What's your impact?

A roadmap to successful impact measurement of sustainability programs

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Setting the scene

Chocolate: A growing industry

The global chocolate industry has been growing steadily, since 2011 growth has increased every year until last year. In 2015 the global chocolate confectionery industry revenues reached a record of US$120 billion.[1] Global retail sales values are expected to grow again by 4 percent in 2016 and it is likely that confectionary values will follow the same pattern.[2]

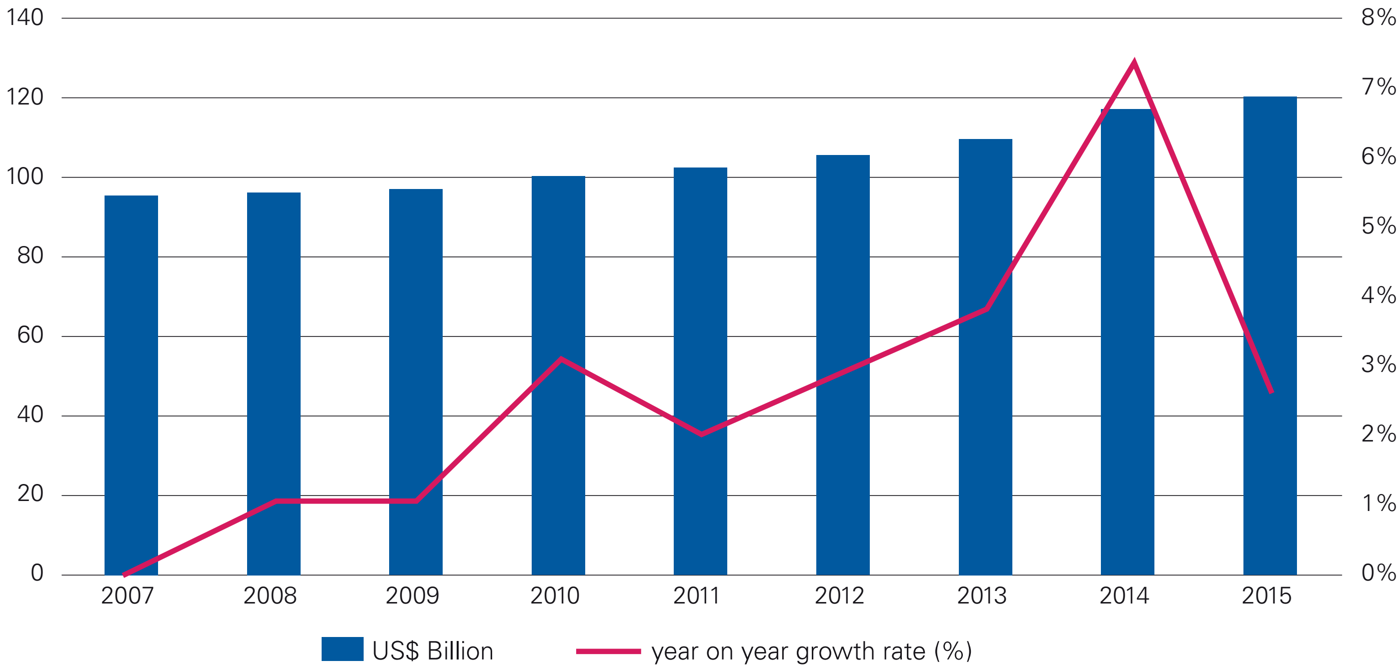
Despite the success of the chocolate market, many cocoa farmers still live below the poverty line

Looking at the economic side of the chocolate industry, one can be optimistic. However, from the revenues obtained with chocolate sales, an estimated 6 percent of value created stays with the cocoa farmer.[3, 4] This means that of the estimated 5 million cocoa farmers worldwide[5] many live in poverty. Furthermore, child labor is still a present issue in several cocoa farming countries despite industry, NGO and government efforts.[6] Low productivity resulting from poor agricultural practices poses a challenge for the future supply of main confectionary companies and means that the younger generations are not attracted to cocoa farming due to low incomes. On the environmental side, protected forest are being cleared for cocoa production.[7]

To address social and environmental concerns companies have been increasing their sustainability efforts

Triggered by the need to create a sustainable supply of cocoa combined with pressure from stakeholders and a company's own strategic priorities, most chocolate companies have now specific sustainability programs and communicate on their efforts to improve conditions at farmer level. In 2014 KPMG estimated that chocolate companies were investing almost US$1 billion to improve farmer productivity and sustainability.[8]

Chocolate confectionary industry revenues 2007–2015 (US$ billion)



Source: Euromonitor

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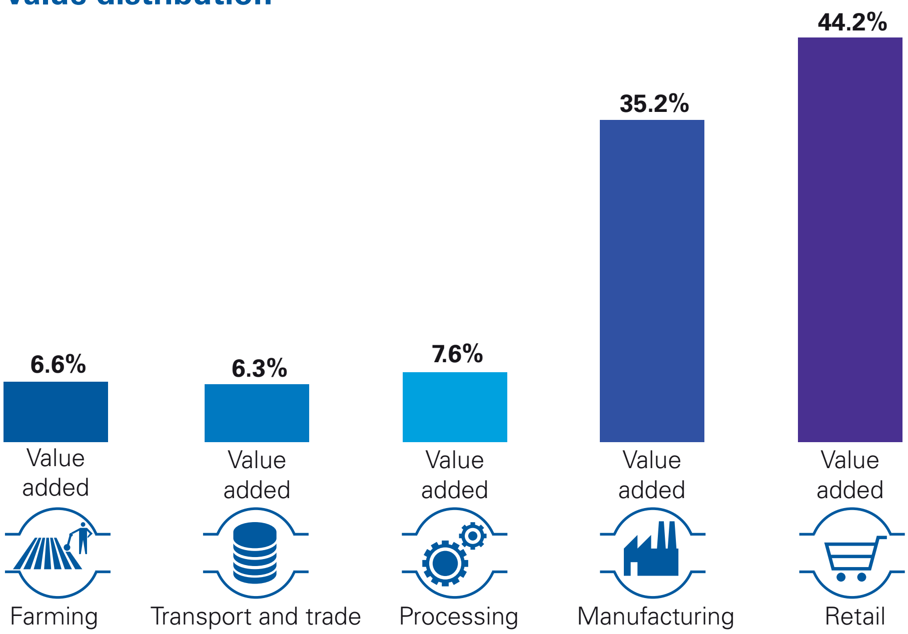
1 Euromonitor
2 KPMG Calculations based on The Economist Intelligence Unit Limited (2015)
3 Fountain, A.C. and Hütz-Adams, F. (2015) Cocoa Barometer 2015
4 Tony's Chocolonely (2015) Tony's Chocolonely JaarFAIRslag 2014/2015
5 UTZ (2016) UTZ Impact Report
6 Tulane University (2015) Survey Research on Child Labor in West African Cocoa Growing Areas
7 WRI (2015) on http://www.wri.org/blog/2015/08/how-much-rainforest-chocolate-bar
8 KPMG (2014) A taste of the future

Of the nine key cocoa companies, only two publicly report on the impact of their cocoa sustainability programs in their 2014/2015 overall CSR report or their dedicated cocoa sustainability report. Eight out of the nine key cocoa companies report publicly on quantitative KPIs; and only three out of nine key cocoa companies have third party assurance on their public (cocoa) sustainability report.

Value distribution



Source: Fountain, A.C. and Hütz-Adams, F. (2015) Cocoa Barometer 2015[11]

The questions that remain unanswered are: what is the impact that all these investments have generated on the ground? Do these activities really create the desired impact in terms of farmer livelihood improvement, productivity and environmental protection?

Information on impact is still limited and often based on anecdotal stories. This is understandable due to the complexity involved in collecting robust impact information and challenges faced by companies to do so. Of the nine key cocoa companies, only two publicly report on the impact of their cocoa sustainability programs in their 2014/2015 overall CSR-report or their dedicated cocoa sustainability report.

However, pressure to answer these questions, both from internal and external stakeholders is on the rise.[9]

Increasing pressure to measure impact

Sustainability professionals are being challenged by their colleagues and executives on the actual impact generated by their efforts and years of investments to improve cocoa farming conditions. We also see that company drivers such as revenues, costs and risks are increasingly impacted by the social and environmental impact a company has. To do well in today's business environment companies increasingly have to measure, understand and proactively manage this impact. This will enable your company to understand the likelihood this impact will affect revenues and your company risk profile.[10]

Request from external stakeholders

Besides internal pressure, external stakeholders are requesting more information on impact and attribution. The Cocoa Barometer 2015 states that "*Due to a lack of independent third-party evaluations, it is still not possible to properly assess the impact of individual company initiatives.*"[11] NGOs, investors, consumers and other stakeholders want to be able to know how companies are performing against each other and which companies to support in their efforts to improve farmers' lives and environmental protection.

A new trend emerges: communicating results in terms of impact

CocoaAction, a voluntary industry-wide strategy for cocoa sustainability founded by nine key cocoa companies, is driving the sustainability agenda of traders and manufacturers with a focus on productivity and community development. This year, CocoaAction has launched a detailed guidance document with definitions and how to measure the set of KPIs that was developed with its members.[12] This guidance aims to drive more transparency and harmonization on measurement and reporting on the impact of sustainability activities for cocoa.

What we observe is that the road to start measuring impact is not as simple as it may seem, and appropriate strategy and planning are crucial elements to avoid a burdensome and costly exercise that may not add as much value as it could otherwise.

CocoaAction West Africa 2020 Priority:

In Cote d'Ivoire and Ghana, 300.000 farmers have adopted the CocoaAction productivity package, and 1.200 communities are empowered through community development.

[9] ISEAL on http://www.isealalliance.org/VIA
[10] KPMG (2014) A New Vision of Value: Connecting corporate and societal value creation, pages 19–20
[11] Fountain, A.C. and Hütz-Adams, F. (2015) Cocoa Barometer 2015
[12] http://www.worldcocoafoundation.org/wp-content/uploads/20160427-HR_CocoaAction-MandE-Guide-1.pdf

Roadmap to impact evaluation

Before conducting an impact assessment, it is important to reflect on the whole process from the reasons why such an assessment is relevant to how results are going to be used. The roadmap below gives a starting point to support companies on this journey.

1 Define clear objectives and a Theory of Change to guide activities

Sustainability programs have evolved through time leaving companies with a vast array of activities initiated by different demands from stakeholders or changing strategic priorities. As a consequence, in some cases this can lead to a weak overall view of the impact a company wants to achieve and how the planned activities will lead the company on this direction.

Without a clear reason why activities are done and how they all fit together, it can be challenging to attribute changes on the ground to a company's programs. A Theory of Change helps to attribute observed outcomes to company efforts.

2 Set up a monitoring framework with key indicators to facilitate better impact reporting

Once a Theory of Change is established it is time to define activities to achieve desirable impacts. For each activity a monitoring framework should be established with attached KPIs to measure performance over time. Constant monitoring can give valuable insights about performance and serve as an input to make necessary adjustments to program design and even to the Theory of Change itself.

A good results measurement framework includes indicators on input, activities, output, outcomes and possibly impact focusing on all material topics for a company. Well known material topics for the cocoa sector include child labor, yield and good agricultural practices. Nevertheless, topics such as gender equality, deforestation and carbon emissions are also relevant and not always clearly monitored.

CocoaAction indicators can be used by companies as a starting point to determine the KPIs to be tracked by a company's program. Using externally recognized KPIs can contribute to more harmonization within the sector with the aim to ensure comparability of results and support the sharing of lessons learned.

Eight out of the nine key cocoa companies report publicly on quantitative KPIs in their overall CSR — report or their dedicated cocoa sustainability report (2014/2015).

3

4 Leverage the value by incorporating results in business strategy

The results of impact evaluations or monitoring activities of sustainability programs are often used in external communication and to improve sustainability programs and adjust the Theory of Change when needed. However, the information and learnings can also inform other business strategies and commercial decisions.

Increase simplicity by developing a clear methodology for the impact evaluation

Attributing change can be difficult considering the different interventions that certain farmers have been exposed to, so it is important to set a clear scope for the evaluation: what topics will be addressed, what are the critical paths of your company's Theory of Change that you would like to measure. There will always be limitations that should be acknowledged and dealt with in the methodology design.

Consider the investment required: There are several factors that influence how the impact evaluation will be designed. Impact assessments can be costly to implement, requiring comparisons throughout time. Collecting primary data will have a great impact both on the time investment and the costs associated with the evaluation - not only for the company but also for the farmers involved in the primary data collection.

Decide on methods to be used: Due to limitations and the costs involved with primary data collection, a mix-method approach, that combines different primary data collection techniques (e.g. household surveys, focus groups and interviews) and secondary data analysis can provide best results.

Robust impact evaluations make use a variety of data sources and approaches to be able to confirm an observed result (triangulation). Qualitative information can inform both the design and interpretation of quantitative data. Cooperation with suppliers, peers and other organizations can help to reduce and the burden on farmers when collecting data. Learnings and data from previous studies can also be used.

Selecting a sample and ensure it is traceable in the coming years: A crucial part of the methodology development is the decision on a sample, both of the group that benefitted from the company program and a comparison group (counterfactual). Furthermore, data collection must allow tracing of respondents for later rounds to allow tracking changes.

Consider external conditions that may influence results: When analyzing the data and attributing change, the enabling environment needs to be carefully assessed. External factors that influence the observed outcomes, besides the company program being assessed, should be taken into account.

5

Communicate impact to increase transparency and understanding

Companies tend to keep reviews, data and evaluation results internal as they may fear negative attention from stakeholders or fear sharing information that may benefit competitors. Sometimes costly impact assessments may come to no conclusion. This can be a valuable piece of information on its own. Increasing detailed reporting on impact can benefit the sector as a whole to drive change on the ground, building on learnings in a pre-competitive environment. A thriving cocoa sector will in the end benefit all cocoa companies.

6

Improve credibility by third party assurance and/or stakeholder feedback

Results of evaluations can be biased or have too many limitations. Using independent assurance can strengthen the results and methodology and increase the credibility and robustness of the results. Currently, only three out of nine key cocoa companies have third party assurance on their public (cocoa) sustainability report. Another way to make your methodology and impact claims more credible is to have it reviewed by stakeholders who are knowledgeable in the topic.

Looking forward

As technology advances, consumers become more interested to understand (and are provided with the means to do so) where their products come from and under which circumstances they have been produced. Preparing your company to address this development by establishing a process that allows for more robust data collection and reliable information on sustainability impact is key.

Increasingly, the type (and quality) of information collected will contribute to the creation of more impactful initiatives which use the learning obtained to inform future investment decisions. Making the results of such assessments available through specific reports can foster sector synergies and pre-competitive initiatives such as CocoaAction, bringing the chocolate companies together to align sustainability efforts.

It is clear that impact measurement in cocoa is only the beginning. Stakeholders are not only concerned about impact on cocoa farmers. Other ingredients used in the chocolate industry are getting under the spotlight for their potential adverse impact on people and the environment, such as palm oil, hazelnuts, sugar, soy and dairy. The sooner a company starts the better.

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