Corporate Initiative

Impact Integrity

Unique Challenges for Corporate Social Investors

EVPA Corporate Initiative

We connect European corporate social investors in search for the most effective ways to advance their social impact by strategically leveraging corporate resources.

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With the support of

Published by EVPA in May 2022

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Please use this reference to cite this report:
Fejes, Z.L., Malmendier, N., and Gianoncelli, A., (2022), "Impact Integrity – Unique Challenges for Corporate Social Investors". EVPA.

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Executive Summary

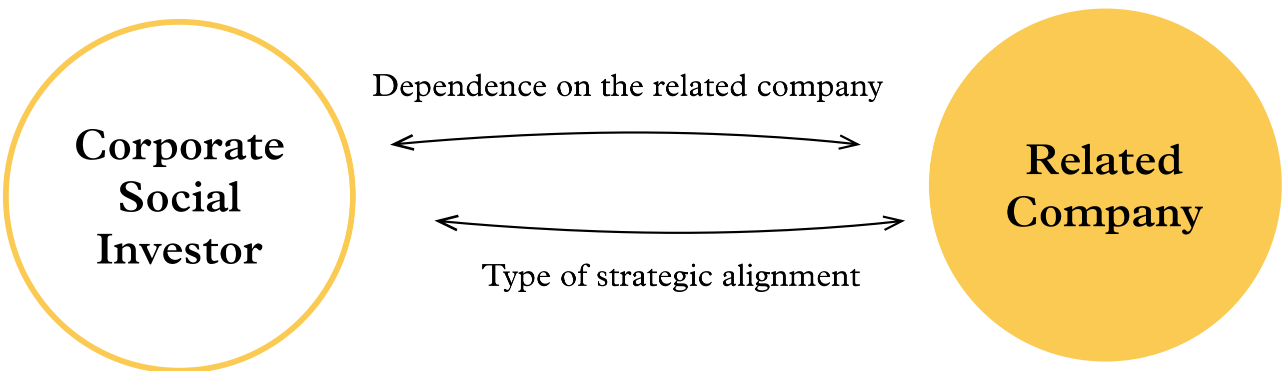
Impact integrity, or preserving the intended impact from being diluted by different interests in the environment, is a key aspect in the operations of Corporate Social Investors (CSIs).

CSIs experience distinctive challenges to their impact integrity, due to their unique position as a non-profit entity intrinsically linked to a for-profit entity, and due to the increasing blurring of the lines between corporate purpose and social impact. These challenges have two sources: on one side the related company, due to its commercial agenda, on the other side the key stakeholder environment, due to its suspicion towards the CSI's impact integrity.

CSIs **should consider two aspects to ensure impact integrity** and get the full benefits of the relationship with the related company. The first is preventing their social mission credibility from being undermined by the connection with the related company – managing corporate influence. The second is signaling legitimacy towards key stakeholders in their environment and demonstrating they are making progress against their stated societal mission – managing the perception that the social sector, regulators and other actors have of the CSI and its impact integrity.

Managing the impact integrity risk and applying adequate mitigation actions requires an awareness and an objective assessment of the risk factors.

This assessment is relatively easily done, especially with regards to the CSI-related corporation relationship. In the CSI-company interfaces, two major factors influence the level of impact integrity risk:



The combination of these two factors can indicate the level of risk posed to impact integrity which can be assessed by using a self-assessment tool (to be published later in 2022) and the Impact Integrity Matrix developed by EVPA. While the matrix places CSIs in low-, medium- and high-risk categories, it must be stressed that 'high risk' does not imply a negative connotation, but rather it indicates the need to address and mitigate the challenges faced by the CSI.

This simple risk assessment tool is not the end, but rather the beginning of the impact integrity journey for CSIs, as it can help them identify the level of risk and make explicit the challenges they face. It also facilitates the decision on the most appropriate mitigation actions from the wide range of the options available to them, both with the related company and with the stakeholders environment.

Both the CSI-company relationship and the evaluation and management of the CSI's perception by the key stakeholder environment, as well as mitigating challenges on both sides of the CSI's relationship are crucial to safeguard impact integrity. Our upcoming case studies highlight the different challenges faced by CSI with different levels of impact integrity risk (low, medium, high) and the mitigation actions that these successfully employ in safeguarding their impact integrity.

Introduction

Corporate social investors (CSIs) – corporate foundations, impact funds, accelerators or social businesses – support innovative solutions to pressing societal[1] issues. They do so by providing social purpose organisations (e.g. NGOs, social enterprises) with capital in the form of grants, debt and/or equity, alongside non-financial support. CSIs are legal or organisational structures related to a company (by name, funding, structure and/or governance) with the primary intention of creating social impact.

Their unique position as impact-driven organisations linked to a company provides CSIs with opportunities that set them apart from other investors for impact. The inherent relationship to a company allows them to tap into a vast amount of corporate resources such as assets, expertise and networks. This puts CSIs in a good position to allocate the appropriate support to their investees and help them scale. For example, a social enterprise developing healthcare solutions for low-income populations can benefit from the technical expertise of a leading healthcare provider. CSIs are also ideally positioned to influence and accelerate the impact journey of their related company. A healthcare provider, for example, can learn how to address the needs of low-income populations by connecting with the investees of its CSI.

1 With the term "societal" we indicate solutions addressing social, environmental, health or cultural issues. Throughout the report, for the sake of simplicity, EVPA purposely uses the term "social" when it refers to impact, but it means societal..

Impact integrity means safeguarding an organisation's social mission from (negative) external influence. CSIs can leverage their position to increase and scale their social impact, by engaging **corporate employees**, seeking **strategic alignment** with their related company, and developing **collective corporate impact strategies**.

EVPA has examined how CSIs deal with social-business tensions and the unique implications that impact integrity has for impact-driven organisations linked to a company. The report defines impact integrity, maps the impact related challenges that arise from the unique position of CSIs and could threaten impact integrity and identifies the mitigation actions CSIs can take to address them. It also proposes a risk assessment framework to help CSIs identify the level of risk and decide on the most appropriate mitigation actions.

The report answers several questions, including:

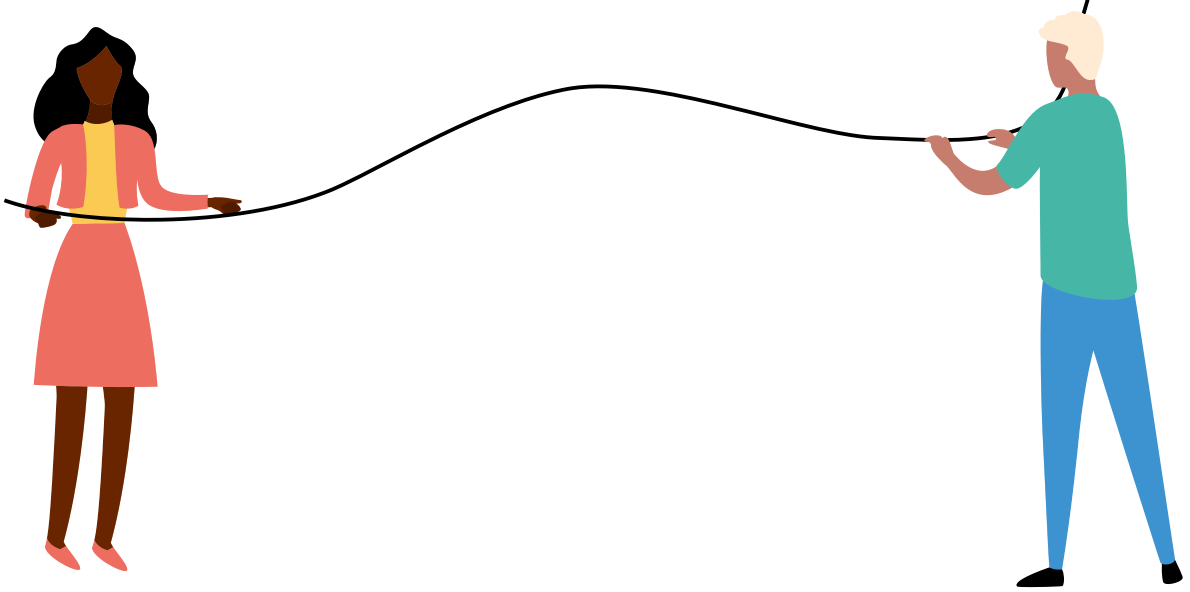
1. **What are the risks related to impact integrity and how does the unique position of CSIs influence this?**

2. **How do practitioners address the arising social-business tensions and manage impact integrity risk?**

3. **What is the effect of strategically aligning with the related company on the process of safeguarding impact integrity?**

Impact Integrity: Definition and Implications

Our research revealed that a common pitfall for CSIs is to disentangle the concept of 'impact integrity' and to attach greater importance to either 'impact' or 'integrity'. However, as some of our interviewees such as Trafigura Foundation correctly pointed out, the two words are more closely linked than it would seem at first sight.



"Impact integrity is making sure that indeed our impact and our mission remains driven by the interest of those we want to serve and not by the interests of the business"

VINCENT FABER - Trafigura Foundation

"Impact integrity has also another side of the coin: being very disciplined and professional when it comes to looking for impact. Our role and responsibility, as donors, is to identify promising initiatives grounded on robust theories of change and implemented by professional, well equipped organisations. To be able to do so, we need to be ourselves fully versed in social change. Good intentions are not enough."

CÉLINE YVON - Trafigura Foundation

Thus, on the one hand, impact integrity is about the need to shield the CSI from any commercial interests of the related company. On the other hand, it also highlights the importance of being able to demonstrate the claimed positive change. Creating impact without integrity will eventually lead to no meaningful impact or undesired outcomes, while having integrity means targeting the highest potential impact.

EVPA defines impact integrity as safeguarding an organisation's social mission from (negative) external influence. In other words: preserving the intended impact from being diluted by different interests in the entity's environment.

While this is a general definition that applies to investors for impact as a whole, ensuring impact integrity has different implications for corporate social investors, due to their unique positioning as impact-driven organisations linked to a company.

Impact Integrity in the Context of Corporate Social Investors

The relationship with a for-profit entity enables CSIs to leverage a wealth of financial and non-financial resources (corporate employees, expertise and assets) in their pursuit of a social mission to achieve positive impact. It also causes tensions that need to be carefully balanced.

As the representative of Engie Rassembleurs d'Energies points out: "The biggest challenge for us is to find the right balance between alignment with the group strategy and to continue to serve our own mission". These tensions derive from the fact that while companies have a valid interest in their CSI creating social impact in areas that make sense for the business, these areas are not necessarily those where the CSI can realise its highest potential.

There is an increasing pressure from civil society (and society at large) on the private sector, with explicit expectations towards corporations to act responsibly while doing business, and to use their strong economic power to address the most pressing social challenges. Companies have become more and more active in the field of social innovation. While some have done this using the company as their primary vehicle for social change, many have set up CSI vehicles.

While pressure from civil society is not binding, legislation introduced by the European Union is. The EU has set an ambitious path to better channel capital flows toward a sustainable economy while avoiding green and social washing, through three main regulatory packages: the Corporate Sustainability

Reporting Directive (CSRD), the Green Taxonomy (and a potential future Social Taxonomy) and the Sustainable Finance Disclosure Regulation (SFDR).

These changes will lead to an increased scrutiny and a larger amount of data on a company's non-financial performance. This data will be essential for investors to analyse the ESG agenda of potential investees. Similarly, consumers are becoming increasingly reluctant to do business with companies they consider unethical or unsustainable. The social performance of a company moves higher up on the business agenda, which increases the strategic value of CSIs.

This trend has **two important implications** for CSIs:

Companies that respond to the increasing pressure develop strategies to create social impact and therefore move closer to the remit of CSIs. Social impact and business benefits become more and more interlinked, ***blurring the lines between the two worlds***.

CSIs gain significant strategic importance for their related companies. As a result, ***companies have an interest in incentivising their CSIs to strategically align and thus strengthen the corporate social impact agenda***.

The relationship between a non-profit entity linked to a for-profit entity can be powerful, as the unique opportunities that arise allow CSIs to maximise their impact. However, it is also fraught with an inherent power imbalance resulting mainly from the dependence of the CSI on its related company. Companies, as the founding and (often main) funding entities, hold the upper hand in the relationship with their linked CSIs, which gives them the ability to influence the CSI's mission and agenda. This, combined with the increasing blurring of the lines, considerably intensifies social-business tensions, and increases the risk of the commercial agenda taking precedence over social impact considerations. Balancing these tensions means making use of the best of both worlds, so that CSIs can reach their full potential. To do so, they have to take steps to ensure impact integrity.

Evaluating the Impact Integrity Risk

Impact integrity risk relates to a CSI's relationship with (1) the related company and (2) its key stakeholders (i.e. social sector, regulators, media). Safeguarding impact integrity means managing corporate influence and signalling legitimacy towards key stakeholders. Both aspects are equally important, and even go hand in hand. CSIs can only signal legitimacy if they properly manage the corporate influence, while strong integrity alone will not guarantee legitimacy; CSIs also need to demonstrate their social impact to stakeholders.

The Impact Integrity Risk in the CSI-Company Relationship

By definition, a CSI is set up by a company. The two entities can be linked through one or several aspects such as name, funding, structure and/or governance. This can result in an imbalanced power relationship and ensuing tensions.

It is therefore essential **to understand, gauge and manage the influence of the related company to prevent the CSI's social mission from being diluted**. The way a CSI balances these social-business tensions will eventually influence its impact integrity.

Because of the nature of the (power[2]) relationship with the related company, challenges arising from this relationship bear more weight on impact integrity, as the company can directly influence the CSI's agenda. Managing these challenges is therefore crucial.

The first step in managing the impact integrity risks arising from the CSI-related company relationship is an objective risk assessment. Data from our study reveals that **two major factors** determine this risk: the **type of alignment** pursued with the company and **the level of dependence** of the CSI on its related company. More precisely, the combination of these two factors is what affects the impact integrity of the CSI and can indicate the level of risk to impact integrity.

Strategic Alignment as a Factor for Impact Integrity Risk

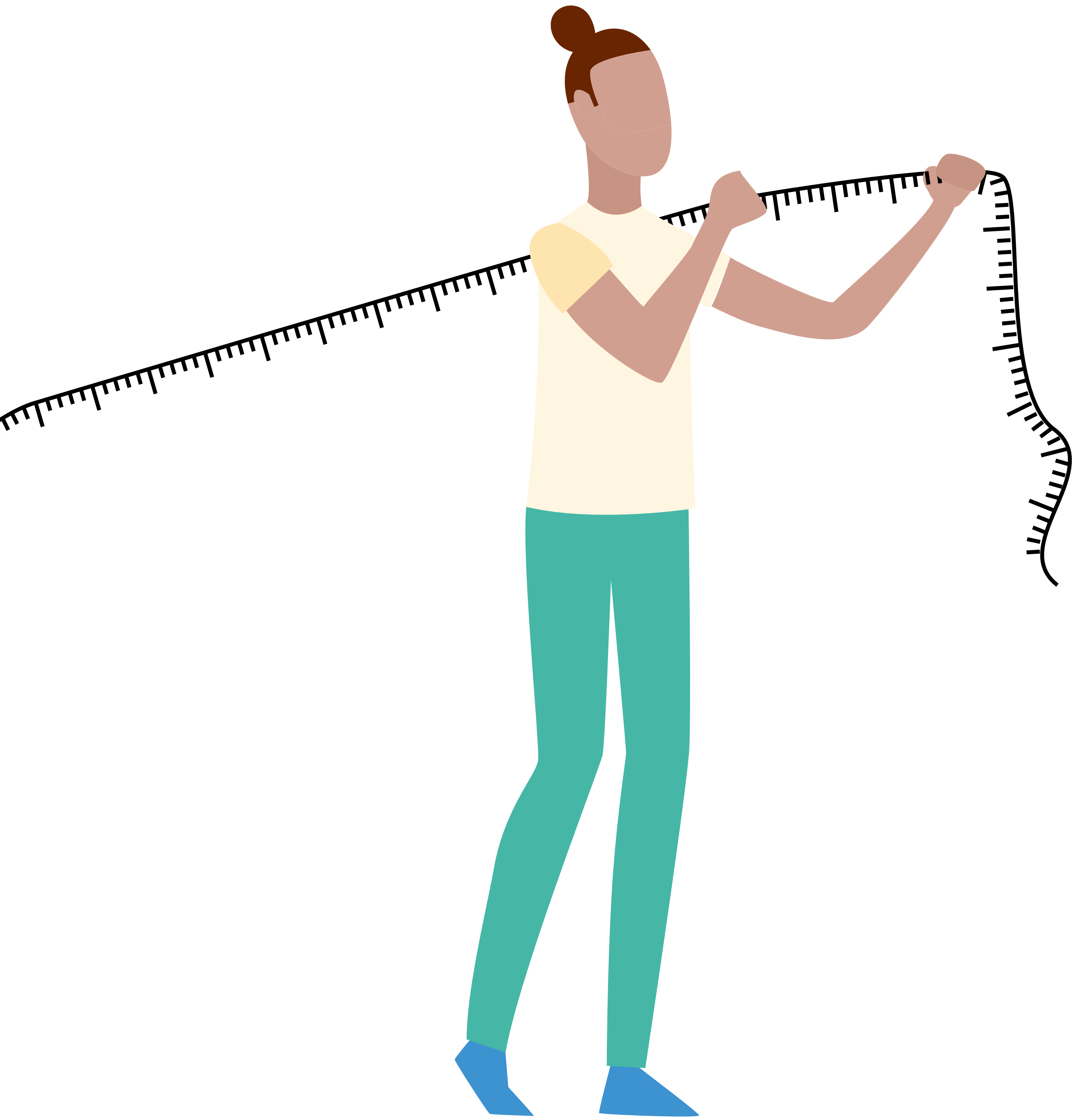
EVPA defines **strategic alignment as a mutual arrangement between a CSI and its related company with the goal of enhancing the CSI's social impact**.[3] Following research on strategic alignment in 2019, we developed the first typology describing the various ways in which a CSI and its related company can align: **nonmaterial alignment, thematic alignment, industry alignment and business alignment**.[4]

2 The relationship can be construed as a power-relationship due to the fact that the related company has control over the funding of the CSI if the latter relies exclusively on the related company for funding or that governed by trustees with a background from the related company if the board does not have any independent trustees.

3 Heitmann, K., Roza, L., Serneels, S., Boiardi, P., and Malmendier, N., (2020), *"Strategic Alignment Introduction"*. EVPA. https://evpa.eu.com/knowledge-centre/publications/strategic#alignment#introduction

4 Heitmann, K., Roza, L., Serneels, S., Boiardi, P., and Malmendier, N., (2020), *"Strategic Alignment: Case Studies"*. EVPA. https://evpa.eu.com/knowledge-centre/publications/strategic-alignment#casestudies

Strategic alignment is a key factor in the context of impact integrity because by pursuing a progressively closer alignment – from nonmaterial to business alignment – the focus and scope of the two entities become closer and more prone to overlaps. This brings many opportunities for stronger social impact, still there is a risk that the CSI's mission not only becomes aligned with the objectives of the related company but could even be overpowered by it.



How can a Corporate Social Investor align with its related company to maximise social impact?

Corporate Social Investor (CSI)

generates social impact on

SOCIETY

by primarily focusing on beneficiaries

by focusing both on beneficiaries and either company or industry

Corporate industry

Related company

Nonmaterial Alignment

The CSI aligns on **non-material corporate areas** (e.g. geography, partners, etc.) with the aim of **enhancing its ability to create social change**. The CSI's mission and core focus areas are thereby unrelated to the company or industry.

Thematic Alignment

The CSI aligns its mission and/ or core focus areas with **themes** (e.g. SDGs, core values) that are **of (material) importance to the company** with the aim of **creating stronger coherence between their respective social impact**.

Industry Alignment

The CSI aligns its mission and/ or core focus areas with **social issues related to the corporate industry** with the aim of **changing industry standards** or stimulate the adoption of sustainable best practices.

Business Alignment

The CSI aligns its mission with the company's overall **(inclusive) business strategy**, with the aim of supporting **the business in advancing sustainable practices** into its value chain.

Dependence as a Factor for Impact Integrity Risk

The level of **dependence** of the CSI on the related company consists of several elements: governance (board composition, investment decision process, staff composition), operational aspects such as communication, and funding.[5]

A CSI is more dependent on the related company if:

1. Its board is dominated by **trustees** with a corporate background from the related company

2. The **investment decisions** are taken or are heavily influenced by the business, and the majority of the staff has a corporate background from the related company

3. The CSI relies on the related company's **communication channels**

4. The **funding** is entirely or almost entirely reliant on financial support from the related company

As a consequence, the more dependent a CSI is on the related company, the higher the risk to impact integrity, and the higher the attention to mitigation actions should be.

5 The conceptualisation is similar to that of Bethmann, S., and von Schnurbein, G., (2015), *"Effective governance of corporate foundations"*. CEPS Working Paper Series, No. 8, University of Basel, Center for Philanthropy Studies (CEPS).

The Impact Integrity Matrix

Alignment with and dependence on the related company are key influencers of CSIs' impact integrity. By combining the assessment of these two key factors, we are able to **estimate the risk to impact integrity of a CSI from low to medium and high**. Using a short questionnaire developed by EVPA, any CSI is able to perform a self-assessment and to position itself on the Impact Integrity Matrix by identifying its strategic alignment choice and the level of dependence on the related company. While the process is not as straightforward as described here – the level of dependence has to be calculated using the scores on the various components of dependence mentioned above – the assessment requires virtually no other effort for the CSI than an honest and rigorous reflection to best describe its situation.

Key conclusions can be drawn from the positioning of the CSI in each of the four corners.

The level of dependence of the CSI from the related company is measured through aspects such as **operations** (communication), **governance** (staff, board composition, investment decision) and **funding.**

LOW RISK

CSIs with a low degree of dependence and a distant form of alignment with the related company find themselves in the low-risk corner. This is because the related company can only exercise a limited influence on the CSI due to a low level of dependence. In addition, the area of activity of the CSI has low strategic relevance for the related company's core business. This relative independence translates into a low impact integrity risk in the context of the relationship with the company.

MEDIUM RISK

CSIs with a low degree of dependence and a closer alignment with the related company find themselves in the lower right medium-risk corner. The related company can only exercise limited influence on the CSI. However, the area of activity of the CSI has strategic relevance for the related company's core business, which increases the risk to impact integrity.

MEDIUM RISK

CSIs with a high degree of dependence and a distant form of alignment with the related company find themselves in the upper left medium-risk corner. The risk to impact integrity increases because the related company can exercise a high degree of influence on the CSI due to a high level of dependence. However, the area of activity of the CSI only has low strategic relevance for the related company's core business, which alleviates the risk to impact integrity to a medium level.

HIGH RISK

CSIs with a high degree of dependence and a closer alignment with the related company find themselves in the high-risk corner. This is because the related company can exercise a high degree of influence on the CSI and the area of activity of the CSI has strategic relevance for the related company's core business. This combination results in a high risk to impact integrity.

This risk assessment allows CSIs to understand:

1. Their level of dependence
2. Where the dependence is especially high
3. The risk that high dependence and closer alignment poses for impact integrity

This helps CSIs identify the challenges they face, and select the appropriate mitigation actions.

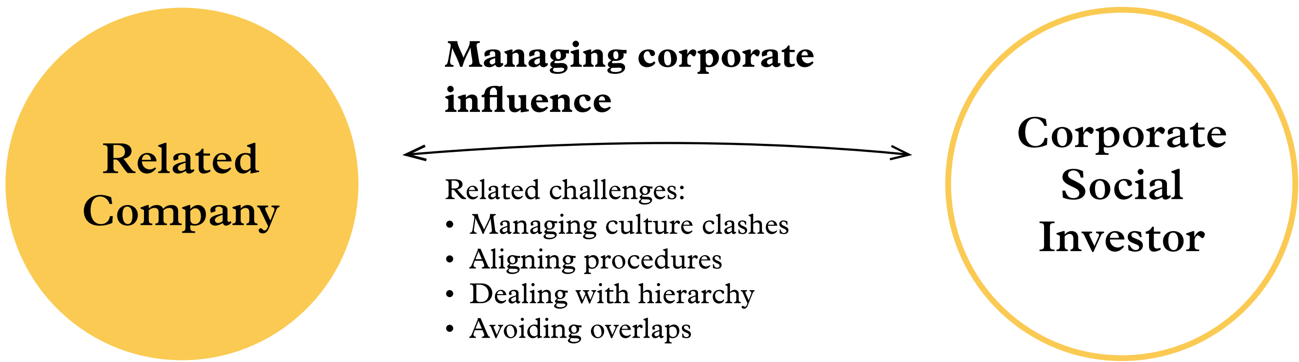
It is important to note that this matrix does not take into account external factors such as the regulatory environment, cultural environment, industry of the related company, etc. External factors can intensify the challenges a CSI is facing. For example, a CSI related to a company operating in a politically sensitive sector (e.g. fossil fuels or alcoholic beverages) might need to take more drastic mitigation actions than other CSIs. This is a limitation that needs to be acknowledged and potentially accounted for.

In addition, the positioning on the matrix **is only an indication of the potential risk a CSI might experience** and not an exact mirror of the actual situation. **Being in the "high-risk" corner also does not necessarily imply a negative connotation**. CSIs in the high-risk corner can very successfully safeguard impact integrity. They do need to identify the challenges faced and the appropriate mitigation actions that allow them to be successful.

Both strategic alignment and, to a certain degree, dependence, are conscious choices. It should be clear to CSIs that these choices come with consequences with regards to impact integrity. This does not mean that CSIs should not seek a closer alignment or that dependence on the related company is inherently bad. Both alignment and dependence should be viewed through the impact integrity lens and CSIs should pay attention to managing the various components of dependence (the Y axis), but also how strategic alignment (the X axis) impacts perception or legitimacy.

External factors can intensify the challenges a CSI is facing. For example, a CSI related to a company operating in a politically sensitive sector (e.g. fossil fuels or alcoholic beverages) might need to take more drastic mitigation actions than other CSIs. This is a limitation that needs to be acknowledged and potentially accounted for.

Relationship with the Related Company



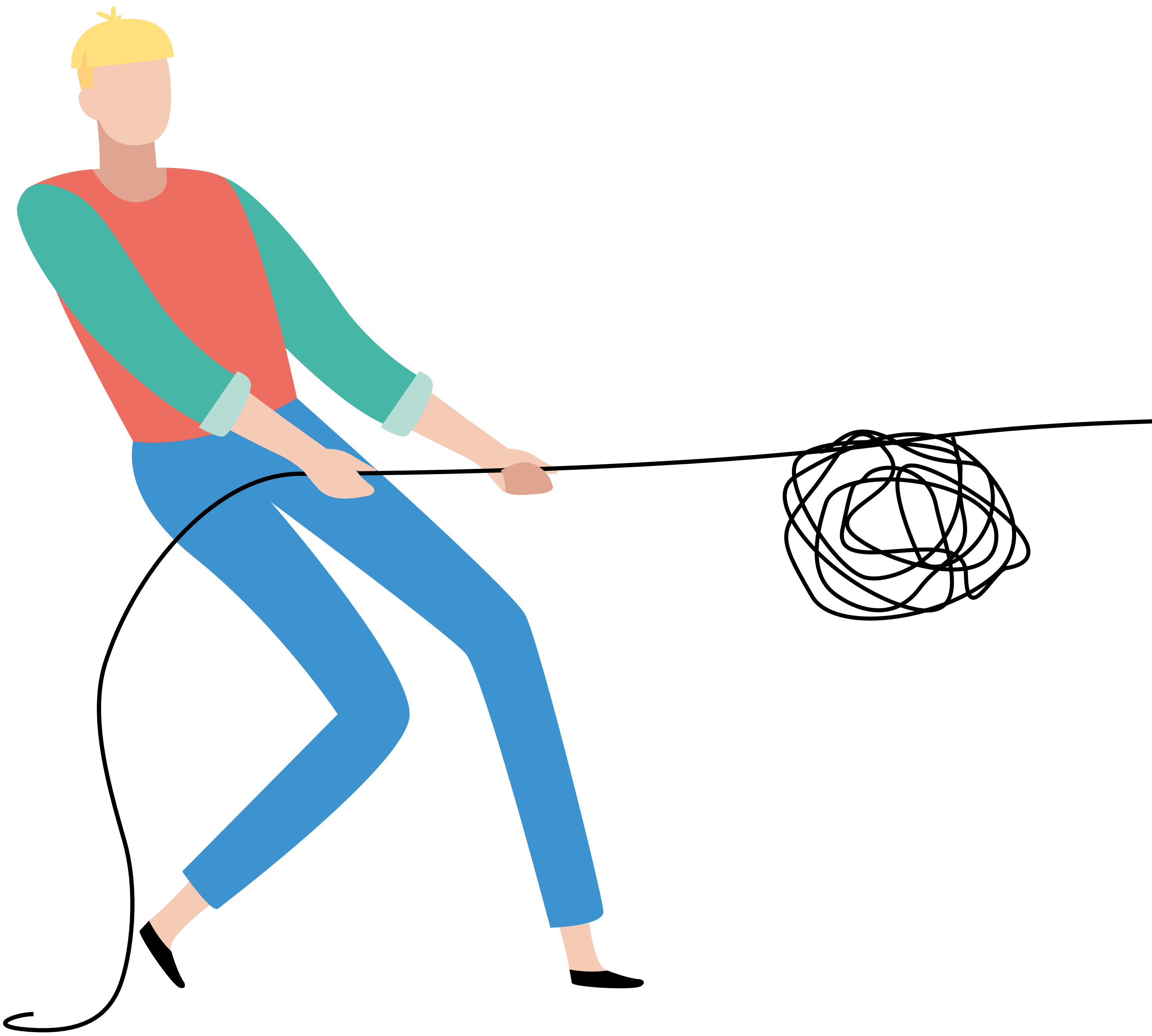
Challenges

During the interviews, practitioners revealed a number of challenges, many of which were common across our research group. Our data indicates that the main challenge CSIs face in maintaining impact integrity with regards to the related company is mitigating corporate influence to ensure that the business interests of the related company do not generate a mission drift. CSIs may feel directed, through various channels, to more closely align with the areas where the company is active in order to boost the business agenda, or to work in markets where the company has a direct interest, or to take on social challenges that have little to do with the CSIs stated mission, and are more linked with the commercial interests of the related company. While this challenge can take many forms, it pursues the same goal: influencing the CSI's mission in the benefit of the business agenda.

In the context of blurring lines, CSIs need to **avoid overlaps with the related company**. This situation emerges when a company sets itself ambitious social and environmental goals that are similar to those of the CSI. In such cases the impact areas of the two entities could be difficult to disentangle, especially from an outside perspective. Resolving this also has benefits for the CSI-related company relationship and operations.

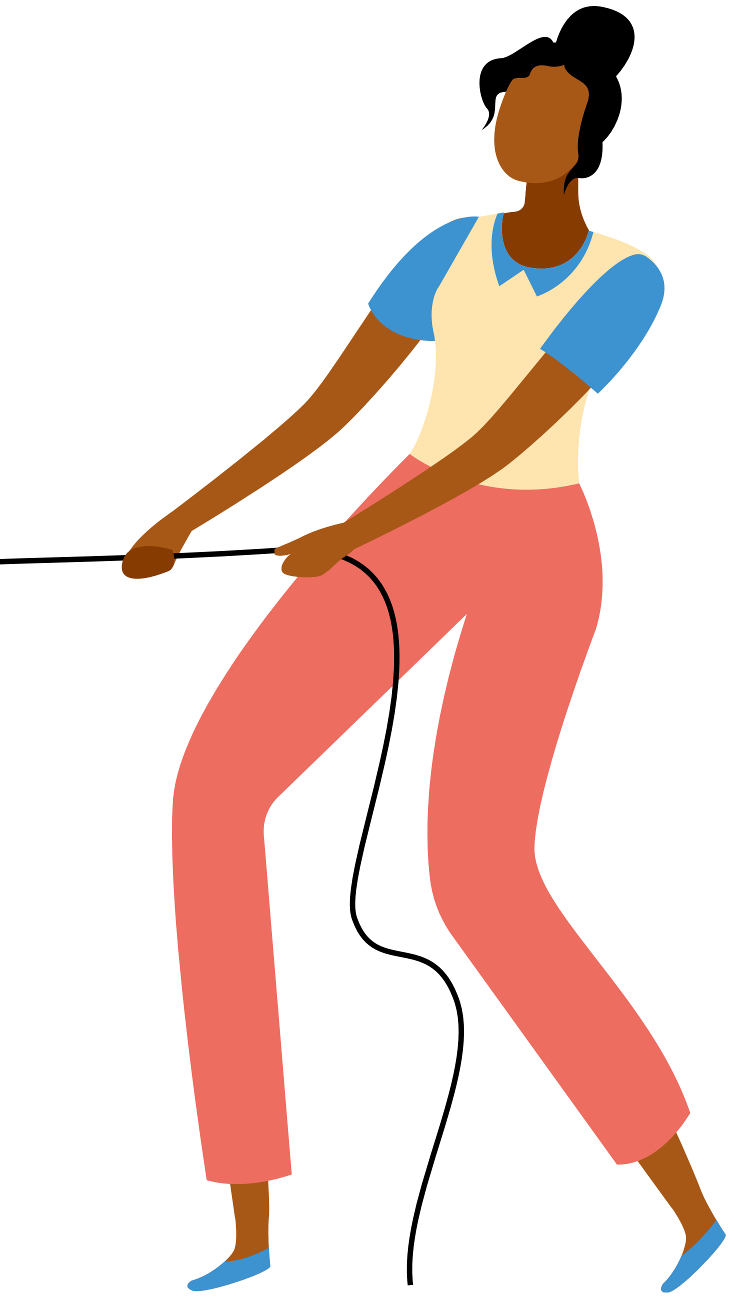
Where and how decisions are made have a key influence on the CSIs operations and its ability to further its social mission. When a CSI sits within an unfavourable hierarchy structure in its related company, it has to **manage relations with (company) hierarchy** in the process of pursuing its social mission. The hierarchy can affect the CSIs ability to operate (e.g. having decision-making processes that involve corporate employees, difficult access to corporate expertise). For instance, the need to regularly consult the company's management board, which may not be knowledgeable about the social issues the CSI addresses, can be challenging.

The case of ENGIE Rassembleurs d'Energies (RDE), the impact investment fund of ENGIE, which invests in social entrepreneurs that offer innovative and sustainable energy solutions to underserved populations, is a good illustration of this situation. The impact fund has two governance bodies: the Board of Directors that includes independent membership and the Investment Committee. Jérôme Broutin, Chief Financial Officer, highlights the importance of creating a favourable hierarchy structure:



“If we were only governed by operational employees from the group, there would be a risk where RDE’s mission to expand the Group’s purpose and societal commitment beyond operations objectives, would not be fully taken into account.”

JÉRÔME BROUTIN - ENGIE Rassembleurs d’Energies



In a wider sense, there is the risk that the company’s C-level executives could impose their personal or company interests on the CSI, which in turn may lead to the CSI deviating from its social mission.

Having access to the expertise of corporate employees is one of the significant advantages that a CSI has. Leveraging this non-financial resource can considerably increase its impact. However, diverging objectives and timelines specific to businesses and CSIs (e.g. quick results vs. long-term objectives), make **aligning procedures and harmonising different ways of working** a potential problem. This could especially be true with regards to the support for the CSI’s investees who need a long-term perspective.

A good example is IKEA Social Entrepreneurship, which leads the support for social entrepreneurship at Inter IKEA. It backs social enterprises that create new opportunities for vulnerable people and communities, while fighting the root causes of poverty and inequality. As part of its approach, IKEA Social Entrepreneurship engages IKEA co-workers to leverage their expertise and knowledge to the benefit of the social enterprises. This brings together different working styles: while social entrepreneurs create and modify their strategy as they go and develop their strategic planning in action, IKEA employees are “used to having time to work strategically, doing a lot of insight gathering”. Åsa Skogström

Feldt (IKEA Social Entrepreneurship) underlines: “The key for IKEA Social Entrepreneurship is to find the right balance between the two working styles and tailor them to the needs of the social enterprise.”

This highlights how CSIs sometimes have to walk a tightrope between different requirements and needs, balancing carefully to advance their mission.

CSI may also have to **manage culture clashes**, especially when a company wants its CSI to contribute to its inclusive goals and to operate in areas instrumental to the business. Misconceptions about the CSI’s role need to be dispelled to provide clarity on its scope and purpose; this requires time that would otherwise have been dedicated to external stakeholders.

Mitigation Actions

The social-business tensions resulting from the inherent relationship between the CSI and its related company can be managed and alleviated using mitigation actions. The appropriate mitigation actions depend on multiple aspects. The level of identified risk may prompt a CSI to act and mitigate, but the choice of the mitigation action depends on:

1. **the type of challenges faced**
2. **the CSI’s specific context (e.g. legislation)**
3. **the ability of the CSI to implement those actions in given constraints**

These actions can be used either alone or in combination.

CSIs can **introduce external procedural safeguards**, through external organisations such as regulatory authorities or by commissioning external audits. They can also cite existing regulation to shield themselves from interference. This mitigation action is effective when a CSI is confronted with pressing requests from the related company to become (more) active in certain areas, as it deflects these pressures into the realm of compliance. It has limited effectiveness due to the differences in regulations across countries and to its limited effect on changing corporate mindsets or strategies.

CSIs can also **improve understanding**. It can enhance internal communications to clarify with the related company each other’s scope, objectives and drivers, as well as to manage expectations in these areas. This is particularly useful when the related company perceives the CSI as a vehicle that can contribute to its CSR strategy or when corporate employees do not understand the purpose of corporate social investments.

NN Group organises its CSI activities within the company through its Community Investment programme. An important stakeholder group is corporate employees for whom the programme activities are not part of their formal job description. In this context, Lonneke Roza, Manager Community Investment, highlights the importance of clarifying the CSI's purpose, continuously working to improve understanding and building legitimacy within the company.

"We need to do a lot of advocacy within the organisation to make sure that people understand what community investment is and what it is not"

LONNEKE ROZA - NN Group

This approach, though laborious, has proven to be successful and effective.

When a CSI engages with partners that could buy products from the related company, this could potentially lead to a conflict of interest. **Putting in place internal procedural safeguards** requiring those partners to sign a document that forbids them to buy products from the related company for a set period can mitigate this risk. To mitigate similar situations, CSIs can develop codes of conducts for conflicts of interests, clear rules and policies, and/or internal audits that provide objective guidance and protection.

Air Liquide Foundation, the corporate foundation of Air Liquide, the French supplier of industrial gases, regularly convenes with the Corporate Ethical Officer to put in place internal procedural safeguards meant to avoid any conflict of interest. One such safeguard is to undertake quantitative checks to make sure that:

"Donations do not represent an excess number" compared to the foundation's budget, and there is no situation where an investee receives its funding primarily from the foundation as this "would create a link one way or the other."

BRUNO LEPRINCE-RINGUET - Air Liquide Foundation

An alternative mitigation action, **creating internal structural safeguards**, goes a step further, as it requires the redesign of organisational elements such as the composition of the board, the decision-making process for investments, or the staffing approach. This action is useful when a CSI has a board entirely composed of people with a role in the related company.

An example that illustrates this well, is the case of the former corporate foundation of the French pharmaceutical company Sanofi, Sanofi Espoir Foundation. Ten out of its fifteen-member board had a corporate background, while the remaining five had no prior relationship with Sanofi and were selected due to their expertise on the social causes the foundation was addressing. The substantial proportion of external board members, which is required by the French legislation, is helpful to avoid any mission drift. As Valérie Faillat (Sanofi Espoir Foundation) puts it:

"If the board members with a corporate background want to move too close to the business, the five board members from outside of the company are there to remind them about the rules regarding the foundation."

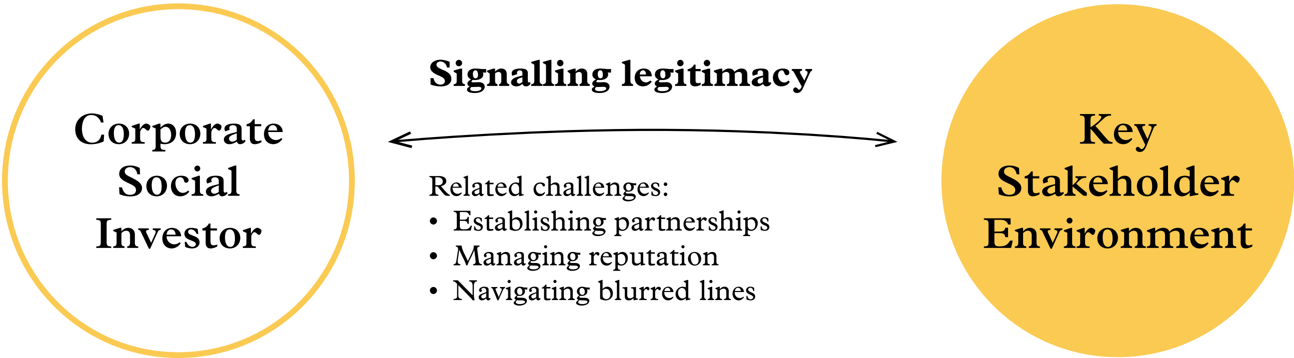
VALÉRIE FAILLAT - Sanofi Espoir Foundation

By changing the board structure so that a certain number of external individuals is required, CSIs can balance commercial interests with impact considerations.

These mitigation actions can be placed on a continuum, escalating from the most moderate to the most drastic. The most drastic mitigation action available to CSIs in this context is **decoupling from the company**. By detaching itself from the related company – for example, by operating in different buildings, diversifying funding sources, communicating on its own channels – the CSI can reduce its dependence and rule out any potential influence on its social mission. This also eases the pressure from the key stakeholder environment, insulating the CSI from any potentially negative considerations that may surround controversial industries. In practice, CSIs can decouple their strategy or even their operations as described above, but still keep the name that links the two entities, or can opt for a complete separation, depending on their specific context.[6]

6 It is important to note that EVPA does not advocate for the most drastic mitigation action (decoupling). This mitigation action may constitute a solution in certain circumstances (e.g. when a CSI finds itself in the high-risk category with high dependence and close alignment as well as facing intense scrutiny from the key stakeholder environment).

Relationship with the Key Stakeholder Environment



Challenges

CSIs face challenges in their relationship with stakeholders such as regulators, media and civil society. These actors, who are considered as the CSI's key stakeholder environment, might question CSI's impact integrity due to its link with an entity that pursues a primarily commercial agenda.

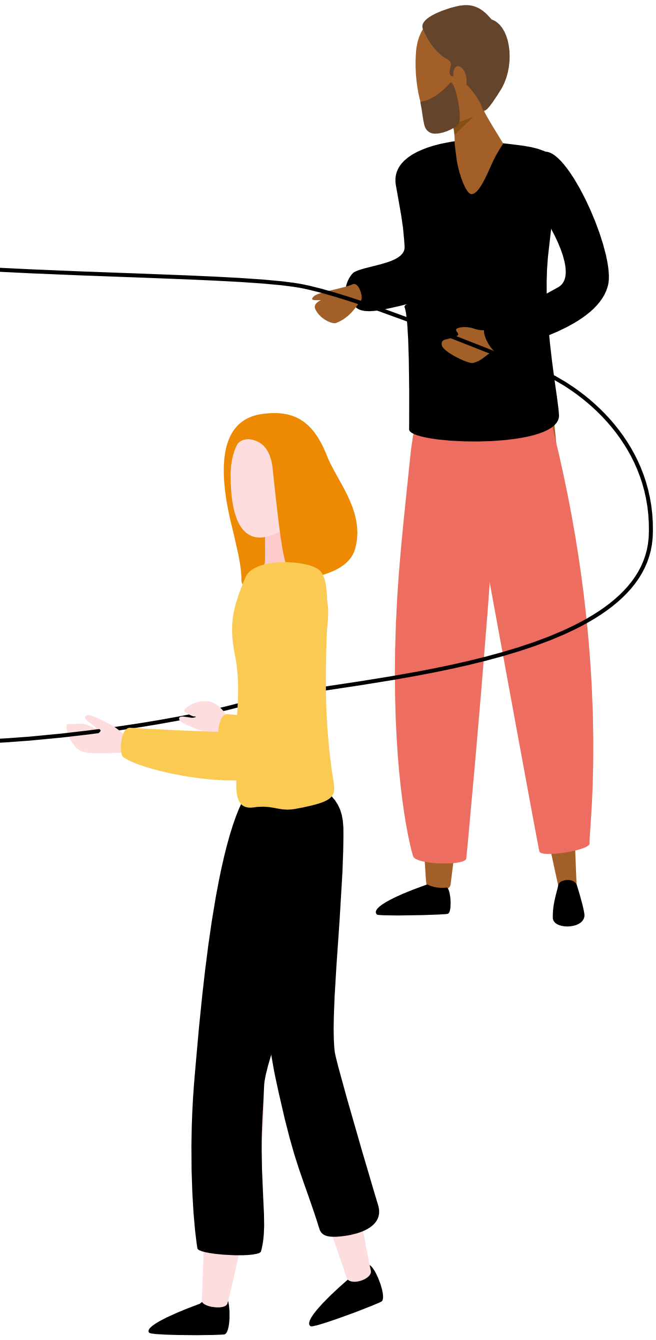
CSI can only reach its full potential if its impact integrity is widely acknowledged. It is essential for CSIs to **signal legitimacy towards the key stakeholder environment**, by demonstrating the integrity of their social mission and the reliability of the created impact. This is **the main challenge for CSIs in the context of this relationship**, but there is also a set of related issues to address.

Stakeholder scepticism towards the impact integrity of CSIs may be highest when a company is operating in a contested industry and its CSI aims at improving conditions (e.g. labour) within the whole industry. Even though the CSI's scope goes beyond the company, the activities might be perceived as greenwashing. In these conditions, CSIs have to **unblur the lines**, ensure clarity on the different scopes of action of the two entities, and effectively communicate this to key stakeholders.

CSIs have to **manage their reputation**. A CSI might struggle to keep its image separate from that of its related company, as in the eyes of stakeholders the separation between the two entities might not be as clear-cut. While corporations usually manage their reputation, as this may affect their success in the market, some CSIs may rely on the reputation of their related company. In some cases there is a need to proactively manage how key stakeholders perceive the CSI's activity, and implicitly its impact integrity.

For Bayer Foundation, the corporate foundation of the German pharmaceutical and life sciences company, the relationship to a well-known multinational company unavoidably influences the way the foundation is perceived by its stakeholders. As Stefan Wilhelm (Bayer Foundation) put it:

> **“The overall brand reputation and recognition of the related company, which then shines back on us, either limits or boosts our ability to act”**
>
> STEFAN WILHELM - Bayer Foundation



The simple fact that a CSI is linked with a company may in some cases hinder collaboration with other entities that are essential to achieve its mission. For example, NGOs focusing on health-related causes may be reluctant to collaborate with CSIs, due to fears of being associated with the reputation of the related healthcare or insurance company. This may therefore prevent CSIs from **establishing partnerships** with social or public sector actors that could significantly increase their impact.

Mitigation Actions

It is evident that CSIs have to **manage key stakeholders’ perception about the CSI delivering the intended impact to achieve its social mission**. This effort is similar to managing reputation, but goes beyond mere PR efforts, and CSIs can rely on a number of mitigation actions.

Mitigation actions can be placed on an escalating continuum. On the ‘simple and effortless’ end of the spectrum, CSIs can **demonstrate commitment**. For example, a corporate impact fund, not bound by the strict legal requirements affecting corporate foundations, can commit to voluntarily adhere to the highest standards with regards to impact management, even deciding to acquire the B Corp label. In this way, the CSI can go beyond minimum legal or compliance requirements, effectively demonstrating its commitment to impact integrity.

There are situations in which CSIs may consciously decide not to seek support from corporate employees to achieve their social mission. By **involving external partners**, CSIs can avoid any bias towards the company or the perception that the company may influence the CSI in the process.

Another mitigation action at the CSI's disposal is to **show independence**, by communicating and providing evidence for its independence from the related company in pursuing its social mission. While the CSI does not deny that there is a link to the company, it can communicate that it is driven by impact considerations and not by the business agenda. As straightforward as this may seem, it has been used by a number of organisations in our sample.

The most comprehensive mitigation action builds on previously discussed actions with the aim to **build transparency with key stakeholders**. This was by far the most prominent and effective measure according to our interviewees.

Trafigura Foundation does this by publishing the results of its **Grantee Perception Survey**, Air Liquide Foundation by providing a comprehensive overview of its governance on its **website**, while IKEA Social Entrepreneurship regularly publishes **news and stories** for a broader audience. Stefan Wilhelm's (Bayer Foundation) words describe this most accurately as being:

> **"It is important to learn from and not to influence the public perception; to act in a way that is so transparent, but at the same time so public, that people understand: 'Okay, this is how they work, this is where the integrity comes from."**
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In building transparency, the CSI can involve external auditors, increasing the confidence in how it measures its impact and growing its legitimacy. In this way, it can measure and communicate the created impact, as well as disclose procedures and processes with the intent of building trust and consolidating its legitimacy with key stakeholders.[7]

7 It is important to note that, contrary to the CSI-company relationship, where the most drastic mitigation action is reserved for the most extreme cases – when decoupling offers more advantages than the disadvantage of losing access to financial and non-financial resources – in the CSI-stakeholder environment relationship, building transparency is an inclusive and desirable action that only offers advantages.

From Risk Assessment to Challenges and Mitigation Actions

A CSI's impact integrity journey starts with assessing the risk. By using the Impact Integrity Risk Matrix, they can reflect on their degree of dependence on and strategic alignment with the related company. This tool cannot generate a list of challenges and mitigation actions tailored to each context – as various aspects are unique for each CSI. Dependence and strategic alignment are critical elements that can point to certain tendencies.

Challenges with regards to the related company are more likely to emerge when the CSI only has a low degree of independence. One the one hand, high dependence enables the related company to potentially exercise power over the CSI, which increases the difficulty of managing corporate influence. On the other hand, close strategic alignment is apparent to stakeholders and can create challenges for the CSI's legitimacy.

The matrix can help make these challenges explicit and indicate appropriate mitigation actions. If dependence poses a high risk to impact integrity, a CSI could opt for mitigation actions that either reduce dependence or limit the negative influence this dependence can have. Also, if there is close alignment with the related company, a CSI can either reduce the alignment or take actions to legitimatise the decision.

Drastic mitigation actions, especially with regards to the related company, are in general not desirable as they will also deprive the CSI from the unique opportunities this relationship offers. It is essential to accurately assess the risk to impact integrity and choose the appropriate mitigation action. While moderate mitigation actions will be effective in most cases, drastic measures are only needed when dependence is high and alignment is close.

Some limitations and caveats are important to note:

High risk does not imply a negative connotation, rather it indicates the need to address and mitigate it.

This report focuses on the impact integrity risk looking at the CSI-company relationship and does not extensively address perception evaluation and management. Still managing both relationships and mitigating challenges on both sides of the CSI's relationship (related company and key stakeholder environment) are crucial to safeguard impact integrity.

Each CSI might find one positioning (with regards to the level of dependence and strategic alignment) more appropriate than another, depending on its individual raison d'être, but it needs to be justified and weighted against impact considerations and should not negatively affect a CSI's impact integrity.

EVPA considers that each conscious choice regarding the level of dependence of the CSI or its strategic alignment with the related company has positive and negative consequences, each providing opportunities but also some risks. It is crucial to acknowledge these risks and take appropriate mitigation actions to ensure that the corporate influence is managed in such a way that it truly is an opportunity for both sides!

Appendix

EVPA conducted an extensive review of the literature that analyses the social-business tensions of corporate foundations and shareholder foundations. While this literature primarily focuses on the governance of such entities, other aspects such as funding, legal requirements, staffing and publicity were also highlighted as aspects with unique implications for corporate foundations. These insights helped us shape the focus of our research study and the elements affecting the impact integrity of CSIs.

Between July and September 2021 EVPA conducted in-depth interviews with 15 practitioners from CSIs or related organisations from eight countries to ensure a wide variety of participants. The interviews were transcribed, coded using Grounded Theory approach and analysed.

In September 2021, the interviewees gathered in an expert group meeting to validate preliminary results and ensure practical relevance.

The final research results were presented in November 2021 at the C Summit in Porto.

Extensive review of existing literature
MAR-JUN 2021

Interviews with practitioners
JUL-SEP 2021

Coding and analysis
AUG-SEP 2021

Expert group call with practitioners
SEP 2021

Research presentation at the C Summit
NOV 2021

Report development
FEB-MAR 2022

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Acknowledgements

The authors wish to express gratitude to all the experts participating in this research:

Name	Organisation	Position
Bruno Leprince-Ringuet	Air Liquide Foundation	General Manager
Stefan Wilhelm	Bayer Foundation	Programme Manager Social Innovation Programme
Jérôme Broutin	Engie Rassembleurs d'Energies	CFO & Investment Director
Selma El-Hafi	Engie Rassembleurs d'Energies	Investment Analyst
Tom Hoyle	Genesis Charitable Trust	Charitable Trust Manager
Åsa Skogström Feldt	IKEA Social Entrepreneurship	Managing Director
Kirsten Ottens	ING Netherlands Foundation	Managing Director
Lonneke Roza	NN Group	Community Investment Manager
Valérie Faillat	Sanofi Espoir Foundation	Managing Director
David Hoffmann	Siemens Foundation	Project Lead
Céline Yvon	Trafigura Foundation	Deputy Director
Vincent Faber	Trafigura Foundation	Managing Director
Luciana Aguiar	UNDP	Head of Business Call to Action and the Covid-19 Private Sector Global Facility
Margarida Couto	Vasco Vieira de Almeida Foundation	CEO
Simon Kaiser	Wider Sense	Consultant

and to

Steven Serneels, EVPA Chair; Sophie Faujour, EVPA Corporate Initiative & France Iberia Lead; and Karoline Heitmann, former EVPA Corporate Initiative Manager, who provided support at different stages of the research.

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