FEED THE FUTURE
The U.S. Government's Global Hunger & Food Security Initiative

HOW THE PRIVATE SECTOR MEASURES SOCIAL INCLUSION AND ITS RETURN ON INVESTMENT: A FRAMEWORK TO INFORM FUTURE RESEARCH

Key Takeaways

- **Social inclusion frameworks** for private investors, public companies, and private firms share common factors and a focus on women, but measurement rigor and definitions differ.
- Most **ROI metrics** focus on direct / 'quick' business benefits (e.g. productivity, retention, new market segments), but local firms in developing markets also consider long term, more indirect impact (e.g. innovation, reputation). Suppliers are rarely incorporated.
- **Future research** will focus on evidence for key private sector SI factors: talent, leadership, supply chain diversity, culture, workplace safety, GBV prevention, plus consumers and branding.

This brief documents how different private sector actors understand and measure social inclusion and its return on investment (ROI) as an initial step to frame further research on the business case for social inclusion in developing countries.[1] USAID, as part of a larger set of learning initiatives around social inclusion on the Feed the Future Market Systems and Partnerships (MSP) Activity, is analyzing the evidence base and evidence gaps on the ROI of social inclusion (SI) strategies implemented by the private sector in developing countries. This work will be the foundation for building a business case and providing practical guidance on social inclusion strategies relevant to the private sector in developing countries to maximize the ROI while furthering the development objective of social inclusion.

Rationale

Social inclusion is central to USAID's broader goals for achieving pro-poor growth. Approaches like private sector engagement (PSE) and market systems development (MSD) rely heavily on effective partnering with the local private sector, and there is growing interest among private sector actors in achieving positive impact on social inclusion through their businesses. Yet, the evidence on which SI factors lead to impact has not been systematically mapped, particularly in a developing country context, and the framing of both "social inclusion" and "returns" can vary greatly between investors, firms, development organizations, and others active in private sector development.

Key Research Questions & Distinctions

SI FACTORS	How does the private sector measure social inclusion? What are common / less common factors?
ROI METRICS	How does social inclusion generate an ROI? Which social inclusion factors should be prioritized for the evidence review?
LINKS - SI FACTORS & ROI	How do firms measure ROI in social inclusion? What are short- and long-term returns?

[1] This research covers both local / national firms as well as multinationals operating in developing countries, although with a stronger focus on companies whose main operational context is developing countries.

*The **Feed the Future Market Systems and Partnerships (MSP) Activity** is advancing learning and good practice in market systems development (MSD) and private sector engagement (PSE) within USAID, USAID partners, and market actors. For more information, access to technical resources, and opportunities to engage, visit www.agrilinks.org/msp.*

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Objectives

Prior to conducting an in-depth literature review, the research team reviewed existing social inclusion frameworks and indices developed by the private sector to document commonly and less commonly utilized social inclusion factors. Secondly, the research team documented how firms are measuring the ROI as it relates to social inclusion. Lastly, the team developed a framework with hypotheses on the link between social inclusion factors and the ROI based on the initial research, which will be substantiated through upcoming research.

Findings: Social Inclusion Factors

- **The main focus is on gender equality and women's empowerment.** With gender-lens investing an increasingly established field, many of the global frameworks and indices developed by the private sector focus on diversity from a gender perspective. Frameworks for other target groups, such as LGBTQI and racial equity, are emerging, yet remain less established and not yet publicly available.
- **There are three main private sector subsets to consider when measuring social inclusion.** The more commonly used social inclusion frameworks and indices are derived for **private investors, public companies, and private firms.** Governments and other development actors (e.g. multilaterals like the World Bank) also play a significant role in defining and promoting social inclusion in private sector development, but from the perspective of economic growth and impact on macroeconomic metrics like GDP.

Glossary of Key Terms

Social Inclusion Factor: A category of practices with shared characteristics that an organization can employ to support social inclusion.

Private Company: A company that is owned by its founders, management, or a group of private investors.

Private Investors: Investors, including impact investors, who provide capital to a business as a loan or equity investment that does not come from an institutional source, such as a bank or government entity, or from the public through selling stock on a stock exchange.

Public Company: A company that has sold all or a portion of itself to the public via an initial public offering (IPO), meaning shareholders have a claim to part of the company's assets and profits.

ROI Metric: The unit of measurement used to establish the return on investment (ROI) ratio between an investment made and the benefit that ensues.

Example: *A private company invests in employing a SI factor (e.g. workplace safety) resulting in a benefit (e.g. employee productivity) which is measured by a specific metric (e.g. output per worker). The ratio between initial investment in workplace safety and the resulting increase in productivity is the ROI.*

Sample Private Sector Frameworks for Social inclusion

PRIVATE INVESTORS

GIIN IRIS Metrics on Gender in the Workforce

2X Challenge – Criteria

Calvert Impact Capital Gender Underwriting Framework

CDC Private Equity and Value Chain Creation – A Fund Manager's Guide to Gender Smart Investing

PRIVATE FIRMS

Catalyst "Why Diversity and Inclusion Matter"

UN Women's Empowerment Principles

World Benchmarking Alliance Gender Benchmark

HRC Foundation Corporate Equality Index

PUBLIC COMPANIES

Equileap Gender Scorecard / Morningstar Women's Empowerment Index

Thompson & Reuters Diversity & Inclusion Index

Bloomberg Gender Equality Index

- **There are some commonalities across the three private sector subsets.** The most commonly measured factors are talent, leadership, supply chain diversity, consumers, culture, policies, and community impact. Factors that are less common include workplace safety and gender-based violence (GBV), accountability, pro-women branding, enabling environment, and compensation.

- **The subset of private sector actor influences the types of social inclusion factors they measure.** The "business case" for investors is not the same as that for firms, and public companies usually face a higher level of scrutiny than private firms. Gender-lens investing frameworks tend to stay limited in their focus on main pillars, whereas frameworks examining public companies are often more rigorous, detailed, and comprehensive. Frameworks developed for private firms have a stronger focus on factors that the firm can directly control, such as talent and workforce diversity, supply chain diversity, targeting new consumers, internal policies, and increasingly, workplace safety and community impact.[2] Factors where the immediate business benefit is less apparent, such as public accountability or equal pay, are less prominent in private firm frameworks.

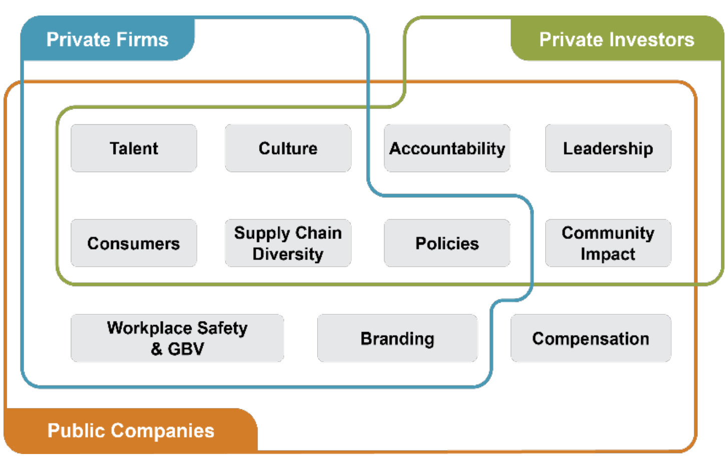
Table 1: Commonly and Less Commonly Measured SI Factors

Common Factors	
Factors	**Definition**
Talent	Recruitment, promotion, retention, workforce diversity, career development
Leadership	Company ownership, gender balance in board, executives, senior management
Supply Chain Diversity	Diversity in the value chain, sourcing from women, social / sustainable supply chain
Consumers	Products and services for women / that disproportionately benefit women
Culture	Inclusive workplace culture, flexible work option, parental and health benefits
Policies	Policies on equal opportunities, GBV and harassment prevention, due diligence
Community Impact	Do-no-harm, education programs, donations / sponsorships of NGOs

Less Common Factors	
Factors	**Definition**
Workplace Safety & GBV	Employee protection, workplace safety, effective GBV prevention and recourse
Accountability	Public commitments to gender equality, no controversies, gender audits, certifications
Pro-Women Branding	Pro-women as part of brand, e.g. non-discriminatory marketing
Enabling Environment	Access to finance, mobility, family law and inheritance, social norms, etc.
Compensation	Equal pay, living wage

- **There is disagreement on how and what to measure within each factor.** Across actors and frameworks, there is significant variance in how social inclusion factors are defined and measured, and how much detail or how many indicators are needed to capture results against each factor.

Social Inclusion Factors by Actor



Example: Public Company vs. Private Investor Indicators

Both public company and private investor frameworks measure leadership as a factor of social inclusion. However, the number of indicators employed by exemplary frameworks from the two sectors can vary greatly.

Bloomberg Gender Equality Index

- ✓ Women on the board (# / %)
- ✓ Women in role of Chairperson / CEO
- ✓ Women in executive roles (%)
- ✓ Chief Diversity Officer on staff
- ✓ Women in top 10% compensation (%)
- ✓ Action plans and targets on representation

Data 2X Challenge Criteria

- ✓ Share of women in senior management: 20-30%
- ✓ Share of women on the Board or IC: 30%

Percentages are targets in order to qualify for "gender-lens" investment.

[2] Community impact tends to be defined as volunteerism and local charity donations, i.e. impacts where the firm has direct control.

Findings: ROI Metrics

- **The majority of ROI metrics focus on direct / immediate business benefits, as opposed to long-term, more indirect impact.** These immediate benefits include factors such as productivity, talent acquisition, and retention, as well as reaching new customer segments and accessing new capital. Such benefits can be realized soon after a given social inclusion intervention, i.e. within a year or two.

- **While less commonly included in ROI calculations, initial evidence shows international and local firms in developing countries also recognize the utility of long-term and more indirect benefits.** Although not typically measured, firms recognize the utility of long-term and more indirect benefits.[3] Often firms do not measure these benefits because of the difficulty to measure.

- **ROI metrics are less established for suppliers.** ROI metrics for social inclusion are seemingly most common for consumers and talent (e.g. targeting female consumers and recruiting women), with fewer ROI metrics relevant to suppliers and producers. Previous research indicates that this may be because they are harder to standardize, more industry-specific, and often require more complex data collection systems and calculations.[4]

HERproject Bangladesh

Female factory workers health has a direct impact on the productivity and stability of manufacturing operations, which are often plagued by narrow profit margins, high worker turnover and absenteeism, and volatile demand.

A 2006 study revealed that a HERproject women s health education and clinic services improvement program implemented in a Bangladesh factory resulted in a US$3 to US$1 ROI in the form of a **46% decrease in staff turnover and an 18% decrease in absenteeism over 18 months.**

Table 2: Definition of Direct and Indirect ROI Metrics

Direct / Short term Benefits	
Metric	**Definition**
Productivity & Motivation	More productive and motivated workers, leading to increased output and quality
Talent Acquisition & Retention	Recruitment from wider / better talent pool; increased retention; less turnover and absenteeism
Customer Acquisition & Retention	Ability to engage a more diverse and wider customer base; enhanced loyalty and higher sales
Market Penetration of Relevant Products & Services	Improved output per worker and decreased error rates; empowerment to take ownership of work
Better Supply & Distribution Chains	Wider network of suppliers / producers; ability to reach new markets, e.g. through women sellers; improved quality; improved branding
Cost Mitigation	Reduced cost of recruitment, absenteeism, litigation, fraud risk
Access to New Capital	Ability to win capital from new investors and contracts from multinationals with sustainability standards

Indirect / Long term Benefits	
Metric	**Definition**
Innovation	Greater innovation, creativity, and out-of-the-box thinking; new business ideas
Reputation & Branding	Build reputation in the long term for potential business partners, consumers, and talent; avoid controversies
Community Impact	Social impact on local community; better ESG performance; role model effect in business community
Compliance & Trust	Improved performance in audits; increased trust with partners and buyers

[3] Markel, Erin, Hess and Loftin. Making the Business Case. Leveraging Economic Opportunities. USAID. 2015.
[4] MarketShare Associates. Working with the Private Sector to Empower Women. Arab Women Enterprise Fund. 2019

Moving Forward: A Research Framework Linking Social Inclusion Factors to ROI Metrics

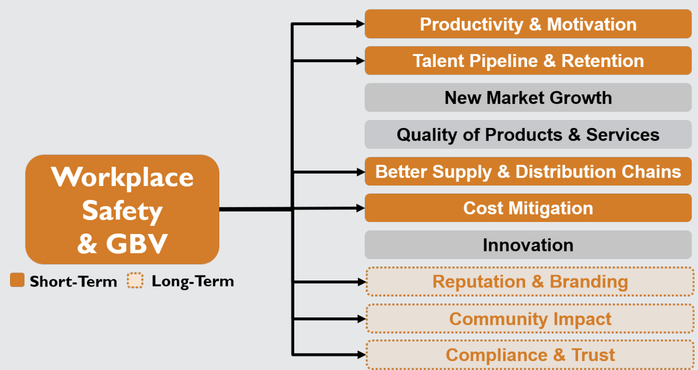
A crucial next step in this research will be **mapping the evidence from developing countries that links the selected social inclusion factors to the specific ROI metrics.** While decades of diversity research – both academic and practitioner-driven – has produced a wealth of insights on the benefits of diversity and inclusion, much of this work is still focused on a developed country context. Gathering and critically assessing the strength of evidence around the ROI for social inclusion in developing countries with local and regional firms will be key to building a convincing and well-supported business case.

In analyzing the various frameworks, the research team applied the following criteria to determine the social inclusion factors on which to focus:

- *From an initial review, is there any / how strong is the evidence? Can we establish a causal link from SI to ROI?*
- *Is this SI factor relevant to firms in developing country contexts?*
- *What are the difficulties in realizing the benefits for companies in developing countries?*[5]
- *Is the factor highly influenced by exogenous factors / too indirect of impact?*

The above framework review suggests a **focus on private firm-oriented social inclusion factors, such as leadership, talent, supply chain diversity, culture, workplace safety, and GBV prevention, as well as targeting women as consumers and pro-women branding.** In addition, the research will assess to what degree companies care about the wider community impact. Factors such as accountability, policies, compensation, and the enabling environment will be deprioritized, as their relevance and ability to generate a return to firms in a developing context is less clear. The literature will then be analyzed to see if there is sufficient evidence to identify the benefits to businesses from investment in social inclusion in developing country contexts. Once analyzed, the team will identify specific evidence gaps in the existing literature and provide recommendations on future research to address these gaps.

Return on Investment from Workplace Safety and GBV Prevention



The following hypotheses on the ROI of workplace safety and GBV prevention will be tested during the literature review, along with the other identified social inclusion factors:

- (Female) workers are more productive and motivated in a safe working environment.
- There is less turnover due to harassment, and firms can tap into a wider pool of talent (since many women would not take jobs where they feel unsafe).
- With greater safety, firms may also be able to attract more diverse suppliers and distributors.
- Reduced absenteeism and turnover (as well as litigation where employees can bring harassment claims) significantly decreases costs.
- GBV prevention also mitigates reputational risk and may enable firms to access new capital from investors and multinationals, many of which care about safety and compliance.

If you would like to submit relevant resources and research to the project team, please reach out until June 21, 2021 to Erin Markel (erin@marketshareassociates.com) or Friederike Strub (fstrub@marketshareassociates.com).

[5] Firms in a developing country context may face different systemic constraints that prevent them from realizing certain benefits, e.g. if women's ability to get a job and participate in the labor market is curtailed by discriminatory laws or social norms that give their husbands power of decision over their economic activity, recruiting women may be too costly or difficult for some firms.