BUSINESS VALUATION OF SOCIAL ENTERPRISE: EXPLORING CURRENT UNDERSTANDINGS AND ALTERNATIVES

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> “Young entrepreneurs are creating Ontario’s future.” –Hon. Kathleen Wynne, Premier of Ontario
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> "Social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry." –Bill Drayton

As the nature of employment changes, entrepreneurship becomes a more viable and alluring alternative. Entrepreneurial competencies are already being nurtured in high school to foster self-reliant graduates who can create their own jobs and jobs for others.

My area of expertise is in funding new ventures. Over the years I have met many hundreds of entrepreneurs at the start-up stage, and I am always inspired by entrepreneurs who are starting businesses with not only a motivation to make profit, but also to create social impact.

The companies formed by these startup entrepreneurs are the target of this research. These are incorporated businesses called ‘for-profit social enterprises’ and are responsible for the design and commercialization of new and improved products and processes in diverse socially important fields such as education, transportation, health care, habitation, child care and community social networks. These businesses are clearly different from not-for-profit organizations that have missions to provide social services and different from advocacy groups which have specific not-for-profit missions. As is done in the business school where I teach, the terms ‘social enterprises’ and ‘social entrepreneurs’ are used to describe these companies and their founders.

Because of my work with entrepreneurs, I am aware of significant challenges that exist for them in their new ventures. The most acute of these is remaining solvent during the early years of their startups' existence. Typically, they can only achieve this through external funding.

The social enterprise receives external funding through incentives and financing. Some incentives already exist for social enterprise such as youth employment grants and Scientific Research and Experimental Development (SR&ED) tax credits. Five-year financial forecasts are the basis on which a startup raises money and business valuation is a key part of that fundraising process.

Traditionally, a corporation in Canada is understood to be driven by profit motive alone, and this is used as the basis of many commonly accepted methods of business valuation. Business valuation is ultimately concerned with cash flows and risks associated with those cash flows.

This research confirmed my hypothesis that business valuation is currently limited in its ability to capture the social impact that is created by social entrepreneurs. This is because social value does not necessarily affect the cash flows of a social enterprise in the near term, and in many cases even in the longer term.

This does not appear to the fault of business valuation methodologies but rather the limited ways currently available to social entrepreneurs for measuring both current and projected values of cash flows and risk related to their social impact. With a better understanding of social enterprises, business valuators can help with this.

Introduction

My motivation for this project was to explore the views and opinions of others beside myself who are interested in social impact, and perhaps to get a conversation started about where this could and should lead. Consequently, this project included interviewing stakeholders who have both an interest in the value of social impact and whose organizations make use of methodologies to measure social impact.

During this interview process, it became evident that the phrase 'value of social impact' was interpreted in several different contexts by the interviewees. So for clarity, I will try to distinguish between these before moving forward. The phrase 'value of social impact' appeared to be interpreted in one of three ways, depending on the context of the interviewee:

The first was in the context of social impact metrics used for Corporate Social Responsibility reporting. Some large, established corporations have developed internal initiatives that measure social impact and sustainability. A company's efforts to quantify, evaluate and adapt its social and environmental impact can go by many names including: Corporate Responsibility (CR), Corporate Social Responsibility (CSR), Sustainability or Corporate Citizenship, or Environmental Social Governance (ESG). These large corporations devote dedicated and often numerous staff to the task, and the process results in multiple documents, which can total thousands of pages. These are used by large corporations with established operations and strong brands to address risks related to both of these. These CSR reporting benefits would not be immediately transferable to a new growing startup that is still looking to establish itself in the market. Also, the CSR process itself appears prohibitively cumbersome to a new and growing venture and as such is also not immediately transferable. More suitable methodologies might best be sought elsewhere to begin.

Additional background information gathered about CSR can be found in Appendix C.

The second is in the context of social impact metrics used for non-financial reporting. These metrics are used primarily by non-profits to measure and report their social impact as a requirement for securing grants and subsidies. These would be metrics such as number of lives saved, number of lives improved, number of post-secondary education graduates, and the like.

So called ‘B-Corporations’ are rising in popularity worldwide. These are for-profit companies that become certified as having met certain social metric standards. In particular, Certified B Corporations (B-Corps) have to demonstrate that they meet rigorous standards of social and environmental performance, accountability, and transparency. B-Corps use social impact metrics for this non-financial reason.

Several organizations have developed tools that these non-profits or B-Corps can use to measure social impact or meet B-Corp certification standards. These organizations include (in alphabetical order) Acumen Fund’s Best Alternative Charitable Option, Compass Assessment for Investors, Guidelines for Good Impact Practice, Global Impact Investing Rating System (GIIRS), Pacific Community Ventures’ Social Return Assessment, Social Return on Investment (SROI) and Sustainable Livelihoods.

Third-party metric providers also help provide analysis of social impact. These include Purpose Capital, SiMPACT Strategy Group Canada, Social Asset Measurements (SAM) and Sustainalytics Canada. In 2013, Alterna Savings & Credit Union was the first in the Canadian banking system to use such a measurement framework (namely SAM) for its microfinance program.

More details about the existing frameworks of these organizations can be found in Appendix D, which may be a useful reference for business valuators.

Finally, the third is in the context of social impact metrics used for valuation of a company. These are factors directly related to current or anticipated cash flows or risk associated with those cash flows, and to market comparable companies.

Regarding risk associated with cash flows, today investors commonly use one of three methods to account for not only social impact, but also environment impact and/or governance of a firm. These methods are adjusting the beta, adjusting the equity risk premium or adjusting the discount rate.[1] For example, Citi assessed the impact that factors such as health and safety, and governance might have on a mining project, and adjusted the beta accordingly.[1] However, these refer to metrics about a company's internal operations only; in other words, those social impact metrics that related only to enterprise risk and not societal risks.

Other factors related to valuing a business are cash flows. While the cost of capital can be higher for socially irresponsible firms[1], socially responsible firms were not found to commonly enjoy a lower cost of capital.

The exceptions to this are for those companies who qualify and have been successful with existing loans programs for social enterprise. A small number of these programs currently exist and include the Ontario Catapult Microloan Fund, Ottawa Community Loan Fund, Social Enterprise Fund (Edmonton, AB) and La Fiducie du Chantier de l'Économie Sociale (Quebec, QC). Further detail about these loan programs are listed in Appendix E, which business valuators may find useful.

With regards to market comparables, finding publicly available financial data from similar social enterprises can be difficult. However, those that exist can be found on a growing number of public exchanges, portals and in funds specializing in social enterprise. Indeed, these may be an excellent source of market comparables. These include the Johannesburg Stock Exchange, the United Kingdom's Social Stock Exchange, Canada's SVX, Asia's Impact Investment Exchange (IIX) Singapore, S&P/TSX Renewable Energy & Clean Technology Index Canada, Jantzi Social Index, Meritas Mutual Funds, iShares ETF, Dow Jones Sustainability™ World Index (or the DJSI World), S&P Carbon Efficient Indices and SXI Switzerland Sustainability 25. More detail about these sources of market comparables data can be found in Appendix F, which may be useful to business valuators.

Also related to cash flows, there exist a limited number of incentive programs such as grants to encourage socially impactful behavior by companies e.g., incentives to encourage the hiring of youth. These incentive programs can positively affect cash flow and therefore valuation.

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[1]Crifo, P., Forget, V.D., & Tevssier, S. (2015). The price of environmental, social and governance practice disclosure: An experiment with professional private equity investors. Journal of Corporate Finance, 30, 168-194. Retrieved from http://www.sciencedirect.com.myaccess.library.utoronto.ca/science/article/pii/S0929119914001588#bb0060?np=y

Method

In total, 11 interviews were conducted. Potential interviewees were selected across several stakeholder types to try to get a balance of perspectives from each of the following categories: Investment Manager (including financial institutions), Funding Agency or Government, Service Provider or Association, and Publicly-Listed Corporation (excluding financial institutions). More interview details can be found in Table 1.

The following core questions were posed to all interviewees, and additional questions allowed for interviewees to provide further comments:

(1) What is your initial reaction to establishing a way for social impact to be valued financially by business valuators? Please state all positive and/or negative comments that come to mind.

(2) How does your organization currently value social impact, and how satisfied are you with your current approaches? Please describe the pros and cons.

(3) Why does measuring social impact matter to your clients/members/organization? What would be the benefits to your clients/members/organization of having a standardized way of accounting for social impact in business valuation?

Interviews conducted over the phone or in person were recorded while interview notes were compiled. All of the interview notes were reviewed, and audio recordings were consulted for clarification and correction if necessary. In one case, interview responses were received via email.

More details regarding the method can be found in Appendix A.

Results

Figure 1, at the end of this paper, describes the result of the analysis, namely the emergent themes of the aggregate of interviews and the connections between those themes. The size of each box in Figure 1 is roughly proportional to the amount of response received under each to theme.

A sample of representative findings, topics and quotes is provided in Appendix B, grouped by theme.

Discussion

For a new and growing social enterprise looking to establish itself in the market, CSR reporting methodologies used by large corporations to address risks associated with their established operations and strong brands are not immediately useful. Also, the CSR process is prohibitively cumbersome to a new and growing venture. In order to make them practical for a social enterprise, one interviewee described how these would need to be "tools, processes, approaches that are simple enough for [new venture] corporations to use…but not so simple to be meaningless."

Also, CSR metrics do not necessarily tie into social value created outside of the enterprise, and these can be significantly more impactful than CSR measures. As one social entrepreneur stated, "on CSR metrics, [startups] don't come out great because our [carbon] footprint will hopefully get larger as we scale…[however] we are 100% [social/environmental] impact because we work to solve an enormous [social/environmental] problem!"

While many tools and third-party metric providers exist (and these are described in the Introduction), these are used primarily by non-profits for non-financial reporting and B-Corporations for certification purposes. There does not appear to be any current attempt to link these directly to inputs for business valuation such as cash flows or risks associated with those cash flows.

While the ESG methods such as adjusting the beta, equity risk premium or discount rate are common in business valuation, these approaches focus on enterprise risk and as such have virtually no applicability to the new venture that has yet to establish an efficient operation.

In fact, these approaches take into account the social impact external to a firm's operations only to the extent that the company might benefit from additional revenues associated with goodwill or brand value. In the words of one interviewee, "brand value is a function of future cash flows and expectations around those cash flows…a company that has a solid reputation…does not need to spend [as many] advertising dollars to attract customers." However, the benefits of brand have limited significance to the new venture that has yet to establish reputation in its new market.

Furthermore, ESG is a type of CSR metric, which can be cumbersome to measure and report. And since they are not mandatory and clear standard for reporting, firms may chose not to report some or all of its relevant measures. A recent study found that negative ESG metrics that are reported reduce firm valuation to a greater extent than positive ESG metrics contribute to increasing firm valuation.[2]

Everyday across Canada, entrepreneurs are identifying and solving problems related to new social needs for which incentive programs do not currently exist. Although there exist some incentives to encourage socially impactful behavior by companies and these can positively affect cash flow and valuation, new incentive programs of this sort typically take

[2] Crifo, P., Forget, V.D., & Tevssier, S. (2015). The price of environmental, social and governance

a long time to come into existence, often more than five years. Cash flows from incentives that are expected beyond a five-year time horizon are insignificant to a valuation of new venture, or indeed any venture.

Conclusions

The ‘value of social impact’ is an embryonic concept. Respondents interpreted its meaning differently depending on their context (e.g., CSR, non-financial reporting, business valuation). Every stakeholder type expressed a need for improved methodology to measure social impact within their context, particularly in the areas of investing, business decision-making, acquisition and succession planning, and this list is likely not exhaustive. As the executive in an incubator for social enterprise expressed, “most [new social venture company] members are not profit driven, more focused on people/planet, but they are struggling to make good decisions; struggling to understand where they fit/what benefits they bring…don’t have financial information to guide them.”

Although market comparables of social enterprise may be difficult to find, a number of sources of publicly available data (such as social impact exchanges) exist and list companies that have been vetted for social impact (among other measures). Perhaps business valuators should consider their usefulness when valuing a social enterprise.

For example, these could be helpful when applying the First Chicago method, where forecasted sales are the basis for valuation. This method is commonly used in valuing a pre-revenue company such as a new social enterprise. Should care be taken to match the sales multiples to those of companies that are trading on social enterprise exchanges? Or should business valuators suggest a more appropriate method altogether for valuing a pre-revenue social enterprise; specifically, one that relies on a sales forecast alone?

Also, further research could investigate expectations around a social enterprise’s access to instruments that could increase cash flow, such as the loans described in the Introduction or incentives.

Several frameworks and approaches were suggested by interviewees, including comparables, industry metrics, Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI). These might be consulted to determine whether there is an opportunity to augment (or keep current) business valuation methodology to value a social enterprise.

More research would need to be done to become familiar with these frameworks mentioned by interviewees and those presented in the Introduction. Each could be considered to determine whether they contained elements that could be applied to improve a business valuator’s assessment of future cash flows or risk assessment through the lens of social impact. This could help satisfy one interviewees desire "to attach something numerical to what people deep down know is the right thing to do".

All interviewees who were successfully contacted expressed a desire to be involved in next steps. These could include continuing to engage with these stakeholders to get feedback on these conclusions and recommendations, to get help interpreting the frameworks that were mentioned, and to augment current sources of reference data such as market comparables used in assessing future cash flows and risk assessment of a new social enterprise.

Everyday across Canada, entrepreneurs are identifying and solving problems related to new social needs, creating products and processes that will lead to social benefit such as better quality of life, better work-life balance and better emotional health. The social impact they are creating may never translate directly into cash flows from operations, and may never reduce the risk associated with these cash flows, and yet these entrepreneurs continue to remain motivated. To date, business valuators have not had a demand for explicit valuation of social impact. However, as experts, are we doing all we can to help these entrepreneurs recognize and capture the value of the social impact they are creating? Through our collective efforts, could we encourage even more of our innovative entrepreneurs to help solve our social problems?

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About the Author

Jackie is a professional engineer, facilitator, entrepreneur and valuation enthusiast. In addition to researching her areas of passionate interest, she is a Lecturer at the Ted Rogers School of Management of Ryerson University, an Entrepreneur-in-Residence at OASIS Centre des Femmes, and Facilitator in the areas of entrepreneurial finance and business strategy at Ontario's network of Regional Innovation Centres. She is inspired by the growing number of new venture entrepreneurs who are choosing to make social impact an important part of their business model. Are we doing our best to help social entrepreneurs capture all the value of the social impact that they are creating? Your feedback is welcomed at jcsonka@decisionmodel.ca

Appendix A: Primary Interview Research Method—Additional Detail

The following research methods were used:

Interviewee Sampling Strategy

In total, 19 interviewees were approached and 11 interviews were conducted. Interviewees were chosen across several stakeholder types to try to get a balance of perspectives from each of the following categories: Investment Manager (including financial institutions), Funding Agency or Government, Service Provider or Association, and Publicly-Listed Corporation (excluding financial institutions). More interview details can be found in Table 1.

Interview Process

All interviewees received the same questionnaire in advance of the interview. The interview questionnaire was comprised of a preamble and a core set of open-ended questions to stimulate responses about perspective, preferences and potential benefits of a methodology for valuation of the social impact component of a social enterprise. In the preamble, interviewees were explained the motivation for the research and that the data would be reported anonymously and kept confidential.

Method of Analysis of the Results

Because of the open-ended nature of the interviews, the data was analyzed by inductive research method. The interview notes were coded phrase by phrase using an open-coding method, which involved assigning labels to describe the topic of each relevant phrase. Relevant phrases included those that were repeated, identified by interviewees as important, related to known concepts about metrics and valuation, created a pattern, or fell outside of any pattern.

Next, similar topics were combined to eliminate redundancy. Overarching themes emerged, which represented overarching themes from the perspective of the aggregate responses of participants in the study. Finally, interrelationships between topics were considered in order to identify relationships between the themes such as hierarchy and connections.

Appendix B: Representative Interview Findings, Topics and Quotes

A sample of representative findings, topics and quotes is provided below, grouped by theme. In a given paragraph, phrases within the same set of quotation marks are from the same interviewee. Where multiple sets of quotation marks are used in a paragraph, multiple interviewees expressed related opinions. Any bracket within a quote contains words added by the author to provide additional context for the reader. No attempt was made to list in any order of importance.

General Interest

- All interviewees expressed interest in receiving the results of the study and in participating in any next steps towards establishing a methodology.

Perceived Need/Fit

- "There is a lack of professional evaluation of a lot of [socially responsible] funds…[it's currently] more of a buyer beware situation."; "[responsible investing] is an ill-equipped marketplace"
- "could have opportunities for both buyers and sellers of businesses"
- "On CSR metrics, [startups] don't come out great because our footprint will hopefully get larger as we scale… [however] we are 100% [social/environmental] impact because we work to solve an enormous [social/environmental] problem!"
- "There is a hunger for this kind of information [from new venture companies and their advisors]."
- "models that [better] capture the results of our programs"
- "to attach something numerical to what people deep down know is the right thing to do"

Applications

…for which there is a perceived need

- Investing:
  - Investment portfolio management: "for diversified portfolios…bears true value of the business…risk-return assessment [if 'additive']…another data input as part of the investment process…discipline, rigour around investment planning: around these criteria, how do they rank?"
  - Investment selection: "People care about financial side first (but have always worried that their money could cause negative impact)…90% of people would like to have a socially responsible element to their portfolios–all returns being equal they would prefer it…People have historically thought of it as philanthropy, but the fundamental shift that's happening is that people believe they can get both financial and social returns."

  - (benefit) Quality of investments: “Aside from B-Corp there is not much of a certification model for saying which companies are “good” and which are “bad” for investors…Issues that come back with responsible investment funds are quality of investment and liquidity…There is value in anything that would allow to make apples-to-apples comparisons.”
  - (benefit) Promoting liquidity: “Issues that come back with responsible investment funds are quality of investment and liquidity.”
- Business decision-making:
  - Better business decisions: “Increasingly there are organizations that are entirely focused on people and planet, but also have a profit motive as well…[there is] pressure from [new venture companies] members to understand how to make better business decisions”; “Could see it helping in coaching non-profits.”
  - Business metrics: “On CSR metrics, [startups] don’t come out great… The benefit is not in the internal operations but in displacing fossil fuel…”
- Acquisition: “non-profits looking to buy businesses”
- Succession planning: “want to start helping social enterprises with business succession planning, so it is good to look at it above and beyond traditional value… so if someone wants to chat more about this…”
- As part of Integrated Reporting (IR): [IR starts by] establishing material issues…[we] do a priority matrix – measures what’s important to company and what’s important to stakeholders…[this includes] financial health (long-term shareholder value)…”
- Damage assessment: “[perhaps] in litigation…maybe [to assess damages for] in human rights litigation”

Challenges

…and concerns to be addressed

- Incompleteness: “There is some concern that some of the qualitative benefits of the social impact may not be accounted for through a financial valuation.”; “Not sure if having one number (e.g. PV Formula) would benefit investors… investors look for multiple indices when it comes to ESG, so it would be limiting.”; “finance dollars are an aspect of this, but the same way looking at GDP does not necessarily tell us how individuals are doing (what the improvement is), it’s only one metric, there are many others which need to be included (can be scored?)”
- Unintended consequences: “Risk that social impacts that are more easily quantifiable would take precedence over less easily quantifiable social outcomes. This may result in valuations that unfairly and inaccurately favour certain types of social impact over others.”; “The idea of it being financially linked, is compelling, but problematic (interested to see how it might be done/expressed)”; “what are the implications, consequences that it might lead to?”; “It seems to be a useful endeavour to pursue;

however, it will be critical to understand how the valuation is being used and by whom."

- Downside consequences: "Markets tend to react negatively when there are negative news stories [of impact]…[negative news stories] set market expectation that you will lose customers or you will incur costs…whether or not costs will be incurred [to deal with the negative impact]…and then there are actual costs of PR, to reputation, for investigation [which are incurred]."
- "difficulty in finding common metrics": "there is no standard when dealing with vulnerable populations"; "There are no cookie cutter companies, so it would be very hard to develop a cookie-cutter formula"
- "Yardstick is what bothers me for many factors impact on social value…what is the yardstick? Is it who has the most news stories?"; "what proxies to use?"…"what is the S part of SROI?"
- Lack of regulation: "Need to work with policy makers to solve problem…If you don't price carbon it will always be cheaper to burn coal. Companies won't change unless you pass law that affects profitability."; "in order to get data, need regulation"; "responsible investing is not regulated at all…it's very difficult to ask companies for more information…most mainstream companies don't want to HAVE to give out more information unless they are required to"; "There already are globally accepted frameworks although the way in which you benchmark isn't regulated so it isn't comparing apples to apples…The difficulty is that there already are several standards, but unless it's regulated it's hard to see how a universal standard would work…The issue they have is that it's all voluntary."
- Affordability: "[The valuation of social impact] would be fantastic but who is going to pay for that? Whenever you add another layer to issuance or valuing a security, there is always a matter of who will pay for it"
- Availability of data: "Impact data is virtually non-existent"
- Adoption: "[the valuation of social impact] is a great idea, but difficult to achieve due to adoption...the trouble is with universal adoption"; "a few larger players do ESG analysis—most organizations don't do it"
- "lack of transparency": "It's hard to say they are calculating [IR] things in the same way as other companies."; "there is a lot of greenwashing"

Existing Frameworks

… or approaches that may be helpful in developing methodology

- Existing Valuation Standards: "Valuation is about the ability to generate future cash flows and risk associated with those cash flows…various factors [within traditional business valuation] already capture impact…reputation…lobbying..licenses, permits, testing, certification…[these Impacts are] implicit in the risk profile, not explicit in sales/costs…other than remediation costs….cost to attract employees, having to pay employees more…"; "[as business valuators, we] look at cash flows and risk…we embed [impact] into our assessment of risk."

- "Return on Investment…when you modify the way you [invest]…time, money or capital spending…If you have a relative standardized way of [measuring] to determine return on investment…or risk [of not investing]."
- "Social license to operate"
- ESG: "Recent legislation in Ontario..pension plans must look at ESG risks"
- Brand: "Business leaders are only doing good things because it improves their brand."; "Brand value is a function of future cash flows and expectations around those cash flows…a company that has a solid reputation…does not need to spend [as many] advertising dollars to attract customers."; "organic foods get priced at a premium"
- Gifts: "the difference between what the market would normally charge for [social goods] and what is actually being charged from that socially conscious business is the [commercial] value [of those social goods]…similar to tax authority valuing a donation."
- Forecasting: "Measure the upside of solving the [social, environmental] problem, not just avoiding the problem…[there is] enormous upside for cleantech to solving the carbon problem."
- Indices: "TSX CleanTech Index, which measures the impact of companies within that index…[i.e.] how much % of revenues are generated from clean business)"
- Comparables and industry multiples: "For example, a bond from an energy company's wind project…this was fairly easy [to value because comparables exist]".
- Global Reporting Initiative (GRI): "[We currently] use GRI [Sustainability Reporting Framework] as framework for data points that they report against…to produce an integrated report [and this includes financial reporting (i.e. social and economic factors are integrated)]…What's most important is still financial, but we integrate stuff with stakeholders based on what's important to them…IR doesn't have to mean one report—it can mean several reports, but all have to be interconnected."
- Sustainability Accounting Standards Board (SASB): "SASB is attempting to develop sustainability requirements and working with SEC to make it a regulation/requirement for listed companies…watching the Sustainability Accounting Standards Board – out of the US – they are affiliated with the SEC. They look at evaluating industries and developing a common set of standards for material issues that companies report against…not sure if it will be regulated."
- Other third-party social impact metrics providers that were mentioned: "MSCI's [ESG tools]", "Sustainalytics"; "SROI [method]"
- "Identify (1) the nature of the impact [e.g. access to preschool] and then (2) look at the intensity of the impact [e.g. size of the population with a preschool access issue), and then (3) look at company overall performance. These 3 dimensions will provide a score which can be compared across companies."

- “If you are a smaller company…measure one thing step-by-step and focus on materiality aspect.”

Lack of Need/Fit
…that is perceived

- Where qualitative analysis is essential: “Number of lives saved, number of lives improved is what drives [metrics for reporting investment decisions]…if there are no health outcomes, then there is no investment.”; “there may be important outcomes [to report] that cannot be quantified”; “There is benefit in looking at [CSR] things holistically…we are engaging with communities to improve their lives. Investors aren’t the only group that’s important to them, and it’s a balance.”
- “[Current] methods are used to inform internal operating activities only [e.g. carbon footprint]”
- Lack of financial data: “Most [new social venture company] members are not profit driven, more focused on people/planet, but they are struggling to make good decisions; struggling to understand where they fit/what benefits they bring…don’t have financial information to guide them.”
- “Who would need to know social value? And for what purpose?...Until you can define those two, [business valuators] can’t establish whether there needs to be a standard around it.”
- “Historically, I don’t think there was a need [for business valuators to value social impact]…but can envision a time when they are going to want to know that but what they want to know, how they want to know it, I don’t know that yet.”; “current there is no demand for [business valuation] to deal with [valuing social impact] explicitly…”

Design Constraints
…in developing methodology that are already known

- “restricted to things you can monetize”
- “data availability”
- ”access to skills required to interpret the data”
- “…tools, processes, approaches that are simple enough for [new venture] corporations to use…but not so simple to be meaningless.”
- “there would have to be different standards for different industries”

Requirements
…for a methodology to be acceptable

- Who and For What?: “A standard represents a duty of care [by business valuators]…we are held to that standard and…if not meeting that standard could be…negligent…Who would need to know social value? And for what purpose?...need to define [those two] first.”

- “We have to keep in mind…cash flow and our assessment of risk, this is our central framework as a [business valuator]. Anything that we want to talk about from a social impact has to hold to that framework.”
- “a clear system”; “need a standardized methodology”
- “with valid data, representative of an entire population group”
- “It would have to be additive (i.e. does it really impact investment decision-making) in order for it to be effective.”
- “Third-party vendors provide an unbiased approach…[we are] allowed to disagree with it.”
- “Any social metrics have to be directly translated to single bottom line profit to shareholders; otherwise, the metric will remain a marginal play…will be a greenwashing or window-dressing.”

Appendix C: Corporate Social Responsibility—Additional Detail

Exerpts from “Social Impact Measurement in Firm Valuation: A look at how social impact is currently reported and measured” produced by NeXus Consulting for DecisionModel

Corporate Responsibility Reporting

The line between social enterprises and traditional firms is becoming increasingly blurry. The way traditional firms do business is gradually taking into account the planet’s dwindling resource capacity, as well as their impact on societal constructs, environmental health and global economics. Because of this, we not only see many enterprises whose sole mission is to maximize social impact, but also many traditional corporations that have developed their own social enterprise and sustainability initiatives.

A company’s efforts to quantify, evaluate and adapt its social and environmental impact can go by many names including: Corporate Responsibility (CR), Corporate Social Responsibility (CSR), Sustainability or Corporate Citizenship, or Environmental Social Governance (ESG). While terminology may vary, all of the above represent the same thing: an evolving, yet governed process to analyze an organization’s social and environmental impact, in order to maximize resiliency and long-term value for company stakeholders. All companies that wish to be taken seriously realize that publishing a report on their CR metrics and impact is now essential to both continued operations and stakeholder engagement. However, not all CR Reports are created equal. Companies are still struggling to decide what they should report, how they should report it, and how best to utilize the process in order to generate value.

While the history of CR reporting has been largely marred by attempts to greenwash – a company’s attempt to selectively report and market themselves as socially and environmentally responsible when their operations are anything but – CR reporting appears to be emerging gradually from the dark ages. Companies, under varying levels of scrutiny, are making real efforts to develop holistic CR strategies that integrate with all facets of operation. The impetus for this change seems to be the large-scale awakening of stakeholder consciousness and a corollary increase in government regulation on a global scale.

CR reports are increasing in number and evolving in quality. Many reports are beginning to reflect genuine CR strategy with an intensified focus on identifying material issues, engaging stakeholders, quantifying impact and externally assuring the results. In the most notable cases, this has resulted in a greater preparedness and agility in internal operations as well as operational transparency that fortifies trust with all stakeholders. However, while certain regions, sectors, and individual organizations are setting excellent CR examples, and quality is trending in a favourable direction, we may still be years away from high-quality CR reports becoming the standard.

Corporate Responsibility Trends

In general, and while this is no guarantee of quality reporting, global output of CR reports has increased. Recent data shows that 71% of the largest 100 companies – whether traditional such as BMW or specific social enterprise such as Tesla – are producing CR reports exhibiting a steady 3-4% growth year-over-year[3]. Additionally, a 2012 survey showed that around nearly 7,000 CR reports are being produced globally, illustrating that growth is not confined to large public entities.

Regionally, there has been some interesting movement in the past few years, as well. The Americas, which have traditionally been seen as behind the curve, now have the greatest percentage output of CR reports among the largest 100 companies globally. They have been largely bolstered by increased output in Central and South America as both wealth and progression of social awareness increases in the private sector.

CR Framework Trends

Given that reporting social impact is still a developing concept, companies often question what they should report and how to report it. Through a number of different frameworks that have emerged over the past decade, a certain standard for CR reports has begun to develop. While there are about a half-dozen frameworks which claim the same purpose – increasing transparency into organizational CR – two have begun to emerge as the gold standard – The Global Reporting Initiative Framework and The International Integrated Reporting Council framework.

The Global Reporting Initiative Framework

The Global Reporting Initiative (GRI) is an international leading organization comprised of thousands of professionals and organizations from many sectors. It pioneered and developed a comprehensive Sustainability Reporting Framework that is the framework most closely followed, historically, with 40% of all CR reports conforming to the 92-page set of guidelines[4]. The larger the company, the more common the conformity, with nearly 82% of the world largest 250 companies using GRI15. The GRI framework has traditionally been considered best-used to produce standalone reports.

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[3] KPMG International. (2013, December). The KMPG Survey of Corporate Responsibility Reporting. Retrieved from http://www.kpmg.com/global/en/issuesandinsights/articlespublications/corporate-responsibility/pages/corporate-responsibility-reporting-survey-2013.aspx

[4] KPMG International. (2013, December). The KMPG Survey of Corporate Responsibility Reporting. Retrieved from http://www.kpmg.com/global/en/issuesandinsights/articlespublications/corporate-responsibility/pages/corporate-responsibility-reporting-survey-2013.aspx

The International Integrated Reporting Council Framework

The International Integrated Reporting Council (IIRC), which is made up of GRI representatives among others, has promoted the need for CR reports to be integrated into financial reports rather than to be seen as a standalone entity. The IIRC has not only developed its own proprietary framework, known as <IR>, but in 2011 developed a pilot program with CR leaders such as Coca-Cola and Unilever to begin exploring and developing integrated reporting best practices.

The prevailing opinion is that <IR> is the best way to promote integrated thinking amongst shareholders. However, others believe that <IR> allows companies to bury CR information so that stakeholders who do not concern themselves with financials will not find relevant information. Regardless of the debate, the numbers seem to indicate that companies believe <IR> to be beneficial – about 10% of companies now produce integrated reports, up from around 2% in 2007. Furthermore, a large majority of surveyed CR report producers believe “all reports should be integrated”[5].

ISAE 3000

While there has been a substantial uptick in CR reporting over the past decade, external assurance is still not common practice. Globally, financial reports are more often than not required to be externally assured, though conversely, stakeholders are often asked to take company CR data at face value. Among the largest 100 global companies, growth of external assurance remains stagnant, and, according to a KPMG analysis, a meager 4% of these companies provide a “reasonable amount” of external assurance[6]. It is widely noted in the evaluation of CR reports that this is a solid indicator that green washing is still prevalent. Globally, only about 20% of all CR reports are externally assured and in North America the number is even lower[7].

For those who do assure their data, the ISAE3000 is the most widely used framework, explicitly designed for auditors assuring non-financial information.

ISAE 3000 is the assurance standard for sustainability and outsourcing and deals with assurance of non-financial information. Organizations are given a pass or fail mark for the report upon completion. Noted by many in the field of CR, the ability to deliver bad news effectively lends ultimate credibility to a report, and just as with financial data, audits often help determine inclusion or otherwise.

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[5] KPMG International. (2013, December). The KMPG Survey of Corporate Responsibility Reporting. Retrieved from http://www.kpmg.com/global/en/issuesandinsights/articlespublications/corporate-responsibility/pages/corporate-responsibility-reporting-survey-2013.aspx

[6] Crifo, P., Forget, V.D., & Tevssier, S. (2015). The price of environmental, social and governance

[7] CorporateRegister.com. (2015). CR Reporting Awards.

“To include ‘bad news’ or not is ultimately an organization’s own choice,” says Jennifer Iansen-Rogers of ERM Certification & Verification Services. “But what assurance can deliver is an external filter of such information and the ability to drive through the necessary balance of disclosure, either by providing a persuasive case for inclusion or, if not, through the assurance conclusion itself, providing stakeholders with a sense of what has (and has not) been achieved through the year”[8].

Regulation Spurs Growth in CR Reporting

While certain growth has occurred in the Americas and elsewhere, due to the general progression of social and environmental consciousness among both internal and external stakeholders, the most explosive growth can be attributed to an increase in regulatory requirements. In a 2012 survey of nearly all global companies producing CR reports, the majority stated that regulation was the top-driver behind spurring organizations to produce reports. It was further noted in the survey that reporting companies believe regulation should dictate that companies and organizations be required by law to report[9].

High profile examples such as the United States’ S.E.C. Dodd-Frank Act of 2008 and France’s Grenelle II Act of 2012, requiring organizations to produce information on their social & environmental sustainability have led to huge upticks in national report output. Remarkably, 100% of France’s top-100 companies are now producing CR reports as of 2014[10]. Countries such as South Africa, Singapore, Denmark and India have had some of the biggest increases in CR reporting in recent history, all spurred on by sweeping regulatory reform (see further information about trends on Stock Exchanges in this report). In certain instances, companies are not simply required to report on their social impact, but in the case of India, are actually required to reinvest company profits into “Socially Responsible Projects”[11].

[8] KPMG International. (2013, December). The KMPG Survey of Corporate Responsibility Reporting. Retrieved from http://www.kpmg.com/global/en/issuesandinsights/articlespublications/corporate-responsibility/pages/corporate-responsibility-reporting-survey-2013.aspx
[9] KPMG International. (2013, December). The KMPG Survey of Corporate Responsibility Reporting. Retrieved from http://www.kpmg.com/global/en/issuesandinsights/articlespublications/corporate-responsibility/pages/corporate-responsibility-reporting-survey-2013.aspx
[10] KPMG International. (2013, December). The KMPG Survey of Corporate Responsibility Reporting. Retrieved from http://www.kpmg.com/global/en/issuesandinsights/articlespublications/corporate-responsibility/pages/corporate-responsibility-reporting-survey-2013.aspx
[11] Crifo, P., Forget, V.D., & Tevssier, S. (2015). The price of environmental, social and governance

While Canada and the United States were early leaders in the CR reporting field, report output in general has stagnated. This can largely be attributed to a lack of new government mandates for CR reporting over the past several years[12].

Viewing CR in the Context of the Value Chain

Due to growing regulation, public scrutiny and concern, another emerging trend is that companies are no longer culpable simply for their own social impact but for those connected to them in the value chain. Due to incidents such as the Rana Plaza Factory collapse in 2013 and the subsequent backlash at Loblaw for sourcing supplies from a sweatshop[13], the social impact of an organization's suppliers has become increasingly important to a company's valuation of social impact. Most recently, Chipotle temporarily pulled popular menu items because their supplier was not complying with their animal rights and environment standards[14]. They were thus able to avoid negative publicity and maintain their high standards. While headlines like this are becoming more common, CR reports are still failing to integrate suppliers into their social impact valuations with less than a third of all companies including upstream factors in their CR reports[15]. Sectors with the highest societal impact – Oil & Gas, Chemicals & Synthetics, and Utilities –historically perform very poorly on this metric, which suggests that selective CR reporting and misleading social valuation is prevalent.

CR valuation is also selective and sporadic in its treatment of the downstream impacts of production. While 73% of European companies do so in detail, less than half of the companies in the Americas, and less than a third of Asian companies report downstream impacts[16]. Again we can see that selective reporting runs rampant amongst high-risk sectors.

The lack of quality discussion around supply chain sustainability is potentially the biggest red flag that legitimate CR valuation is still in its infancy, globally. It exposes that many companies are avoiding having the difficult conversations with stakeholders and thus still largely use the CR report as nothing more than a marketing tool.

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[12] Initiative for Responsible Investment. (2015, 03 27). Corporate Social Responsibility Disclosure Efforts by National Governments & Stock Exchanges
[13] Talaga, T. (2015, April 30). Bangladesh factory-collapse workers, families seek $2 billion from Loblaw. The Toronto Star.
[14] Associated Press. (2015, April 22). Chipotle pork shortage leads to not enough carnitas to go around.
[15] Crifo, P., Forget, V.D., & Tevssier, S. (2015). The price of environmental, social and governance
[16] Crifo, P., Forget, V.D., & Tevssier, S. (2015). The price of environmental, social and governance

The Future of CR Reporting

As a whole, many companies and sectors are still greenwashing through selective reporting and using their CR report as more of a marketing tool than a self-evaluation. In regions where government regulation is lenient, companies allow unsavory social & environmental practices to persist under the radar, valuing short-term gains over long-term sustainability.

For social enterprises, however, transparency of social impact is crucial to their survival. As a result, a multitude of frameworks have emerged to help organizations internally measure their social impact.

Appendix D: Existing Measurement Frameworks Used for Non-Financial Reporting—Additional Detail

Excerpt from "Social Impact Measurement in Firm Valuation: A look at how social impact is currently reported and measured" produced by NeXus Consulting for DecisionModel

Internal Tools

The concept of a "double bottom line" (DBL) business emerged in the early 2000s. As the idea of measuring social return concurrent with traditional financial accounting has increased in popularity, these businesses are entrepreneurial ventures that strive to achieve measurable social and financial outcomes. Below are the most prevalent frameworks used by social enterprises and non-profits to measure and report their social impact (in no particular order).

Acumen Fund's Best Alternative Charitable Option

Acumen Fund, an organization that focuses on tackling world poverty by looking at operations in developing economies, developed a methodology for quantifying social impact. The Best Alternative Charitable Option (BACO) tool helps to inform investors where their philanthropic capital will be most effective. The methodology uses a BACO ratio and looks to quantify an investment's social impact and compare it to the universe of existing charitable options for that explicit social issue[17].

The BACO is based on charities providing similar goods and services, and is driven by: 1) financial leverage, 2) enterprise efficiencies, and 3) technology leverage. However, it neglects to consider long-term impact (beyond 5-7 years) and relies on alternative charities. If there are no alternative charities or comparables, it is inapplicable.

Pacific Community Ventures' Social Return Assessment

Pacific Community Ventures (PCV) is a non-profit organization that manages for-profit investment funds and invests in companies that provide jobs, role models, and on-the-job training for low-income people, and that are located in disadvantaged communities in California.

In 2000, PCV developed a method for its own use in assessing the social return of each investee and of its overall portfolio. The system entails tracking progress specifically on the number and quality of jobs created by PCV's portfolio companies. It helps the fund target and improve its services to its investees and to a group of companies to which it

[17] Team, A. F. (2007). The Best Available Charitable Option. New York City: Acumen Fund.

provides business advisory services. The method is separate from financial performance assessment, and can be quite costly.[18]

Social Return on Investment (SROI)

Social return on investment (SROI) is a principles-based method for measuring extra-financial value (i.e., environmental and social value not currently reflected in conventional financial accounts) relative to resources invested. It was standardized by Social Value, formerly The SROI Network, an organization that works with its members to increase accounting, measuring and managing social value through the Social Value Principles. The framework, or Guide for Social Return on Investment, is used for measuring and accounting for broader concept of value based on social generally accepted accounting principles (SGAAP). It was originally written in 2009 by the UK Cabinet Office, and updated in 2012[19].

There are 2 types: 1) Evaluative and 2) Forecast. The framework attempts to calculate all the quantitative benefits of the firm and factor those into future cash flows to determine NPV. It emphasizes the importance of connecting and consulting with key stakeholders to gain their insight regarding which outcomes of a given project are important to them (participatory research methods), and assigns financial proxies to outcomes (which cost-benefit analysis may or may not do).

Global Impact Investing Rating System (GIIRS)

Global Impact Investing Rating System is powered by B Impact Assessment (BIA), a free third-party tool that assesses a company's overall social and environmental performance. It is run by B Lab, a non-profit organization dedicated to using the power of business as a force for good. The GIIRS measures the overall impact of a business on all of its stakeholders, and each company receives an overall score and two ratings; one for its impact models and the other for its operations[20]. Certified B Corporations meet rigorous standards of social and environmental performance, accountability, and transparency. The organization also developed B Analytics, a customizable platform for benchmarking, measuring and reporting on impact. It hosts the world's largest database of verified social and environmental performance data for private companies, and is used by leading impact investors, fund managers, and impact entrepreneurs globally.

Guidelines for Good Impact Practice

A set of guidelines was developed by the Working Group on Impact Measurement and convened by the Social Impact Investment Taskforce, which was established under the UK's presidency of the G8 in 2013. The Working Group collaborated with hundreds of industry professionals to illuminate trends and elicit tips for long-term impact

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[18] Rosenweig, 2004
[19] Social Value UK, 2015
[20] B Impact Assessment, 2015

measurement planning. The document provides a set of guidelines and leading questions to help advance impact measurement approaches.

Compass Assessment for Investors

Developed by AtKisson Inc., an international sustainability consultancy, this framework is designed to integrate with the reporting guidelines of major CSR standards, particularly the Global Reporting Initiative (GRI) and the Dow Jones Sustainability Index (DJSI), as a venture matures. The method incorporates a structure with five key areas: N = nature (environmental benefits and impacts) S = society (community impacts and involvement) E = economy (financial health and economic influence), and W = well-being (effect on individual quality of life), and a fifth element, + = Synergy (links between the other four areas and networking). This framework includes a point-scale rating system on each of the five areas.[21]

Sustainable Livelihoods

The Sustainable Livelihoods model was developed by the UK's Department for International Development, and adjusted for use in Canada.[22] An asset mapping process measures the specific financial, social, personal, physical and human assets an individual or community may have. The framework then helps to identify what assets must be built through intervention and re-assess these assets to measure progress towards poverty reduction. The model has been used by the Canadian Women's Foundation, SEED Winnipeg and Momentum in Canada, among others.

Third Party Metric Providers

Third party metrics service providers add credibility to findings and address an organizations' own lack of capacity and/or expertise. In some cases, third party service providers can help to alleviate the pressure that measurement may place on entrepreneurs or investors. Most third party services are fee-based. Below are some examples of third party services.

Sustainalytics, Canada

Sustainalytics, a global leader in sustainability research and analysis, provides comprehensive, timely and relevant ratings, rankings and analysis of corporate environmental, social and governance (ESG) performance.

SiMPACT Strategy Group, Canada

SiMPACT offers consulting, advisory and capacity building services to clients seeking to understand social impact as essential to strategic community investment, to maximizing

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[21] Rosenweig, 2004
[22] Sustainable Livelihoods. (n.d.). The Sustainable Livelihoods Framework. Retrieved from http://tamarackcommunity.ca/downloads/vc/Sustainable_Livelihoods.pdf

the value of the Corporate Social Responsibility (CSR)/Sustainability agenda and those seeking a Social Return on Investment (SROI) analysis.

Purpose Capital

While primarily for investors, Purpose Capital performs financial and impact due diligence on investment opportunities to inform decision-making, and monitor financial and social performance to targets.

Social Asset Measurements (SAM)

SAM helps clients understand what social impact they are creating and how they are achieving it. Reporting is tied to a clear theory of change and embedded into the business process of social enterprises, resulting in better understanding and management outcomes.[23] In 2013, Alterna Savings & Credit Union used SAM's measurement framework for its microfinance program, becoming the first of its kind in the Canadian banking system.[24]

[23] Social Asset Measurement, 2014
[24] Alterna Savings & Credit Union Ltd., 2013

Appendix E: Loan Programs for Social Enterprise

Exerpt from “Social Impact Measurement in Firm Valuation: A look at how social impact is currently reported and measured” produced by NeXus Consulting for DecisionModel

Ontario Catapult Microloan Fund

This Fund is a partnership between the Centre for Social Innovation, the Province of Ontario, Alterna Savings, Microsoft Canada, TD Bank Group, KPMG, and Social Capital Partners and is designed to help promising social entrepreneurs and innovators with low interest loans of $5,000-$25,000[25]. It undertakes a full impact assessment of the investments over a two-year period. Previous loan recipients include: ZooShare, Fresh City Farms, Peekapak, Survey Graph, Twenty One Toys, and Grantbook, among others.

Ottawa Community Loan Fund

The Ottawa Community Loan Fund, established in July, 2000, is meant to provide micro-credit in the community of Ottawa. Their Social Enterprise Demonstration Fund helps social entrepreneurs/enterprises who are tackling Ontario’s most pressing social and environmental issues, and creating jobs, and partners include The Centre for Innovative Social Enterprise Development (CISED).[26]

Social Enterprise Fund, Edmonton, Alberta

SEF was established in 2008 through a unique collaboration between the Edmonton Community Foundation and the City of Edmonton. Since its inception, the SEF has placed just over $8M with more than twenty organizations working in various sectors of the community.

La Fiducie du Chantier de l’économie sociale, Quebec

Established in 2007 as Quebec’s first patient capital quasi-equity fund, and has so far invested over $15.7 million. The debentures are offered with a 15-year term. Fonds de Solidarité FTQ is known as one of the most important sources of risk capital in Canada. Worth $8.3 billion in assets, it also invests in La Fiducie du Chantier de l’économie sociale.

[25] The Ontario Catapult Microloan Fund for Social Ventures, Centre for Social Innovation, 2015. Website: http://socialinnovation.ca/catapult
[26] The Ottawa Community Loan Fund, 2015. Website: http://oclf.org/social-enterprise/

Appendix F: Sources of Market Comparables

Exerpts from "Social Impact Measurement in Firm Valuation: A look at how social impact is currently reported and measured" produced by NeXus Consulting for DecisionModel

Johannesburg Stock Exchange

In 2010, The Johannesburg Stock Exchange (JSE) (South Africa) was the first stock exchange to introduce a sustainability index measuring companies on indicators related to ESG practices.[27] Companies have to report on the extent to which they comply with the principles of the King Code on Corporate Governance. The JSE mandates companies to move towards integrated reporting or explain why they are not doing so.

United Kingdom's Social Stock Exchange

The UK's Social Stock Exchange is an information website that focuses on assessing the social impact of listed companies. Through its announced partnership with FCA-regulated Angels Den and its agreement subject to regulatory approvals with ISDX, it will be able to offer both investors and companies' access to the impact investing space via a 'cradle to scale' model.[28]

Canada's Social Stock Exchange (SVX)

In September 2013, Canada, led by MaRS Centre for Impact Investing, launched the Social Stock Exchange, a program that originated in UK to connect socially driven businesses with investors.[29] It is registered as a restricted dealer with the Ontario Securities Commission. It is a private investment platform built to connect impact ventures, funds and investors in order to catalyze new debt and equity investment capital. The aim of the platform is to enable impact ventures and funds based in the province of Ontario to raise investments of $100,000–$10m from accredited impact investors.

Asia's Impact Investment Exchange (IIX), Singapore

The AIIX is a Singapore-based organization with a mission to provide Social Enterprises (SEs) in Asia greater access to capital, allowing them to more rapidly expand the impact of their activities.[30] IIX offers three investment platforms: 1) Impact Accelerator, 2) Impact Partners and 3) Impact Exchange. The Impact Accelerator provides seed-stage SEs with mentorship and private capital through a structured and customized process over a period

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[27] (Johannesburg Stock Exchange, 2015)
[28] (Social Stock Exchange, 2014)
[29] (Social Stock Exchange in Canada, 2015)
[30] (Asia IIX, 2015)

of about eight months. IIX also recently announced the launch of Impact Exchange, operated by the Stock Exchange of Mauritius in collaboration with IIX. Impact Exchange is the world's first "social stock exchange", a regulated stock exchange dedicated to listing and trading securities issued by mature SEs and other socially-driven organizations.

The Sustainable Stock Exchanges (SSE) Initiative, Global

This Initiative is a P2P learning platform on how exchanges can enhance corporate transparency on ESG issues and encourage sustainable investment. In 2009, it was named by Forbes Magazine as one of "the world's best sustainability ideas".[31] In 2012, participating stock exchanges made a public commitment to sustainability in their markets, thereby becoming a SSE Partner Exchange (19 exchanges currently). Joining offers exchanges an array of resources for support and implementation of sustainability initiatives (events, webinars, workshops, publications, research, etc.). Every two years, there is a Global Dialogue and a release of the SSE Report on Progress (with the next one in 2016).

S&P/TSX Renewable Energy & Clean Technology Index, Canada

In 2010, Standard & Poor's and TMX Group Inc. announced the launch of the S&P/TSX Renewable Energy and Clean Technology Index. It measures performance of companies listed on the TSX whose core business is the development of green technologies and sustainable infrastructure solutions. Constituents are screened by Sustainalytics through its Clean Technology Classification System. Sustainalytics screens TSX listed securities according to a methodology which first evaluates companies for inclusion based on involvement in and strategic commitment to five environmental themes: Renewable Energy, Specialized Suppliers, Energy Efficiency, Waste Reduction, and Water Management and Low Impact materials and products.

Jantzi Social Index®

In January 2000, Jantzi Research (now Sustainalytics) launched the Jantzi Social Index®, and partnered with Dow Jones Indexes. The JSI, a socially screened, market capitalization-weighted common stock index is modeled on the S&P/TSX 60, and consists of 60 Canadian companies that pass a set of broadly based environmental, social, and governance rating criteria.

Meritas Mutual Funds

Meritas Financial Inc. was incorporated in 1999 as an investment management firm that was designed to focus exclusively on creating and distributing socially responsible investments for individuals and institutional investors. In April 2001, Meritas Mutual Funds

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[31] (Sustainable Stock Exchanges Initiative, 2013)

launched the Social Index® Fund, an RRSP eligible mutual fund that invests in common shares of the 60 companies that comprise the JSI®. Meritas is the only SRI manager in Canada to employ Community Development Investments (CDI) as a key part of its process. In 2010, Meritas Financial Inc. and Qtrade Fund Management merged to form OceanRock Investments Inc.

iShares ETF

In May 2007, iShares launched the first socially responsible Exchange Traded Fund (ETF) in Canada, iShares Jantzi Social Index® Fund (XEN). XEN is designed for socially responsible Canadian investors to help attain diversification in their portfolios. In Canada, iShares trade on the Toronto Stock Exchange, delivering a variety of options for your asset allocation needs.

Dow Jones Sustainability™ World Index (the DJSI World)

Launched in 1999, the index was the first global sustainability index and is highly recognized within the investment community. The inputs used to construct the index are provided by RobecoSAM, a high-profile investment specialist focused exclusively on sustainability investing. The DJSI World is constructed by selecting the top 10% of companies with the highest sustainability rating within their respective industries[32].

S&P Carbon Efficient Indices

The carbon footprint of each company within the benchmark is determined by an independent specialist research provider, Trucost, and it is adjusted by the revenue of the company. In deciding the carbon footprint of a company where data is not available, Trucost considers a number of factors, such as the sector that the company operates in, the company’s supply chain, and the products the company makes.

SXI Switzerland Sustainability 25®

Launched in June 2014, the top 25 companies in terms of the highest sustainability score, as indexed by Sustainalytics, were selected to compose the Index. The Index is reviewed and adjusted once a year in September. Some companies listed as of the writing of this report are: Lindt, Richemont, and UBS Group.

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[32] (S&P Dow Jones Indices, 2015)

Figures and Tables

Table 1: Interview Details

STAKEHOLDER	CONDITIONS	LENGTH (MIN:SEC)	RECORDING	NOTES
Investment Manager				
CEO	Conducted by phone 7/20/2015	19:11	Audio	Concurrent notes, corroborated by reviewing audio
Managing Partner	Conducted by phone 7/23/2015	18:00	Audio	Concurrent notes, corroborated by reviewing audio
Director	<No response>	N/A	N/A	
Vice-President	<No response>	N/A	N/A	
Co-founder/Director	<No response>	N/A	N/A	
Funding Agency or Government				
Executive Director	Conducted by phone 7/14/2015	20:24	Audio	Concurrent notes, corroborated by reviewing audio
Lead	Conducted by phone 7/16/2015	22:02	Audio	Concurrent notes, corroborated by reviewing audio
Investment Associate	Conducted by phone 7/30/2015	22:57	Audio	Concurrent notes, corroborated by reviewing audio
Policy advisory	Responded by email 8/7/2015	N/A	N/A	Response provided directly in writing
Director	<No response>	N/A	N/A	
Service Provider or Professional Association				
Director	Conducted by phone 7/16/2015	23:46	Audio	Concurrent notes, corroborated by reviewing audio
CEO	Conducted by phone 7/29/2015	15:41	Audio	Concurrent notes, corroborated by reviewing audio
Partner	Conducted in person 8/18/2015	30:53	Audio	Concurrent notes, corroborated by reviewing audio
Partner	Conducted by phone	24:24	Audio	Concurrent notes, corroborated by

	8/21/2015			reviewing audio
Publicly-Listed Corporation				
Sustainability Manager	Conducted by phone 7/21/2015	22:21	Audio	Concurrent notes, corroborated by reviewing audio
Global Director	<No response>	N/A	N/A	
CSR Specialist	<No response>	N/A	N/A	
AVP of Sustainability	<No response>	N/A	N/A	
Director of Environmental Sustainability	<No response>	N/A	N/A	

Figure 1: Themes & their Interconnectedness A visual representation of the themes that emerged during the interviews, and the interconnectedness that existed between these themes. The size of each box is roughly proportional to the amount of response received for topics under each theme.