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Quantification Matters

How to Mobilize Finance for Social Impact

WBCSD Leadership Program 2016

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Executive summary

> "This report impressively demonstrates how impact and financial value go hand in hand. The private sector can be a central actor for positive social impact, transforming global problems into opportunities. More clearly communicating the business case of these opportunities is the key to mobilize finance."
>
> **Peter Lacy,**
> Global Managing Director, Accenture Strategy, Growth & Sustainability

The private sector is increasingly perceived as a powerful actor with a responsibility to drive social progress.[1] One reason for this is that, unlike other actors, the private sector has the ability to transform social needs into business opportunities. The need for action is huge as the world faces multiple social problems, for example, poverty, hunger, violence, lack of education or access to healthcare. The "system transformation"[2] the 17 UN Sustainable Development Goals (SDGs) call for is an indicator of the sheer magnitude of these social problems and hints at the significant business opportunities that lie in addressing them. And 49% of the world's CEOs believe that business will be the single most important actor in delivering on reaching the SDGs.[3]

However, despite this large-scale opportunity, the private sector appears to be struggling to act. There are a number of reasons for this, ranging from a lack of awareness and understanding of the value of socially responsible products and services to a lack of skills and human capital to drive social impact. One of the most frequently cited reasons, however, is the lack of investment for social impact.

Yet, it is **possible to mobilize mainstream finance for positive social impact**[4] —as this report's findings suggest:

1. **Mainstream finance mechanisms are more powerful in creating social impact at scale than a separate asset class (for example, social impact bonds):**

- It is a myth that social impact bonds are a panacea—their risk/return profile makes them unviable for traditional investors.
- The sheer size of mainstream financial assets indicates that mainstream finance is the more powerful lever to create positive impact at scale.
- To achieve viable and scalable social impact, companies need to mobilize support from institutional investors.

2. **The shareholder value maximization ideology used in isolation is a barrier to mobilizing mainstream finance for social impact, in particular, short-termism. Yet, this ideology could be overcome:**

- The legal obligation of companies to maximize shareholder value is a myth. Companies are free to act for all stakeholders, not just shareholders and investors, so long as it is in the best long-term interest of the company.
- Only 17% of investors surveyed believed that running a company solely in the best interests of shareholders is in the best long-term interest of all stakeholders and the company.
- In order to fuel the flow of capital into projects that create social value, companies need to overcome the barrier that has been created by short-term incentives installed in management boards over the last decades and the related habits.

3. **Creating positive social impact can present a good business case for creating value and reducing risk:**

- Pioneering companies are reporting higher growth rates for products with dedicated social benefits in comparison to the rest of the product portfolio.
- The majority of investors surveyed believe that the main benefit of investing in social impact in general is to mitigate risks and obtain a license to operate, but also feel it can create value.
- Companies should start to manage social impact like the rest of the business, for example by introducing a sustainability/social impact key performance indicator for all products, managed with the same rigor and stringency like financial KPIs .

4. **There is a social impact business case communication gap: investors, both institutional and corporate, do not (yet) perceive that social impact delivers financial value:**

- As the United Nations Global Compact—Accenture Strategy CEO Study points out, 57% of business leaders feel that they can detail their strategy to seize sustainability opportunities; but when investors where asked the same question about the companies they were investing in, only 8% of investors believe this to be the case.
- Only 17% of investors often or always know about social impact initiatives at the companies they invested in.[5]
- Companies should engage regularly and actively with investors on their social impact initiatives. Such communication should be as stringent as financial communication and focus on how social impact initiatives reduce risks, increase the value of the company or reduce costs.

5. **The social impact business case needs to be communicated more clearly and quantitatively in order to raise capital for social impact and create social value:**

- Two-thirds of investors say that articulation and quantification of the business case would increase the likelihood that they would finance social impact initiatives.[6]
- Quantification does not necessarily need to be monetary. Companies can satisfy investor expectations using existing tools, such as cost-benefit analysis, quantification of risk, and demonstrating successful internal pilot projects.
- However, many companies are still struggling to quantify the social impact business case.[7]
- Companies can partner with leading non-governmental organizations (NGOs), international organizations and development banks to finance the early stages of their social impact projects until they are able to document the proof of concept and prepare a business case to scale these projects.[8]

Overall corporate managers and investors need to make a fundamental change from “shareholder” to “stakeholder” value maximization in their heads and everyday practices. One of the biggest levers to drive social impact is a mindset shift from social impact as philanthropy towards social impact as business opportunity.

1. Introduction

Social problems plague the world—poverty, hunger, lack of access to education and healthcare, lack of housing and sanitation , economic inequality, violence and criminal activity—to name a few. The United Nation's Sustainable Development Goals (SDGs), signed by 193 states in 2015, aim for total transformation: no poverty, no hunger, universal education, universal health coverage, and peace.[9]

The private sector is increasingly seen as a powerful actor with a responsibility to contribute to solving social problems.[10] And 49% of the world's CEOs believe that business will be the single most important actor in delivering the SDGs.[11]

There are also indications that creating social good makes good business sense. Evidence suggests that consumers care, and that having a good social balance sheet helps to secure a company's license to operate and to create financial value. However, despite this opportunity, the private sector appears to be struggling to act. There are a number of possible reasons for this, ranging from a lack of awareness or uncertainty of the value of socially responsible products and operations through to a lack of skills, capabilities or the right people.

One of the most frequently cited reasons is the struggle to mobilize finance for social impact and, in particular, the difficulty in getting mainstream investors, as opposed to angel investors or impact investors, on board.

Obtaining capital flow, however, could be a powerful catalyst to solve social problems. The size of the problems implies huge business opportunities, yet there is little mainstream investment flowing into this purpose and little understanding of how to start mobilizing it.

The core **question** is:

How can mainstream finance be mobilized to invest in positive social impact?

To answer this question, we developed a set of **hypotheses**—our thinking on what's currently stopping finance and what could mobilize it:

1. Mainstream finance mechanisms are more powerful in creating social impact at scale than a separate asset class (for example, social impact bonds).

2. The shareholder value maximization ideology is a barrier to mobilizing mainstream finance; in particular, short-termism hinders social impact financing.

3. Positive social impact can be a good business case for creating value and reducing risk.

4. There is a social impact business case communication gap: investors, both institutional and corporate, do not perceive that social impact delivers financial value.

5. The social impact business case needs to be communicated more clearly and quantitatively in order to raise capital for social impact and create social value.

To better shape our understanding of the problem, we conducted a literature review, synthesizing what we know about the developments and status of financing social impact, and in particular the involvement of mainstream investors and the validity of our hypotheses. See chapter 2 for a brief overview. We then confirmed these perspectives and sought to hear the voice of investors through a survey of 24 of them. This is outlined in chapter 3. To analyze the corporate perspective, we conducted four in-depth case studies on leading global businesses. Presented in chapter 4, they highlight the range of social impact initiatives and how these have been financed. To draw a holistic picture, we examined each case from two key perspectives: the company's and the investor's. Finally, we synthesized our findings and provide some recommendations on how to bridge the gap between the need for social impact finance and the actual mobilization of finance (chapter 5).

"The private sector has the ability to transform problems into opportunities. The social problems are huge, so are the opportunities."

The authors of this report

2. Demystifying financing for social impact

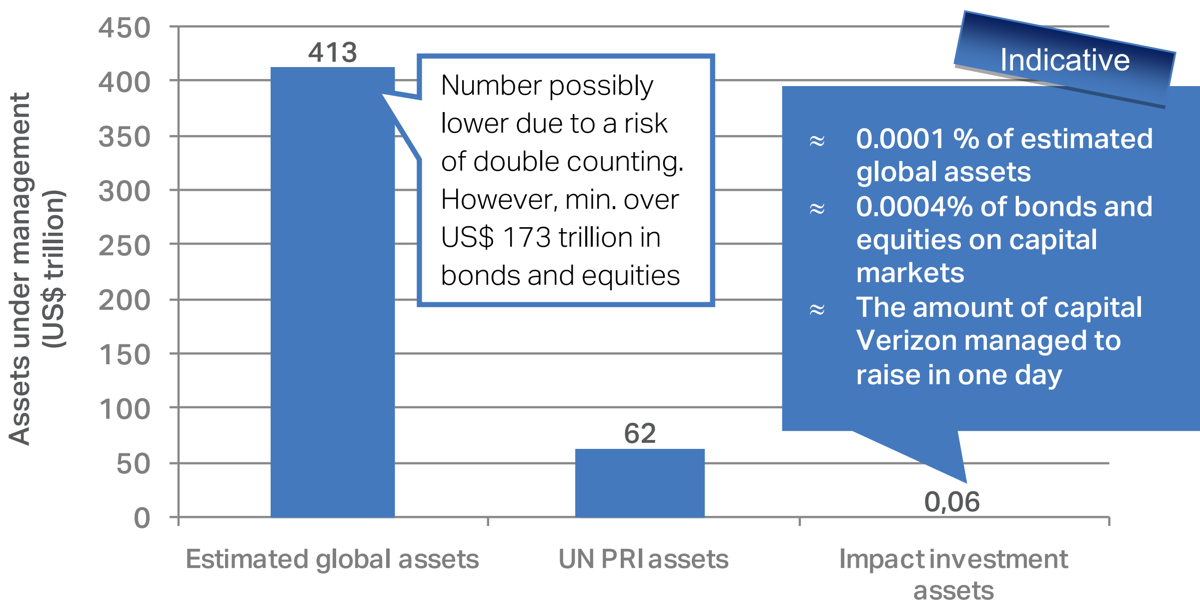
1. Mainstream finance mechanisms are more powerful in creating social impact at scale than a separate asset class (for example, social impact bonds).

According to the World Federation of Exchanges (WFE), the world banking sector manages US$ 140 trillion in assets, institutional investors (e.g. pension funds, university endowments, etc.) manage over US$ 100 trillion in assets, and capital markets, including bonds and equities, exceed US$ 100 trillion and US$ 73 trillion respectively. While it is difficult to provide exact figures, there may be up to US$ 413 trillion in assets under management globally.

In recent years, the world has seen a growing pool of assets or capital dedicated to trying to deliver both financial returns and a positive impact on society and/or the environment. However, the objectives and definitions of what constitutes positive impact differ from investment to investment. As a result, it is difficult to know the exact size of the impact investment market. One definition is assets that fall under the UN Principles for Responsible Investment (PRI), which has some 1,500 signatories and holds about US$ 62 trillion in assets.[12] A recent survey estimated 125 impact investors manage some US$ 60 billion.[13] However, this number is for both social and environmental impact, so it is unclear how much of it targets social issues.

To put this in perspective, this is around 0.0001% of global assets (as illustrated in figure 1). This is approximately the same volume that a single company can raise in one day (for example, in 2013, Verizon, a US-based telecommunications company, raised US$ 49 billion in one afternoon in order to purchase Verizon Wireless from Vodafone).

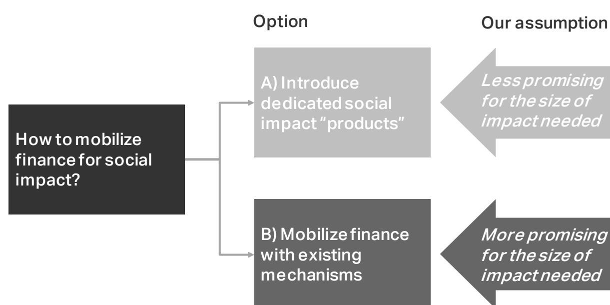
Figure 1: Overview of assets under management: global, UN PRI and impact investments



Our interest is in what it would take to get assets at scale channeled towards creating social impact. There are two options: A-introduce new products, for example, a new asset class like social impact bonds; or B-mobilize finance with existing mechanisms (see figure 2).

Option B seems more promising than option A, not just because of the drastic differences in current capital volumes.

Figure 2: How to mobilize finance for social impact



For example, separate social impact asset classes, such as social impact bonds (SIBs), have been heralded as one potential way to clearly frame, understand and fund social impact and engage mainstream investors. This funding mechanism has received widespread recognition as potentially, the most effective instrument to finance social impact.

Social impact bonds, however, talk to a very specific funding mechanism that has restrictions on when and how it can be used. They are different to what is usually understood as a bond, they have higher risks, and they are limited in terms of volume (see box on the myth of social impact bonds).[14]

Given these limitations, SIBs can't realize the potential of mainstream finance.

The myth of social impact bonds

Social impact bonds (SIBs) mix risk and return between investor and government to fund social impact initiatives. Before the emergence of SIBs, it was mainly the government's responsibility to identify social problems, find solutions and finance the projects, and solely bear the risk of failure. SIBs make use of private financing channels to fund the projects and are only repaid (with a profit) if successful—transferring the risk of failure from governments to private investors. There are currently 60 social impact bonds which have raised just over $200 million in funding.

While SIBs are called bonds, their structure and risk/return profile is completely different from that of a traditional bond. A typical bond investor lends money to an entity in return for a pre-defined stream of fixed coupon payments and the return of the initial principle borrowed. In the event of failure or default, they also get a priority claim on any assets. This is in stark contrast to the variable nature of both the coupon payments and the principle when investing in an SIB.

This simple yet critical difference fundamentally changes the risk/return profile and therefore the viability of SIBs for the traditional investor base, leaving a significant number of investors either unable or unwilling to invest. The growth of SIBs is also bound by the amount to which governments are ultimately willing to fund projects. This means that there is likely to be a cap on how many SIBs can be deployed and a cap on who is likely to invest in them.

"The biggest issue we have as investors is short-termism; and everything governments and regulators have done drives towards more short-termism."[15]

Andreas Utermann,
CIO, Allianz Global

The myth of a legal obligation for short-term shareholder value maximization

There is no case or legislation that determines that executives and boards must operate companies for the sole purpose of maximizing shareholder returns. In fact, the opposite is true; courts in the United States of America use the business judgement rule, which states: "So long as the board of directors is not tainted by personal conflicts of interest and makes a reasonable effort to become informed, courts will not second-guess board decisions about the best interests of the company even when shareholder interests are not first in line." Company executives have a duty to operate in the best long-term interests of a company and are free to take into account all stakeholders when defining corporate strategy and not just prioritise shareholders.

Source: Stout, L. (2012). *The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public.*

2. The shareholder value maximization ideology is a barrier to mobilizing mainstream finance for social impact; in particular, short-termism hinders social impact investing

The concept of maximizing shareholder value shapes not only the investor but also the entire corporate world.

From an institutional investor's perspective (those people who invest on behalf of clients) the imperative to maximize shareholder value stems from the directive given to them by their underlying client. On the whole, institutional investors are given a mandate to maximize returns within a given risk framework and tend to be more focused on the short- to medium-term, largely due to quarterly and annual reporting cycles. Therefore, it is in the interest of both the investor and the underlying client/investor to allocate capital to companies that are perceived as focusing primarily on maximizing earnings.

From the company's perspective, it has become increasingly popular to align shareholders and management by giving managers a stake in the business in order to ensure that management acts in the best interest of shareholders. Over the past decades, company executives have been increasingly remunerated in shares and stock options and had earnings increasingly tied to financial profit targets. This ensures that maximization of shareholder value, and the related short-term motive, sits at the top of the corporate agenda.

Putting short-term shareholder return at the forefront of management thinking often incentivizes companies to sacrifice social, environmental and other longer term value: "80% of finance officers would cut expenses like marketing or product development to make their quarterly earnings target even if they knew this would hurt long-term corporate performance."[16] This reductive strategy diminishes the company's ability to be sustainable in the long term. It reduces investments in future products or services and in developing a healthy society that can support business. The logic behind the current system leads to a downward spiral for economic and social development.

Many people dismiss these problems with the current system with the view that maximizing shareholder return is the legal obligation of management. However, this is simply not the case as explained by L. Stout in her book *The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public.*[17] (See box on page 10). Furthermore, "97% of shareholders also agree that corporate managers should take some account of non-shareholder interest in running firms."[18] Additionally, there are some reasons why investing in social impact may conflict with shareholder interests but on the contrary support value creation, including financially.

3. Creating positive social impact can present a good business case for creating value and reducing risk

A recent WBCSD study found that businesses create social impact initiatives and ventures along their value chain for a number of reasons. These range from cost and risk reduction (for example, by obtaining a license to operate and improving the business enabling environment) to capturing opportunities (for example, by driving investments in new products and business models).[19]

According to the UN Global Compact (UNGC)—Accenture Strategy CEO Study 2016, 80% of global CEOs believe that demonstrating commitment to societal purpose is a differentiator in their industry.[20] The emergence and growth of socially minded business like Patagonia or Toms Shoes point to consumers increasingly rewarding impactful products, services and businesses: 72% of individuals would chose "brands with purpose"[21] and 73% of consumers would actively switch to a brand that had a social purpose.[22] This is more important for younger buyers.[23]

There is evidence that social impact ventures can create strong revenue streams.[24] BASF identifies products with a sustainability contribution and has found that these products generate 23% of the company's sales, and, importantly, outgrow their markets by 2-10% and deliver margins more than 10% above the average.[25] Unilever finds that their socially responsible brands grow "at twice the rate of the rest of the business".[26] A recent study of the world's leading telephone companies suggests that digital solutions that contribute to the achievement of the Sustainable Development Goals could generate US$ 2.1 trillion in additional revenue per year in 2030, a 60% increase compared to current information and communications technology sector revenues.[27]

However, nearly all CEOs pinpoint the pivotal role of finance in making social progress happen, as 88% believe that "greater integration of sustainability issues within financial markets will be essential to making progress". However, only 10% feel pressure from investors as one of the top three factors driving them to take action on sustainability.[28]

> "Globally, forward-looking companies are already finding ways to address the biggest issues facing society through business-led ventures that are impactful, scalable, measurable, replicable, and that go beyond traditional business as usual."
>
> **Deloitte Touche**
> Tohmatsu Limited & WBCSD

"By identifying clear targets and putting metrics in place, companies can better engage investors on the commercial potential of sustainability [incl. social impact]. They can sharpen the links between commercial and non-financial goals, and also drive internal change by increasing clarity about the business case."

Accenture Strategy[30]

4. There is a social impact business case communication gap: investors, both institutional and corporate, do not (yet) perceive that social impact delivers financial value & 5. The social impact business case needs to be communicated more clearly and quantitatively in order to raise capital for social impact and create social value

There are indications that communication on the business case might be the issue. Investors may not see nor be made aware of social impact initiatives or opportunities. As the UN Global Compact—Accenture Strategy CEO Study points out, 57% of business leaders felt that they could detail their strategy to seize sustainability opportunities; but when investors where asked the same question about the companies they were investing in, only 8% of investors believe this to be the case.[29]

Key learnings from the literature review

Based on our literature review, we conclude that:

- Mainstream finance mechanisms have more potential to create social impact at scale than dedicated social impact mechanisms.
- Focusing solely on short-term shareholder value maximization seems to be an ideology rather than a legal obligation.
- Longer term social impact could be in the interest of shareholders, investors, companies and broader stakeholders alike, at least in theory.
- Creating positive social impact can present an attractive commercial business case.
- Few investors currently perceive the social impact business case.

Evidence from practitioners points to a social impact business case communication gap between companies and investors. Could the solution to mobilizing finance be in having a sound business case and formulating and framing this better for investors? What do investors need to invest more in social impact? To answer these questions, we surveyed and spoke to mainstream institutional investors directly to find out what would make them invest in social impact.

3. The investor perspective: Social impact is seen as a value but needs to be quantified to mobilize finance

To challenge and validate our hypotheses on why companies and societies struggle to mobilize finance for social impact, we conducted a survey with mainstream investors. Based on the literature review and our own experiences in working with sustainability-driven business cases, we designed 14 questions around the following themes:

- How do investors perceive the value of social impact?
- Which levers would increase investments in social impact?
- If communicating the business case is one major lever, as we suggest, how should it be framed?

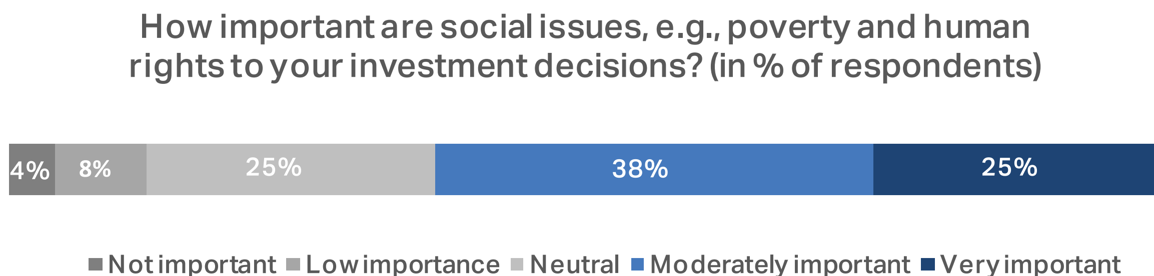
We received responses to our survey from 24 investors, mostly representing mainstream European investment firms and with 70% based in the UK.[31] With only two dozen answers, this is not statistically robust. However, we do think that the answers enrich our inquiry with highly valuable firsthand insights, in an indicative way.

Findings from the survey

Social value matters to investors

Surprisingly—given that two-thirds of respondents are from mainstream investment backgrounds—social issues, for example, poverty and human rights, are considered important in making investment decisions. When asked for the relevance of social issues in their investment decisions, 63% of investors give them high or very high importance, while only 12% see low or no importance.

Figure 3: Importance of social issues to mainstream investor survey respondents, in % of respondents



n=24

Mainstream investors do not subscribe to the shareholder value myth.[32]

The majority of respondents (74%) disagreed or strongly disagreed with the sentence "I believe that running a company solely in the best interests of shareholders is in the best long-term interest of all stakeholders and the long-term interests of the company".

Equally, when given concrete examples related to social impact, such as increasing fair wages, increasing CSR projects that directly relate to core product offering, or longer term corporate social impact ventures, investors reflected a willingness to invest in social impact-related activities: a significant majority of between 67% and 83% of investors (depending on the case) answered that these cases would create value for the company. Only between 4% and 26% believe that these cases would be an inefficient use of capital/cash.[33]

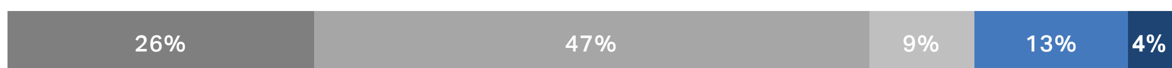
Investors think companies have several reasons to undertake social impact activities related to the company's bottom line but sometimes are skeptical about the honesty of social impact communication.

Investors saw several reasons why a business may undertake social impact activities, the most popular being risk reduction (selected by 61% of investors) and having a license to operate (selected by 52% of investors).

The least cited reason, but still selected by more than a third of the respondents, was to directly create value for the business. There was also a relatively high share of respondents (43%) who felt talk of social impact might be "greenwash". This may highlight the gap between the promise that social impact initiatives make in terms of generating revenue and how investors experience it on the ground. It may also allude to the fact that there are fewer social impact initiatives that are commercially viable (and not just CSR or philanthropy).

Figure 4: Investor view on focusing investment decisions solely on shareholder value maximization

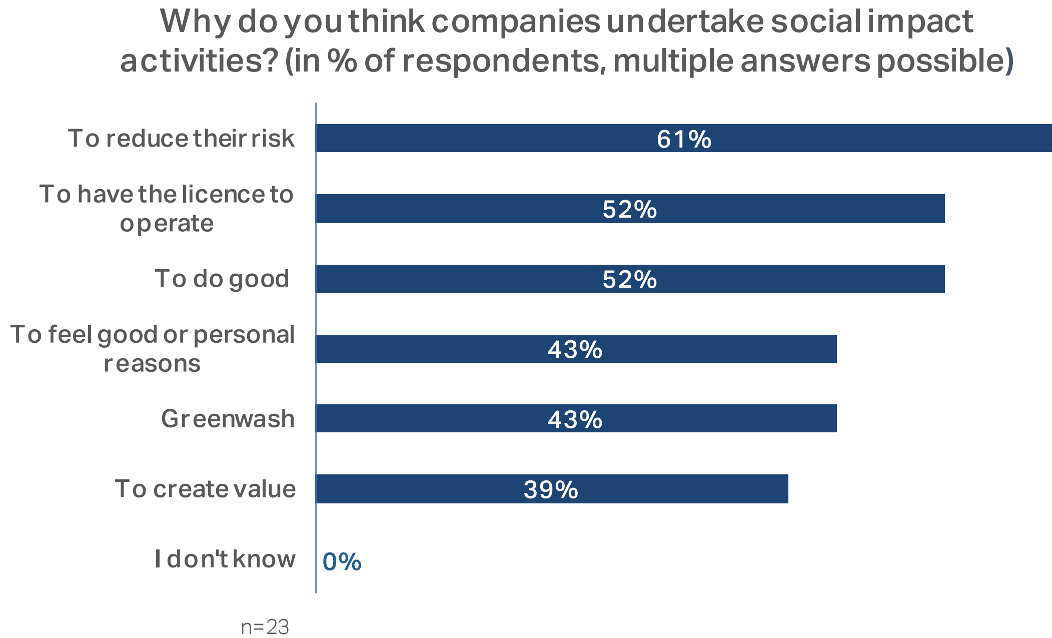
"I believe that running a company solely in the best interests of shareholders is in the best long term interest of all stakeholders and the long term interests of the company." (in % of respondents)



Strongly disagree | Disagree | Neutral | Agree | Strongly agree

n=24

Figure 5: Investor view on company motives to undertake social impact activities



Investors see little corporate communication about social impact

We found evidence of a communication gap between companies and investors. Mostly, investors indicated that they had visibility of social impact only "sometimes". Also, most respondents felt that investor documents only sometimes contain social impact descriptions. A mere 17% often or always knew about social impact initiatives at the companies they invested in and only 26% often saw investor documents talking about social impact initiatives.

Investors need to see the business case in order support social impact

Our results suggest that a clearer articulation of the business case could help investors mobilize for social impact. Two-thirds of the investors indicated that articulation and quantification of the business case would increase the likelihood that they would finance social impact initiatives. However, we are uncertain as to why 33% of investors surveyed would remain unconvinced despite a clear business case.

Figure 6: Investor view on the relevance of description of the business case for social impact

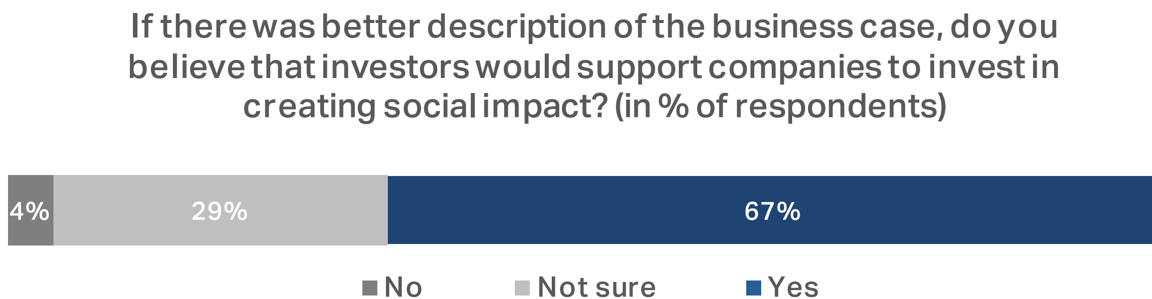
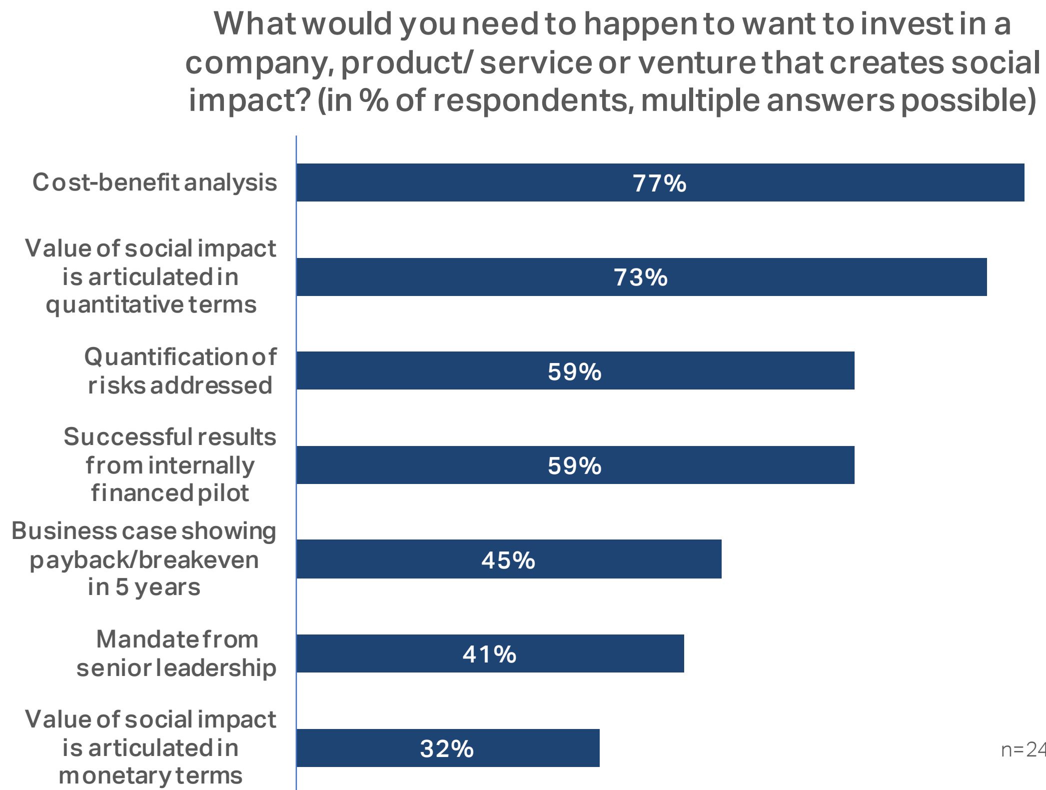


Figure 7: Ranking of the relevance of levers that would make investors want to invest in social impact



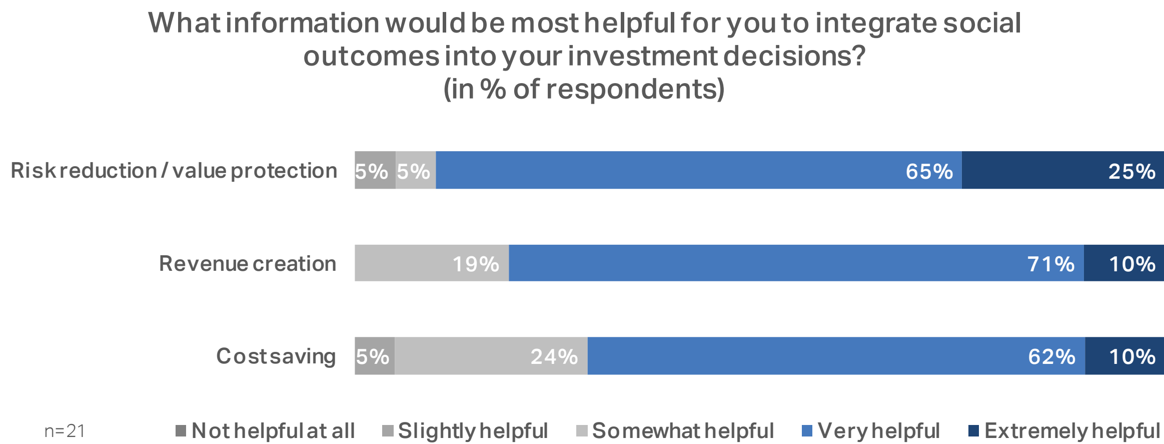
When asked to assess what could induce investors to invest in social impact, there was a range of responses: 77% of investors find that a good cost-benefit analysis would increase their appetite to invest in social impact; 73% would want the value of social impact to be articulated in quantitative terms; and 59% would find a quantification of risks addressed helpful. Respondents felt that a mandate from senior leadership and the articulation of social impact in monetary terms were the least effective devices.

Investors need to see quantitative evidence for the business case for social impact

At least two-thirds of investors would like to better understand the business case for social impact, and the more quantitative it is, the better it would be. Methods such as cost benefit analysis (77% indicated this would help), quantification of social impact (73%), quantification of risks addressed and a successful internal pilot project (59%) would also drastically help investors invest in social impact (see figure 9). While quantitative evidence is perceived to be very helpful for communication, social value does not necessarily need to be monetized—only 32% indicate that having social value should be articulated in monetary terms.

When asked which value drivers needed to be quantified, a majority of investors found all three options (risk reduction, revenue generation and cost reduction) to be very helpful. There was a marginally higher appreciation of risk reduction/protected revenues to make a compelling business case.

Figure 8: Investor view on the relevance of quantitative value drivers for the social impact business case



The preferred time horizon for communicating the social impact business case is the last fiscal year; yet forward-looking business case estimates were also deemed relevant. Seeing historical data was slightly preferred over forecasts, with 79% of respondents finding reporting for the last year "very" or "mostly relevant". When forecasting the social impact business case, a 2-3 year range was preferred, with 67% of respondents finding it "very" or "mostly relevant".

We also asked whether the SDGs could ease communication with investors. While 87% of CEOs believe the SDGs represent an essential opportunity to rethink approaches to sustainability and social impact, only 46% think the SDGs are an adequate framework to improve communication on social impact. While 25% of investors are not aware of the SDGs, and 13% disagree that the SDGs are a good framework for investor communication.

Key learnings from the investor survey

Investors are happy to support business activity as long as they are making a return—and this holds for ones that generate social impact. However, a more detailed picture can be drawn: the majority of respondents perceive social impact and longer term value to be interesting and are not focused on short-term shareholder value maximization alone. This finding indicates that the shareholder value maximization ideology is a barrier not necessarily to mobilizing mainstream finance.

We also found that social value can matter to investors and that they see it as a contribution to value creation for a company, but that sometimes they are skeptical about the honesty of how seriously business talks about social impact.

The results confirm that the communication gap is an issue, with investors seeing little corporate communication about social impact.

And it was clear that investors need to see a social impact business case in order to invest. The survey findings confirmed that investors need to see quantitative evidence.

These results indicate that investors favor classic historical business case evidence to evaluate investment decisions, including on those that drive social impact. Clearer and more quantitative corporate communication on the value of social impact would help. The business case can be formulated in terms of quantified risk reduction, value creation or risk reduction, preferably for the last fiscal year, but many investors also want forecasts.

However, do corporations just need to communicate more? Or might they actually struggle to find these high-impact yet commercially viable ventures, products or services? In the next chapter, we present case studies on how corporations set up social impact projects, how they have framed and created commercial value, the role of the business case, and if/how they gained access to finance.

4. The corporate perspective: How social impact needs business stringency to excel

Investors are open to financing social impact if the value is clearly communicated. How do corporations deal with social impact? How have businesses successfully framed their business cases and gained access to funding?

As illustrated through the four cases presented in this chapter, the key stakeholders, the sources of financing and the challenges are different for each company. However, by taking an in-depth look at how different companies have financed social impact initiatives, we can observe some common themes and present some recommendations to mobilize finance for social impact.

All four companies featured here are WBCSD member companies. The case studies were prepared based on interviews conducted with several stakeholders within each company. Each case includes a description of the initiative, an analysis of its social and commercial value, the investor perspective, as perceived by the companies and key challenges and learnings.

Case Study: Statoil's approach to social impact[34]

One of Statoil's three sustainability ambitions is to "create lasting local value for communities". In addition to the value generated through the creation of revenue and local jobs, the payment of taxes to society and so on, Statoil makes several social investments. Through these investments, Statoil seeks to strengthen local capacities, address social and environmental risk factors, and promote transparency and respect for human rights.[35]

Social value: Statoil's social investments help develop local communities by improving education, building local businesses, reducing the level of corruption and ensuring respect for human rights.

Commercial value: Investments in social responsibility are seen as important and necessary to secure a license to operate and ensure a competent workforce and a competitive value chain. However, Statoil has yet to fully evaluate and quantify the value of the opportunities captured or risks mitigated through these investments. All Statoil's activities must be in line with the company's values and ambitions. In general, the level of investment related to social responsibility is based on what is required and expected by governments or regarded as sufficient by investors and other stakeholders. However, as Statoil has yet to quantify the value of social impact, the incentives to make additional investments are weak.

Investor view (as perceived by the company): Communications around investments in social responsibility are somewhat limited. These initiatives are outlined on their website and in their annual sustainability report, but there is limited active communication for investors. During the company's Capital Markets Day, the most significant annual investor outreach, only 1-2% of the material presented relates to sustainability. Furthermore, only 50-60% of the investors seem to be familiar with the company's Sustainability Report and its contents. There are limited questions related to social impact from conventional investors, while there is significant interest and scrutiny by socially responsible investors (SRI). All investors seem to be interested in the topic, but with different standards for what qualifies as a sufficient effort. While social investments are not necessarily reflected in Statoil's direct valuation, they could result in the company being taken on or off investors' lists if deemed insufficient or not within the investors' guidelines.

Challenges & learnings: It is widely accepted that social investments are necessary and that to some extent they increase the value of the company. However, one of Statoil's challenges is how to shift investors from focusing on meeting expectations to reframing this work to drive real value. Statoil believes that better valuation of social investments, while difficult, will resonate more with investors and lead to additional investments. However, the company assumes that social investment valuation does not necessarily have to be quantified in financial terms as long as the risks and opportunities are explored and described in detail. This approach is similar to the one used for environment, health and safety (ESH) initiatives, which have been successfully lifted to the top of the agenda without being financially quantified. The primary challenge for Statoil is to create the story around social investments and communicate the value in a meaningful way, so that the conventional investors, and not just social responsibility investors, see the value of social impact.

Case Study: Total's efforts as a partner for development to mitigate risks and obtain a license to operate[36]

Total is the only supermajor[37] with no domestic production. Therefore, the sustainability of Total's activities is inherently based on shared development. Total's goal is to act and be recognized as a partner in the long-term economic and social development of the communities and regions in which the group operates. In 2015, €384 million was spent on 3,063 social projects (85% in non-Organisation for Economic Co-operation and Development (OECD) countries).

Social value: In Myanmar, Total has operated a systemic development project in favor of 25 communities (35,000 inhabitants) in the pipeline area since 1995. The project has a dedicated staff of 96, including 12 doctors, 2 vets and 20 microcredit professionals. As a result of this project, mortality from three predominant diseases (malaria, food/water-borne infections, respiratory infections) has been reduced twenty-fold, 200 infrastructure projects (roads, bridges, schools) have been completed, and the local economy has been boosted through farming, training and microfinance support to entrepreneurship. In parallel, Total Myanmar's security is handled by 65 unarmed local villagers and the subsidiary hasn't experienced any major incidents or damage.

In Bolivia, a chance archaeological discovery (bones, ceramic fragments, etc.) made during construction work was managed in collaboration with the Bolivian authorities and the local Guaraní communities. At the request of the Guaraní communities, Total changed the architecture of its construction project and agreed to rebury the remains in the same place where they were found and ensure communities retained access to this sacred place.

Commercial value: Contributing to the social and economic development of host countries is a prerequisite of some local governments. In countries like Nigeria and the Republic of the Congo, certain expenses are requirements in tender bids and are managed directly by the host countries. The economic value of such expenses is straightforward—companies must finance and support local development, in association with local authorities and NGOs, or they cannot develop new projects.

Furthermore, as demonstrated by the case from Myanmar, gaining acceptance and building trust with local communities provides a "social license to operate", which is the key to sustaining operations. In the Bolivian case, not taking into consideration local demands could have led to hostility from the community and costly disruptions in operations.

The consequences of not obtaining a social license to operate were seen in Yemen, where Total leads a liquefied natural gas (LNG) plant supplied by natural gas through a pipeline. Some 25 community liaison officers maintained a dialogue between the subsidiary and the 19 local communities impacted by the pipeline. However, a tribe blocked the project for a whole week, leading to a cost overrun of millions of dollars. This is because, in this case, Total did not invest enough time and human resources in building trust with the communities.

Investor view (as perceived by the company): Based on what investors say in monthly discussions with Total's finance department, it appears that most mainstream investors pay little attention to the social impacts of these efforts. Such social projects are more commonly viewed as an entry ticket that gives access to fossil reserves in host countries. However, until mainstream financial analysts agree about the necessity of obtaining a social license to operate to access resources, de:risk operations and protect the company against tangible costs like penalties and additional taxes, it will still be viewed (and accounted for by the subsidiaries) as an operating cost.

Challenges & learnings: Like safety and environmental expenses, the return on investment (ROI) for social investments is hard to estimate because of the importance of the human factor. For example, what would have happened if Total had invested more in Yemen in the case described above? And what if Total hadn't invested at all?

But unlike safety and environmental issues, social issues are not prioritized by analysts from the mainstream financial community during their regular discussions with Total. Investors feel that a social license to operate is less important than a safety or environmental license to operate to mitigate operational risks.

Therefore there is an opportunity for companies to better articulate and communicate about the importance of their social investments and the associated risks and rewards

Case Study: ABB and International Committee of the Red Cross microgrid pilot project[38]

In 2016, ABB entered into a partnership with the International Committee of the Red Cross (ICRC) to provide solar-powered microgrids to the ICRC. The first pilot project is aimed at the ICRC logistics hub in Nairobi, Kenya, which covers operations in South Sudan, Somalia, Kenya, Djibouti and Tanzania, as well as in neighboring countries. ICRC's services include: restoring contact between refugees and their families; protecting and assisting those injured, displaced or affected by armed conflict; visiting detainees; and supporting the development of local communities.

Social value: The microgrids will enable the use of renewables and reduce carbon emissions while supplying uninterrupted electricity to Red Cross facilities. This will enable operations to continue without interruption and will prevent damage to costly electrical equipment that occurs because of frequent power outages. Once the pilot project proves the technology is successful, similar microgrids will supply electricity to other critical infrastructure (for example, hospitals, water pumping stations, etc.) that will directly support lifesaving operations (such as guaranteeing stable power supply during surgeries or providing clean water to civilians in conflict areas).

Commercial value: The pilot project's foreseen economic benefits for ABB are the maintenance of a strong license to operate in Kenya, an improvement of the business enabling environment, and entry into a new and innovative market. The project is commercially viable.[39] It has been invoiced as an order for ABB and the ICRC will cover the project costs (some US$ 500,000) directly.

Furthermore, the pilot project is replicable for critical facilities in areas that require stable off-grid electrification. In the second stage, the ICRC intends to attract third party finance (for example, from development banks) to scale up the initiative and create additional revenue. Thus the pilot project is closely tied-in with ABB's core strategic initiative to increase revenues and develop its business in the area of innovative microgrids.

Investor view (as perceived by the company): The pilot project may be appealing to investors because clean local power supplies to critical facilities (and avoided brown-outs and black-outs) have a clear business case for the end customer and therefore commercial value. With initial stages funded in partnership with the Red Cross and a view to securing external finance to scale, the risk for investors is relatively limited and the commercial gain for undertaking the project is seen. Investors may also like that the pilot project is a positive story for the company, which may lead to reputational benefits.

Challenges & learnings: ABB has supported the Red Cross for the past decade, contributing to water and habitat programs for victims of conflict in the Democratic Republic of Congo and Iraq. It was from this long-standing relationship that this opportunity was identified. One of key learnings from the project is that corporate partnerships with leading NGOs may serve as a viable approach to raise finance for social impact.

However, in order to attract finance at a larger scale, companies need to identify projects and concepts that are scalable and replicable. Individually, they are often too small to be viable for the company to pursue commercially and engage on with mainstream investors.

The key challenge to ensuring that projects can be scaled or replicated is the time required to document the positive social impact (and financial value) to investors with quantifiable KPIs. It usually takes at least 1-2 years until a pilot project has proven its technological viability and positive social impact. Until these projects can be scaled, replicated or bundled with other similar social projects, such social impact efforts will remain at the level of corporate philanthropy.

Case Study: LafargeHolcim's Affordable Housing program[40]

Four billion people around the world do not have access to decent housing, including 150 million people in developed countries. To address this need, LafargeHolcim is offering a range of innovative affordable housing solutions, including microfinance, earth-cement building solutions, slum renovation, collective social housing, and sanitation.

The Affordable Housing program was launched in the mid-2000s. Unlike earlier corporate social responsibility efforts on the issue, the new program had a strong commercial focus. The program identified two main focus areas: sustainable construction and affordable housing. In 2011, the Executive Committee approved the business plan for the Affordable Housing program, which laid out clear revenue expectations and a payback period, and agreed to launch it in five countries.

Since 2011, the program has been rolled out to 24 countries and has:

- Provided technical assistance for house design and trained builders;
- Found solutions to distributing building materials to rural and other hard-to-reach communities and slums;
- Developed new construction solutions, such as Durabric (a non-fired earth and cement brick that reduces construction costs, is more resistant, and results in significantly fewer emissions than a traditional clay brick).

Social value: The social impact is broad—creating access to housing, lowering the cost of housing options, building the skills of local people and making them more employable, lifting the quality and safety of construction, and supporting access to finance for homes. In 2015, LafargeHolcim had Affordable Housing projects in 24 countries and benefitting an estimated 440,000 people. Through partnerships with microfinance organizations, 16,000 microfinance loans have also been provided.

Commercial value: In 2015, the Affordable Housing program was profitable for the third year running and generated an additional EBITDA of CHF 15 million. In the process, LafargeHolcim has developed several partnerships based on its operational know-how and experience in the construction sector. These partnerships have resulted in flow-on commercial opportunities and revenue streams.

Investor view: In 2012, LafargeHolcim presented the program to investors to demonstrate its strong focus on innovation. The company clearly defined the expected payback and social benefits upfront and investors provided positive feedback. Finding additional resources to accelerate market penetration has been the main challenge in further developing the Affordable Housing program.

LafargeHolcim initiated a well-planned series of discussions with a range of investors and highlighted the strong social and financial value achieved by the program. These discussions mobilized investor support for the program and led to the creation of "14Trees" by LafargeHolcim in 2016. This new joint venture launched with CDC Group, the UK's development finance institution, has a capital of CHF 10 million (CHF 5 million from CDC Group and CHF 5 million from LafargeHolcim) and aims to accelerate the production and commercialization of Durabric, which saves up to 14 trees per house built. Since 2013, more than 3 million of these bricks have been produced in Malawi and used in some 500 buildings. "14Trees" also aims to bring innovative building solutions to market, reducing construction costs by nearly 25% compared to traditional solutions.

Challenges & learnings: As with many other social impact initiatives, the Affordable Housing program was challenged in its early phase and perceived as CSR or corporate philanthropy. To overcome this challenge, the program had to frame the business case clearly—in terms of expected revenues and positive social impact conditions—and get buy-in from executive management.

Risks also need to be understood clearly and managed well. The risks for target groups at the base of the economic pyramid are different from those in mature markets (for example, higher volatility of local currency, lack of housing financing and poor repayment rates, and poor land titling). Without strong support from management, clear targets and objectives (such as 50 million people benefitting from the company's initiatives by 2030), and a robust communication plan, the initiative could not have been successful and replicated.

Key learnings from the case studies

The four case studies provide an understanding of how companies perceive, assess and communicate the value of social impact. While each company's experience is unique, there are some similarities in the challenges they identify when it comes to mobilizing capital to scale social impact.

In the cases from Total and Statoil, where companies were investing in social impact projects to mitigate risks and obtain a license to operate, the financing for these projects was raised internally. In fact, for Total (whose production is entirely overseas), social impact projects are viewed as operating costs by the company because mainstream investors apparently do not (yet) acknowledge the value of dedicated social impact activities to obtain a social license to operate. And, as seen in the Statoil case, when social impact is viewed as an operating cost, the incentive to invest more is weak.

Both Total and Statoil believe the answer lies in bridging the communication gap with investors. In order to do so, both companies are seeking to establish more active and clear communication with investors on the value generated by social impact. While quantifying the value of social impact is assumed to strengthen investor engagement, both companies have reason to believe that this value does not need to be expressed in monetary terms just yet. Investors have accepted non-monetary valuations of health, safety and environmental initiatives for some years now. The challenge is how to replicate this success with social impact.

The call for better social impact valuation extends across the entire spectrum of companies' value chains, not only on risk reduction. This has been highlighted in the ABB and LafargeHolcim cases where the key social impact drivers are capturing opportunities and increasing revenues . In fact, the lack of documented positive social impact and commercial value for social impact projects is often the key barrier to mobilizing finance.

The ABB and LafargeHolcim case studies suggest a need to scale up, replicate and/or bundle these pilot projects with other projects to attract support from mainstream investors. This cannot be done without a strong proof of concept and documented social value. Until these projects can be scaled, replicated or bundled, and, importantly, until their business case can be formulated, such social impact efforts might remain at the level of corporate philanthropy and not attract mainstream finance.

A key learning from ABB's microgrid pilot project is that companies can start their endeavors on social impact via partnerships with leading NGOs, international organizations and development banks to finance the early stages of their social impact projects. The LafargeHolcim affordable housing case study proves how, once the proof of concept and social value have been documented, the business case can be scaled up, replicated, and eventually attract mainstream financing mechanisms.

5. Conclusions & recommendations

With huge social problems to tackle globally and the growing importance of the private sector to the global sustainable development agenda, companies need to understand how to mobilize mainstream finance for positive social impact. The need and opportunity for investment in social impact has never been stronger.

The main question of our report was: **How can mainstream finance be mobilized to invest in positive social impact?**

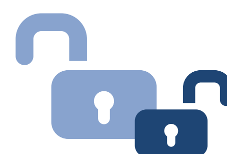
We examined five hypotheses on possible barriers and solutions to mobilizing finance for social impact from the perspectives of both investors and companies. Through our exploration of these perspectives, we have been able to identify a series of key recommendations for companies.

We have discussed the fact that the sheer size of mainstream finance assets indicates that it is the more interesting lever to steer positive impact at scale and has a greater probability of succeeding. We have also questioned the viability of creating and developing a completely separate asset class and shown that it is a myth that social impact bonds (SIBs) are a panacea. These findings demonstrate that companies will need support from mainstream investors in order to truly scale social impact initiatives. It confirms, that mainstream finance mechanisms are more powerful in creating social impact at scale than a separate asset class (for example, SIBs).

Our research has also shown that the legal obligation to maximize shareholder value in the short-term is also a myth. While this ideology is entrenched in corporate thinking, it is not in the best interests of corporations, society or investors. Companies are free to act for all stakeholders, not just investors, so long as it is in the best long-term interest of the company. Surprisingly, our investor survey revealed that only 17% of investors think that solely focusing on shareholder value maximization is in the best interests of a corporation's long-term value. Instead, the majority of investors perceive the creation of positive social impact as a lever to reduce risks and increase the value of a corporation. While the case studies seem to mostly support that in current corporate environments the shareholder value maximization ideology is a barrier to mobilizing mainstream finance for social impact, the literature review and investor opinions seem to indicate that this barrier could be overcome.

Recommendations on solutions

- Companies need to better identify and communicate the business case in order to mobilize mainstream finance for social impact. The case studies presented in this report show that the capital is there and can be mobilized if business stringency is applied to social impact. If a strong business case is proven and promoted internally and externally, it can attract funding to help scale the initiative or venture and create lasting social value.
- Companies need to demonstrate how pursuing social impact reduces risks or increases the value of the company and present this to their investors. Achieving this will require a better delineation between corporate philanthropy and the core business delivering social impact
- Companies need to quantify the social impact business case in order to raise capital for social impact. Receiving quantified metrics would help investors (internal and external) to understand how social impact generates value; it would speak the language of investors and help overcome the communication gap. Companies can satisfy investor expectations for quantification using existing tools, such as cost-benefit analysis, quantification of risk, and demonstrating successful internal pilot projects, coupled with the growing body of methods to quantify social value.[41]
- Companies can find a more balanced approach by integrating social impact into their everyday management, for example, by introducing a social impact KPI for all products, managed with the same rigor and stringency as financial KPIs .
- Moreover, companies need to learn to recognize what financing mechanism to use and when. For specific social impact innovation, companies could create partnerships and explore alternative financing mechanisms to test social impact projects until they are viable enough to be supported by traditional finance sources.
- Lastly, corporate managers and investors need to make a fundamental change from “shareholder” to “stakeholder” value maximization in their everyday practices. Changing appraisal cycles or incentive structures, such as abolishing quarterly reporting or short-term management targets, are examples of one of the biggest levers to drive social impact: a mindset shift.



Acknowledgments

We would like to thank the 24 investors who took the time to respond to our survey.

We would also like to thank Suzanne Feinmann and Kitrhona Cerri from the WBCSD for very valuable feedback on our draft report.

Finally, we would like to thank our organizations for their support, enabling us to participate in the WBCSD leadership program 2016.

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Endnotes

[1] People think business is as accountable as governments for improving their lives (85% hold business responsible; 86% hold governments responsible, globally). Source: Accenture Strategy, Havas media and United Nations Global Compact (2014). *The Consumer Study: From Marketing to Mattering. Generating Business Value by Meeting the Expectations of 21st Century People. The UN Global Compact—Accenture CEO Study on Sustainability.* In collaboration with Havas Media RE:PURPOSE.

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[3] Accenture Strategy and United Nations Global Compact (2016). *UN Global Compact—Accenture Strategy CEO Study 2016. Agenda 2030: A Window of Opportunity.*

[4] This paper uses the term "social impact" to mean "positive social impact" unless otherwise indicated.

[5] WBCSD FLT Investor Survey 2016.

[6] WBCSD FLT Investor Survey 2016.

[7] According to our literature review and case studies.

[8] According to our case studies.

[9] All data taken from Global Engagement Studies Institute (GeSI) and Accenture Strategy (2016). *#SystemTransformation. How Digital Solutions will Drive Progress towards the Sustainable Development Goals.*

[10] See note 1.

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[29] UN Principles for Responsible Investing (PRI) and Accenture Strategy. (2014). *The Investor Study: Insights from PRI Signatories*

[30] Accenture Strategy (2015). *Sustainability Value Management.*

[31] Socio-economic data of 24 surveyed investors. Country of workplace: 16x UK, 4x USA, 2x Germany, 1x Netherlands, 1x South Africa. Main investment markets: 19x mature markets, 2x emerging markets, 2x other, 1x not responded. Gender: 20x male, 4x female. Age: 3x 60 or older, 5x 50-59, 10x 40-49, 3x 30-39, 3x 21-29, 0x 20 or younger.

[32] Please refer to chapter 2.

[33] Given the nature of this questionnaire which has positive social impact at its core, the answers can be biased towards favoring positive social impact over financial value. However, we assume that the answers can be at least fairly reliable. We know more than the half of the respondents personally and know that they usually are not driven by social value but short-term financial returns. Another indicator is the apparently honest answering of the question of how much the respondent knows about social impact: just 27% said they know a lot or huge amount about social impact; over 70% admitted they just know a little or a fair amount.

[34] Based on interviews with: S. Furnes (August 2016), Senior Consultant for SRI, Investor Relations, Statoil AsA. (K. R. Austreng, Interviewer); P. Hutton (August 2016), Senior Vice President for Investor Relations, Statoil AsA. (K. R. Austreng, Interviewer); A. Mohan (August 2016), Sustainability Advisor for SRI, Statoil AsA. (K. R. Austreng, Interviewer). And from Statoil AsA (2015). *Sustainability Report 2015.* Stavanger: Statoil AsA.

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[37] The term supermajor gathers the world's largest international oil and gas companies worldwide, excluding the national oil and gas firms. The supermajors are considered to be BP, Chevron, ConocoPhillips, ExxonMobil, Shell, Total & Eni.

[38] Based on interviews with M. Cooke (July 2016), Head of HSE and Sustainability, ABB (S. Merkli, Interviewer); M. Gavi (July 2016), Program Director Microgrids, ABB (S. Merkli, Interviewer); R. Popper (July 2016), Head of Corporate Responsibility, ABB (S. Merkli, Interviewer); M. Rombach (July 2016), Partnerships Manager, International Committee of Red Cross (S. Merkli, Interviewer).

[39] ABB's scope of supply includes solar inverters, a distributed control system, lithium-ion battery energy storage, transformers, switchboards and system engineering services (including annual preventive maintenance).

[40] Based on interview with F. Perrot (July 2016), Head of Affordable Housing, LafargeHolcim (J. Pluess, A. Carrillo Doblado, Interviewers). And on: LafargeHolcim (2015). Sustainability Report 2015; LafargeHolcim Website: http://www.lafargeholcim.com/affordable-housing.

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