what they put into their programs, rather than on long-term sustained change arising from community investment.

It is important that companies are transparent about their motivations, particularly disclosing the value they hope to achieve at the beginning of community investment ventures.[3]

The report concludes that the development of tools and benchmarks to guide the measurement of impact is vital to improve transparency and investment practice.

"… NGO's should articulate clearly the social or environmental outcomes at the heart of their mission…"[4]

Civil society organisations have a vital role to play in shaping reporting systems and benchmarks and engaging with sustainability reporting in its broadest sense. The recommendations look at ways that this might occur, with the aim of improving corporate reporting and community investment practice across Australian firms.

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 in the same format 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, such as extent of volunteering (skilled and unskilled), types of recipients and measurement and reporting of impact.
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 strategies, community investment 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 be involved not only in evaluating material, but also in shaping innovative new approaches to investment strategy.
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.

ABOUT FULL DISCLOSURE

The theme of corporate citizenship was taken up by Catalyst in 2010 in our *Full Disclosure* research series. In launching that series, we noted:

"….our biggest and most profitable public companies draw their wealth from local resources, consumers and workers [but] … communities are not well organised to articulate what standards and behavior they expect from corporate Australia. At the same time, there has been a growing reliance on corporations to provide public and community services, with an expanding suite of taxpayer-funded agencies created to regulate and sustain corporate activities."

The *Full Disclosure* series has produced five pamphlets, three of which have been summaries of research reports. All reports and summaries can be accessed on the website.

A consistent finding across the series is that compliance with voluntary corporate reporting systems (when undertaken) is inconsistent, giving rise to great variation in the quality of disclosures and the veracity of information reported. This limits the accessibility of information to a wide audience, and also makes cross-company comparisons about corporate sustainability performance very difficult.

A previous research paper completed by the *Centre for Corporate Governance* at UTS has recommended that the *Australian Securities Exchange's Corporate Governance Principles* provide greater guidance to companies in the area of sustainability reporting, including by requiring certain senior executives to declare sustainability reporting as presenting a 'true and fair' view, similar to the accountability that is required for financial reporting.[5]

ACCESSING THE FULL REPORT

This paper is a summary of the findings from a full report that was undertaken by Catalyst in 2011-12. The full report and detailed appendices including company analysis can be accessed via our website, along with past papers in our *Full Disclosure* research series.

ABOUT CATALYST

Catalyst is a policy network, established in 2007 to support progressive research. Catalyst has established close links with academics, trade unions, community and faith organizations, who share our focus for good lives, good work and good communities. All our material, including our publication *Equality Speaks*, is available on the Catalyst website.

AUTHOR

The report was authored by Jenni Downes, *Research Consultant*, Catalyst. Contributors were Jo-anne Schofield, *Executive Director,* Catalyst, and Rita Fentener van Vlissingen, *Consultant*, Banarra. This summary was prepared by Jo-anne Schofield and any errors or omissions in the summary are those of the author.

CATALYST.ORG.AU

DESIGN

Boccalatte

1 World Vision International and Net Balance Foundation (2012) Common Ground: A Practical Guide for Innovative Corporate/Cause Partnerships, page 2 www.netbalance.com

2 In its 2011 report, NAB back-reported that 9.3% of its 2010 volunteering was skilled. External studies have confirmed high demand among community organisations for access professional and management skills through corporate volunteering initiatives. See for example Centre for Corporate Public Affairs, Relationships Matter: Not-for-profit community organisations and corporate community, 2008.

3 Jenni Downes (2012) What Gives? How companies invest in communities, page 28, citing World Vision International

4 World Vision International (2012), op cit, page 21

5 Alice Klettner (2011), Steering Sustainability, Centre for Corporate Governance, University of Technology, page 6, www.catalyst.org.au.

CATALYST

WHAT GIVES?

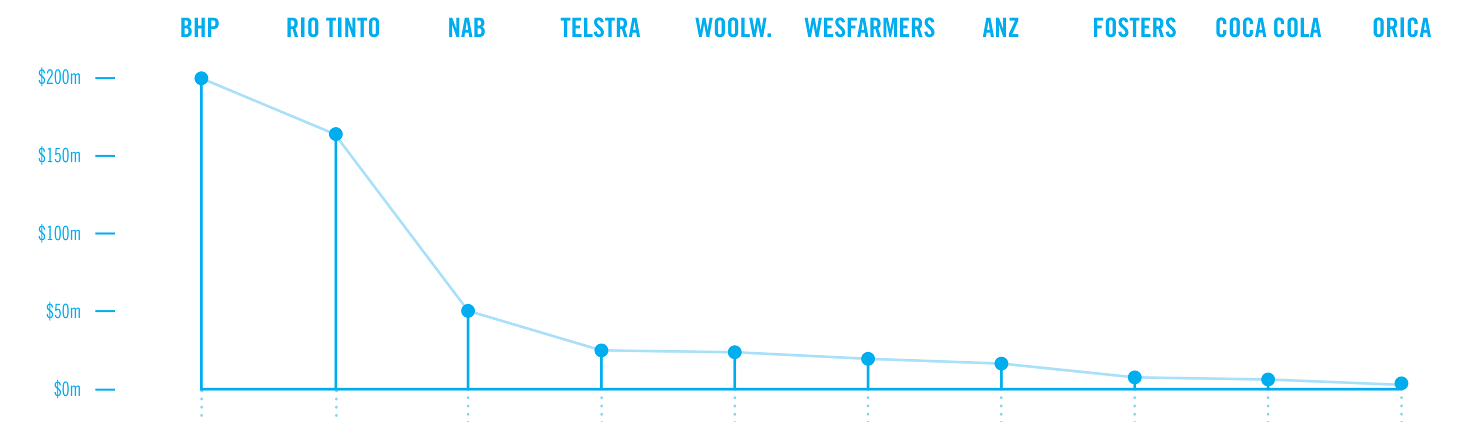
HOW COMPANIES INVEST IN COMMUNITIES

1

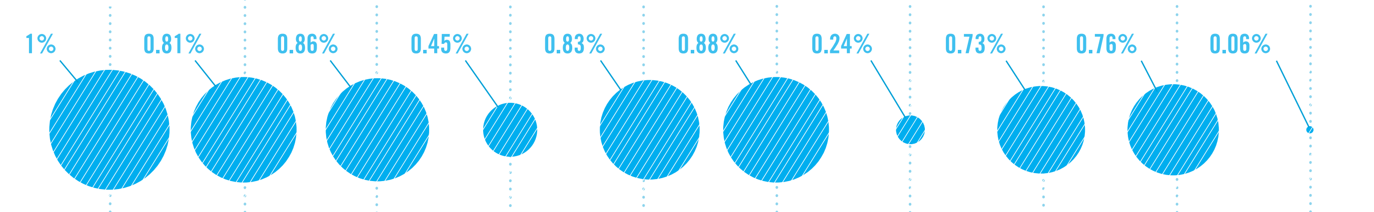
HOW COMPANIES INVEST

1. SCALE OF INVESTMENT

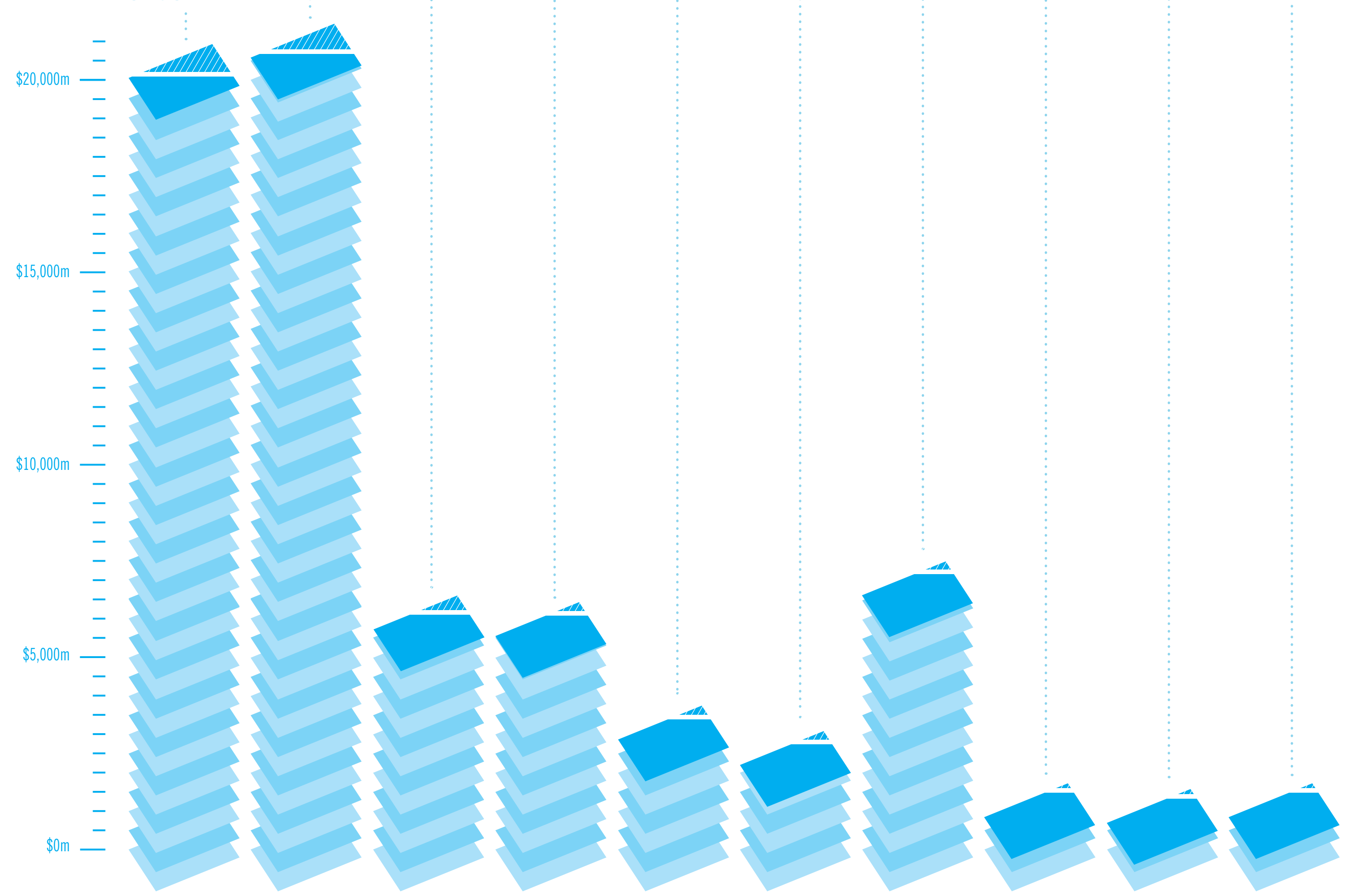
1a. Donation: Total amount $



1b. Donation: Percentage of total profit

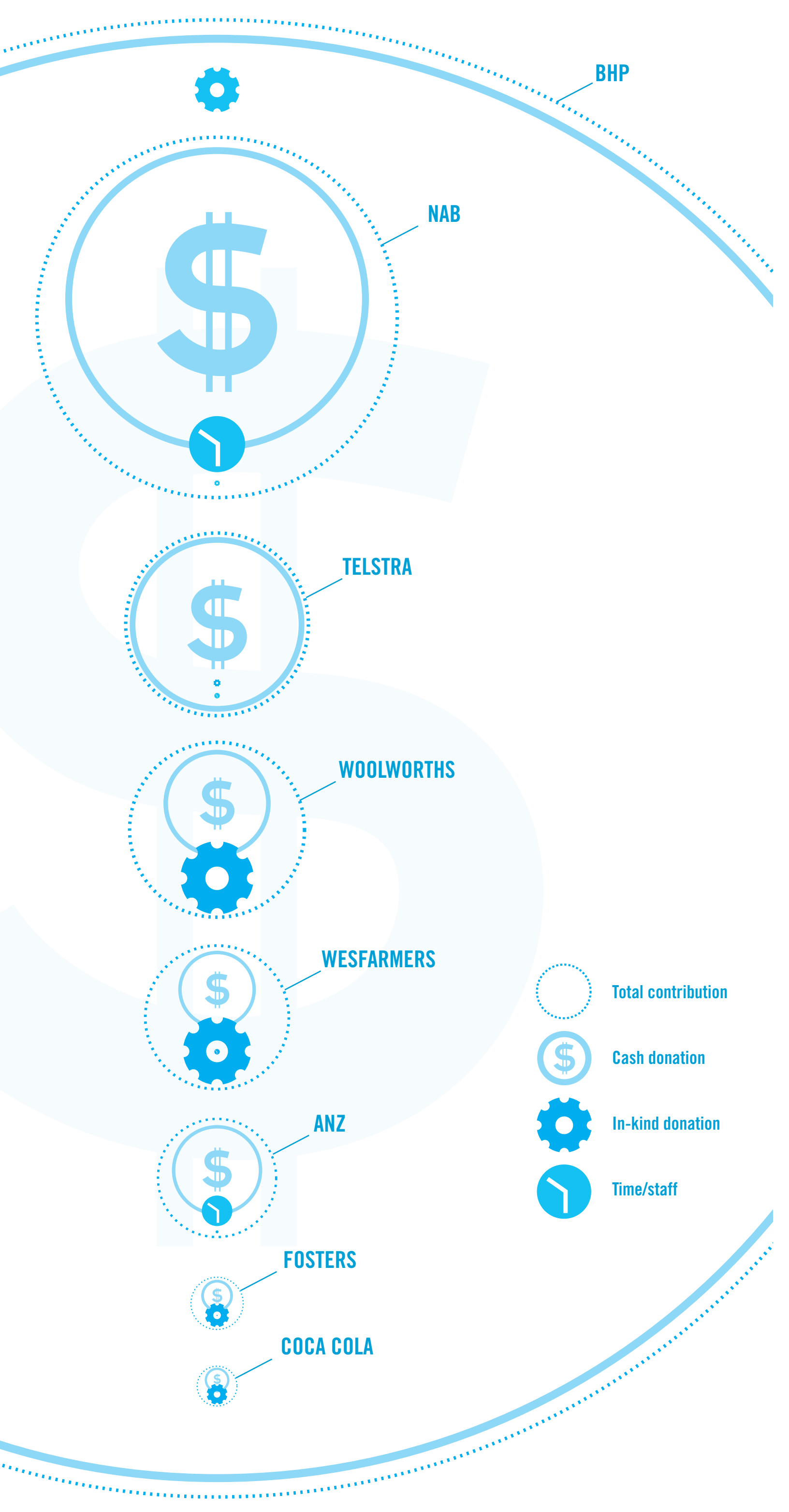


1c. Total company profit $

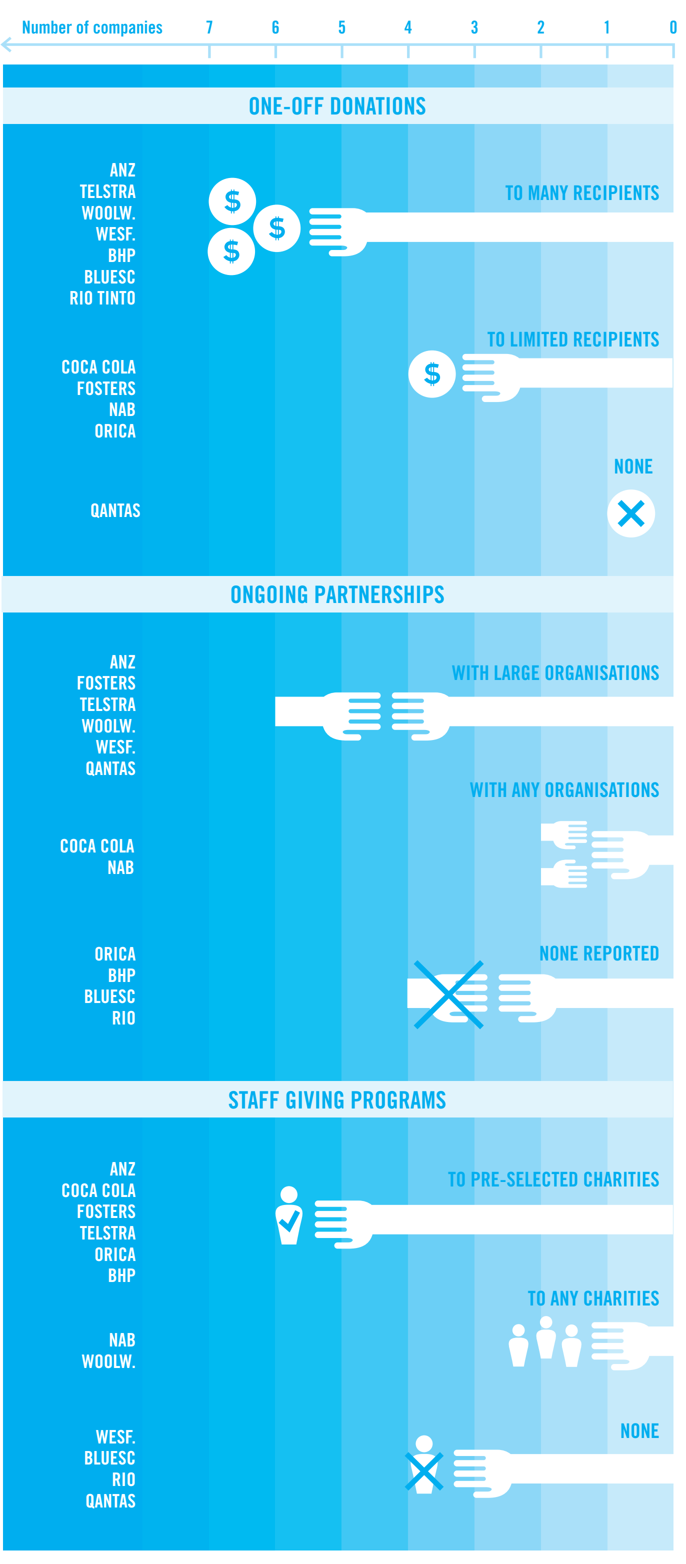


2. METHODS OF INVESTMENT

2a. Forms of company investment (scale by dollar value)



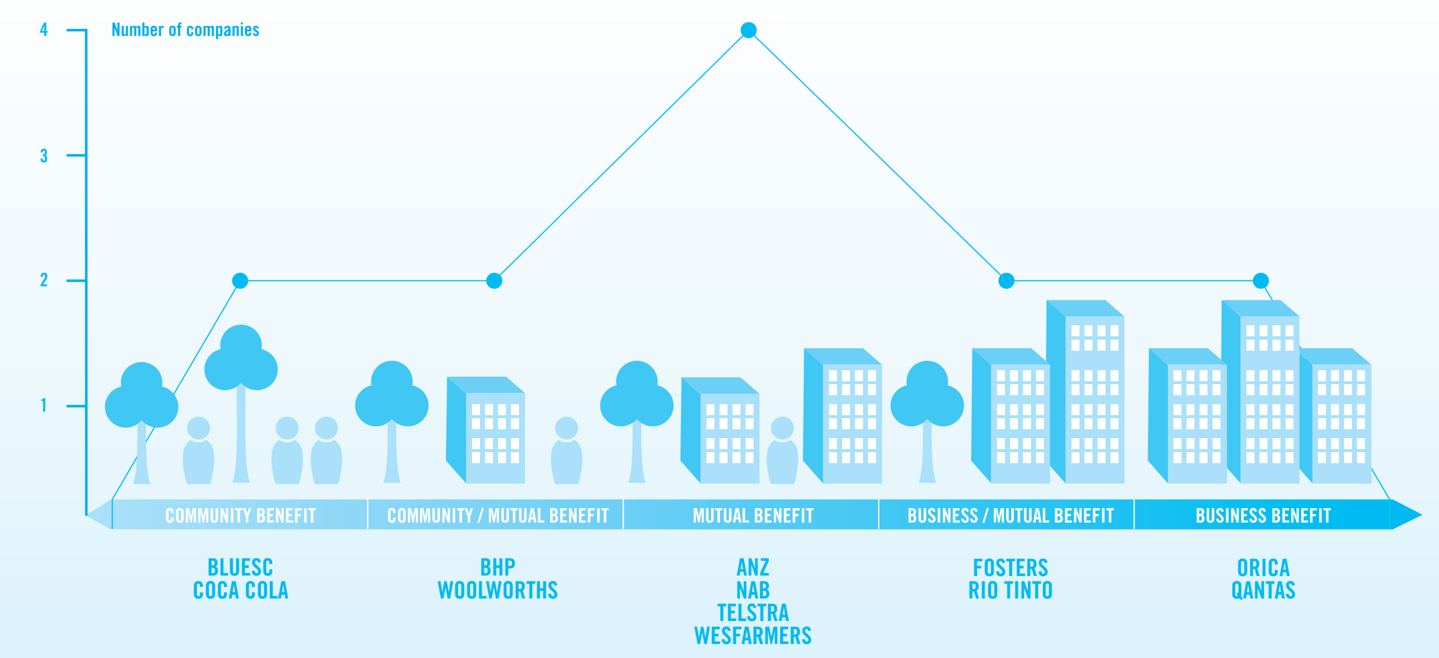
2b. Types of engagements between company and community organisations



3. STRATEGY BEHIND INVESTMENT

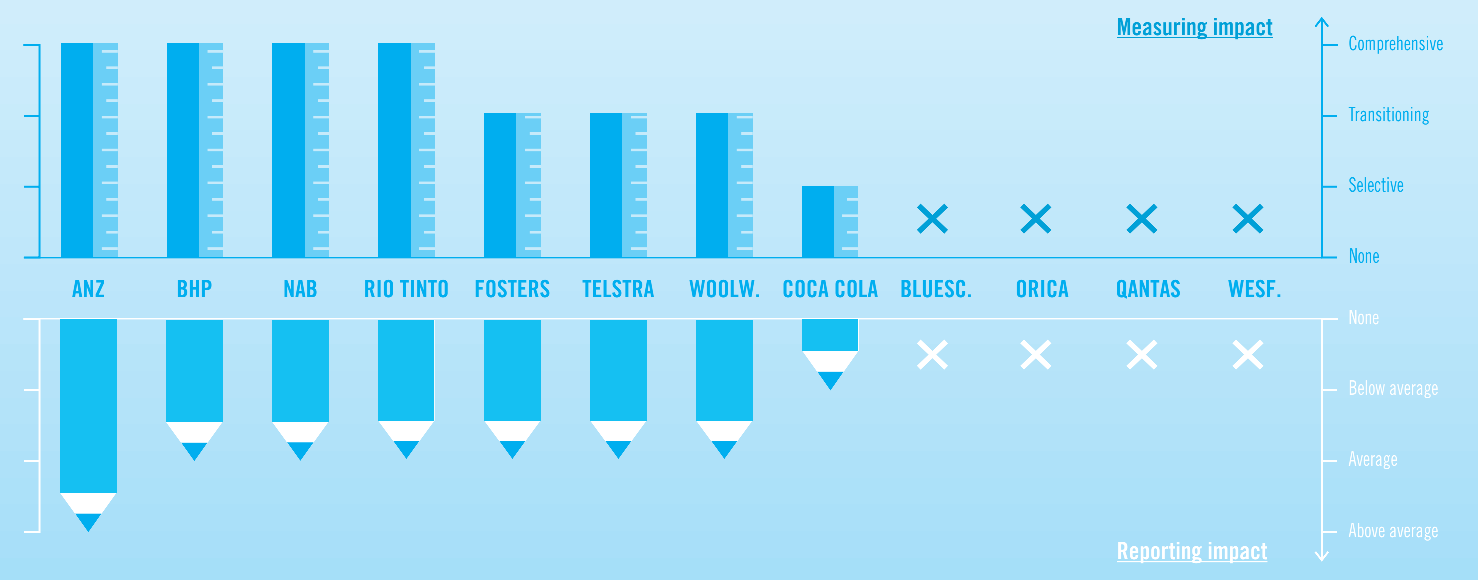
3a. Policy document published

3b. Motivations for community investment



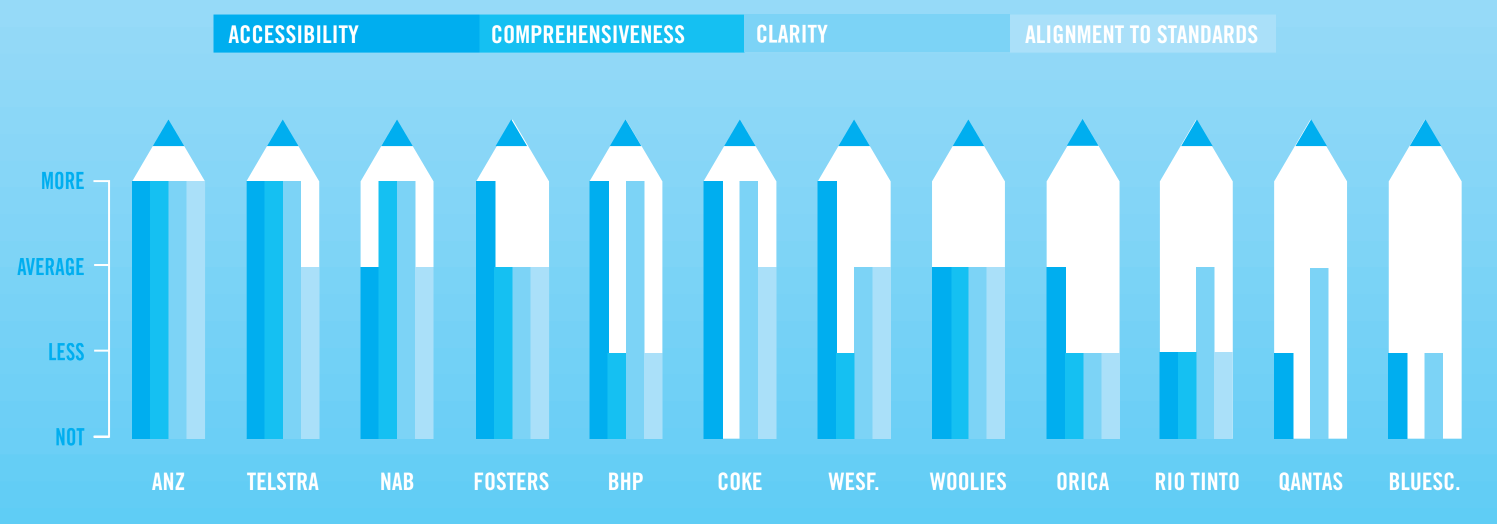
2

HOW COMPANIES MEASURE



3

HOW COMPANIES REPORT



NOTE: Not all companies provided all needed information

CATALYST