



# metrics for valuing business sustainability

A Framework for  
Executives



Network for  
Business Sustainability

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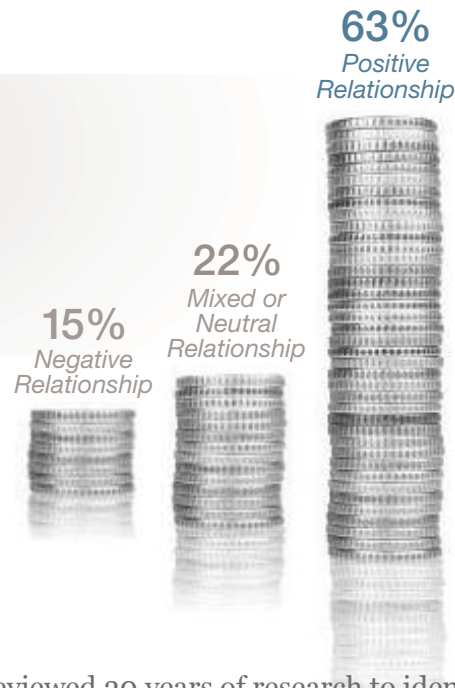


# Calculating the ROI of CSR

## Does CSR create value?

Yes, it does, according to 30 years of reputable research. Most management studies find a positive relationship between sustainability investments and financial performance.

**Research Studies Showing Relationship Between Sustainability and Financial Performance**  
(159 Studies)



The Network for Business Sustainability reviewed 30 years of research to identify the metrics that relate CSR activities to financial performance. This report represents the executive summary of that systematic review. It contains a framework to help measure the business case for sustainability in your organization and suggests specific tools to guide your analysis.

Conducted according to the most rigorous research methods, this report equips financial decision-makers with the best evidence from contemporary research. We hope it will:

- *enable sustainability champions to understand and communicate the monetary value of CSR investments;*
- *provide a jumping-off point for managers eager to measure sustainability investments but unsure where to start;*
- *help you affirm or improve your organization's current valuation model.*





# Why Is It Important to Value CSR Investments?

Describing CSR activities in terms of their impact on the bottom line enables financial decision-makers to compare CSR investments to other organizational priorities. For example, a CFO can calculate the financial returns associated with investing in energy conservation programs and compare those to the financial returns associated with sponsoring a local charity. Once CSR investments are translated into a common language, they can compete for capital alongside other organizational activities.

**Once CSR activities are translated into dollars, decision-makers can compare organizational priorities.**

## Who Should Use This Framework

### Senior Financial Decision-makers

CFO's can request that their organization's sustainability decision-makers measure CSR initiatives using these metrics.

### Senior Sustainability Decision-makers

CSR leaders can use this framework to build – or justify – their departmental budgets.

### Executives

CEO's can use this framework to report meaningfully on CSR activities to directors and investors.



# Which Metrics Should You Use?

Based on the body of research, we recommend you consider three categories of metrics:



## 1. Financial

The easiest to measure, these are the end-state metrics with which the market evaluates performance, such as stock price or return on capital from a profitable line of sustainable products. Valuing CSR performance at this stage is relatively easy.



## 2. Operational

Operational metrics capture the direct bottom-line impacts of CSR activities. These metrics represent specific changes in costs or revenues associated with an activity.



## 3. Strategic

The hardest CSR impacts to capture are those metrics that reflect a firm's improved position strategically. These metrics represent the firm's ability to create value and manage risk, and they include intangibles such as the increased loyalty of satisfied customers who identify with a responsible firm or brand.

Most research to date has examined financial and operational metrics because they are easier to conceptualize and implement than strategic metrics. But strategic metrics communicate the case for sustainability most compellingly – especially when related to innovation, reputation and community engagement.



# Examples of Financial, Operational, and Strategic Metrics

## Financial Metrics in Practice



A mining company commits to employee well-being in its 2008 strategic plan, demonstrating concern for employee health, safety, training, work-life balance and professional development. In light of its commitment to responsible social practices, investors perceive the company as being less risky than its competitors. By 2010, the company's stock price exhibits less variability than the stock prices of other firms in its sector.

## Operational Metrics in Practice



A business services firm has 2,300 employees in 11 offices nationwide. It invests in an online energy awareness campaign to encourage employees to switch off lights, computers and office equipment at the end of each day. Employee surveys at the beginning and end of the campaign show that energy awareness increased by 40%. Over the same period, the firm's electricity bill fell 3.5%.

## Strategic Metrics in Practice



A chemical plant installed new equipment to reduce noise and odour. Local property values increased as a result, financially benefiting the community. Years later the firm submitted an application to expand their facilities by 15%. Although several neighbouring properties would be adversely affected, the community supported the proposal, which passed quickly through regulatory approvals.




**HARDER TO MEASURE**



# Framework for Valuing Sustainability Investments

This framework is designed to help financial executives and sustainability managers translate their CSR activities into dollars. By no means exhaustive, the framework presents examples of financial, operational and strategic metrics and the relative strengths and weaknesses of each.

*\*These examples are for illustration and do not represent an exhaustive list of metrics.*

Metrics*	Description	Pros/Cons	What They Help You Do
 <b>Financial</b> <ul style="list-style-type: none"> <li>Return on assets (ROA)</li> <li>Return on equity (ROE)</li> <li>Return on sales (ROS)</li> <li>Share price</li> </ul>	<p><i>Include internal or external:</i></p> <p><b>Internal</b> – show how efficiently the firm uses its assets to create value. Derived from internal sources (e.g. CFO, financial analysts). Internal metrics are short-term, backward looking, and often can't be compared across firms.</p> <p><b>External</b> – reflect overall financial health of the firm. Derived from external sources (e.g. investors). External metrics are easy to compare over time and across firms, and may help predict future performance.</p>	<ul style="list-style-type: none"> <li><b>+</b> External financial metrics enable cross-firm comparisons; they show how sustainability investments may have improved shareholder returns.</li> <li><b>-</b> Financial metrics can't help managers show that, for example, community engagement programs have met targets and deserve additional investment (use operational metrics instead).</li> </ul>	<p>Keep tabs on your firm's overall performance. While they can't link directly back to a single sustainability initiative, they're widely available and may help you spot patterns over time and reflect the overall benefits of your CSR initiatives.</p>
 <b>Operational</b> <ul style="list-style-type: none"> <li>Energy input costs</li> <li>Waste disposal fees</li> <li>Revenue from sale of byproducts</li> </ul>	<p>Show how a firm is doing on a particular CSR initiative, such as reducing waste or making charitable donations. Firms assign a financial value to that performance and use it as a proxy for the 'business case' for sustainability.</p>	<ul style="list-style-type: none"> <li><b>+</b> Operational metrics are the easiest to translate into financial value because they often have a market price.</li> <li><b>-</b> They are hard to track in the case of non-environmental activities such as employee engagement programs.</li> </ul>	<p>Track operational metrics if the information is available (e.g. for environmental programs). Benefits like lower energy costs clearly impact the bottom line and can help justify programs or investments.</p>
 <b>Strategic</b> <ul style="list-style-type: none"> <li>Higher job satisfaction</li> <li>Culture of innovation</li> <li>Perceived investment risk</li> <li>Brand loyalty</li> </ul>	<p>The 'black box' of valuation, these reflect a firm's improved ability to create value and manage risk. They are the hardest to measure and often focus on <b>employees, innovation, and reputation.</b></p>	<ul style="list-style-type: none"> <li><b>+</b> These metrics often represent the majority of the business value from sustainability.</li> <li><b>-</b> They are difficult to conceptualize, identify and measure.</li> </ul>	<p>Understand where your initiatives may be creating strategic value. It may not be possible to attribute a given outcome solely to a program, but these 'hidden' impacts are likely where your organization is benefitting most from CSR.</p>



# About This Report

This report is based on a systematic review of academic and applied research. The review, commissioned in 2008 by the Network for Business Sustainability, was conducted by John Peloza, PhD and Ron Yachnin. The authors identified and synthesized all available rigorous research on metrics and tools for valuing business sustainability – ultimately reviewing 159 studies published from 1972 onward. You are invited to read the complete systematic review at: [nbs.net/knowledge/valuing-sustainability/](https://nbs.net/knowledge/valuing-sustainability/).

Funding for this research was provided by the Social Sciences and Humanities Research Council of Canada.



Social Sciences and Humanities  
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Conseil de recherches en  
sciences humaines du Canada

## Putting Research Into Practice

Please tell us how you applied this framework to your organization's CSR activity. We are always seeking best practices and case studies to complement the Network's rigorous research. [info@nbs.net](mailto:info@nbs.net)

## Which Metrics Did Researchers Use?

The vast majority of research analyzed for the systematic review (91% of relevant studies) measured an end-state **financial** outcome (e.g. share price). In fact, most studies included *only* financial metrics.

Fewer than 20% of the studies examined **operational** metrics – illustrating the variations in research to date. The most common measures related to pollution control (18% of studies) and environment, health, and safety (16% of studies).

Only 8% of the studies employed **strategic** metrics, likely owing to the challenge of identifying and measuring them. The most common strategic metrics involved employees, innovation, and reputation.





# Why Is There Still Debate About the Value of CSR?

Doubt remains regarding the financial benefits companies realize as a result of sustainability initiatives. How can this persistent doubt be explained?

**1. Apparently Conflicting Research.** Some research continues to find neutral or negative relationships, depending on the research method used and the variables studied. For example, philanthropy is one type of CSR and would capture very different programs than a variable with a broader scope. Therefore, a study measuring all CSR may show a positive impact, while a study measuring just philanthropy might show a neutral or negative impact.

**2. Situation-Specific Factors.** Like many organizational programs, sustainability initiatives are often successful only under certain conditions: the right initiative, the right timing, the right level of investment, and the right direction and support from management. For example, an employee engagement program that reduces attrition and saves recruitment and training dollars for one organization may not yield the same returns for another organization.

## Next Steps for Researchers

Despite the comprehensive nature of this systematic review, the existing body of knowledge on sustainability metrics still leaves many important questions unanswered. Namely:

- Do sustainability activities improve financial performance, or does financial performance give firms more resources to invest in sustainability?
- What is the optimal level of sustainability investment? In other words, at what point does increased investment decrease value?



# About the Network

The Network for Business Sustainability unites thousands of researchers and professionals worldwide who believe in research-based practice and practice-based research. We produce authoritative resources on important sustainability issues – with the goal of developing new, more sustainable business models.

We build community, exchange knowledge, and spur innovation in pursuit of this goal.

The Network is funded by the Social Sciences and Humanities Research Council of Canada, the Richard Ivey School of Business (at The University of Western Ontario), the Université du Québec à Montréal, and our Leadership Council.

## NBS Knowledge Centre

For additional resources visit the Network's Knowledge Centre at [nbs.net/knowledge](https://nbs.net/knowledge).

## NBS Leadership Council

The Network's Leadership Council is a group of Canadian sustainability leaders from diverse sectors. At an annual meeting, these leaders identify their top priorities in business sustainability – the issues on which their organizations need authoritative answers and reliable insights. Their sustainability priorities prompt each of the Network's research projects.





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