



# KPMG True Value case study

**Cementos Argos**



December 2018



# Understanding the value a major cement company creates for society in The Americas

## Why Argos used KPMG True Value?

Cementos Argos (hereafter referred to as Argos), is the largest producer of cement in Colombia and one of the leading producers in Colombia, the Caribbean and North America. It has been a leading supplier to the building industry for more than 80 years and its products play a critical role in creating essential infrastructure for development in many countries in The Americas.

Three years ago Argos decided to calculate the value it creates and reduces, for society for three key reasons.

Firstly, the company wants to make better informed and more responsible business decisions by integrating a wide range of economic, environmental and social considerations. This ambition is motivated by the company's highest purpose, which is to "build dreams that encourage development and transform lives."

Secondly, Argos wants to understand how its social and environmental impacts - that have traditionally been considered "externalities"<sup>1</sup> - might present financial risks to the business in the future and to use this information to consolidate the strategy that mitigates these impacts. For example, the company is currently designing a methodology to quantify the potential financial impact

of water scarcity on the business. This helps to build the business case for innovative manufacturing solutions that use less water and to support third party programs that address water scarcity in vulnerable regions.

Thirdly, the company wants to promote accountability within their stakeholders about the net value it brings to society. Argos recognizes that better quality information can contribute to the informed dialogue with stakeholders which, in turn, can help identify opportunities to work together and obtain support from the communities and other stakeholders, with the objective to obtain the company's long-term license to operate. An example of this type of initiatives are the partnerships with the public sector, NGOs, and the communities, around projects to improve services, the construction and improvement of schools, roads, and power generation, for communities in many countries where these services would otherwise not be available. By calculating the value these services bring to communities, for example in terms of welfare and development, the company believes that it can enrich the dialogue and have more meaningful conversations with a wide range of stakeholders.

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<sup>1</sup> Externalities are consequences (costs or benefits) of an economic activity, that haven't been priced into the market, and which affect a party who did not choose to incur those costs or benefits

With these three objectives in mind, Argos looked for a methodology that would help the company quantify the value it creates and reduces for society, and chose to work with KPMG and its True Value methodology since it considered that it was the firm best positioned to manage the entire process.

## About Argos

Argos is a multinational company that produces and markets cement and ready-mix concrete through its operations in Colombia, the US, Central America and the Caribbean. **It is the fourth largest producer of cement and the second largest producer of ready-mix in the US.** With 7 plants in Colombia, 4 in the US, and 2 in the Caribbean and Central America, Argos has an installed capacity of almost 23 million tons of cement and 18 million cubic meters of concrete per year. Additionally it has 9 plants (that grind clinker to cement powder) located in the US, Haiti, Panama, the Dominican Republic, Honduras, French Guiana, and Surinam, as well as 33 ports and terminals for receiving supplies, packaging and distributing products.



## A collaborative team of KPMG and Argos implemented a 3-phase approach

This project involved three phases:

- 1 Definition of scope of the project, identifying the economic, social and environmental impacts that are most material to Argos and its stakeholders within the areas in which it operates.
- 2 Construction of the analysis model to value these impacts in monetary terms, and data collection for the analysis.
- 3 Data analysis to gather insights, disclose key findings to stakeholders and plan the next steps.

The project team included professionals from both Argos and KPMG who worked together in adapting the KPMG True Value methodology to precisely meet Argos' needs. It included representatives from different areas and countries in which Argos operates as well as experts from multiple disciplines, including finance, operations, communications and sustainability.

In Phase 1, a thorough review of Argos' businesses across the region led the team to identify 11 key economic, social and environmental indicators to be used in the KPMG True Value analysis (see Figure 1).

 <b>Economic</b>	 <b>Social</b>	 <b>Environmental</b>
<b>Salaries and benefits</b> Impacts to the economy deriving from the remuneration of Argos' employees	<b>Health and safety</b> Impacts on workers and communities associated with occupational incidents (injuries & fatalities) and illnesses	<b>GHG emissions</b> Climate change impacts through greenhouse gas emissions (Scopes 1 and 2)
<b>Taxes</b> Impacts to the economy associated with tax payments to the governments of the countries in which Argos operates	<b>Talent development</b> Impacts deriving from the additional salary earned by more skilled employees that return to the job market after leaving Argos	<b>Air emissions</b> Air pollution impacts associated with Argos' emissions of NOx, SOx and Particulate Matter
<b>Interests &amp; dividends</b> Impacts to the economy related to interest and dividend payments to financial institutions and investors	<b>Community investment</b> Impacts arising from housing projects, community and educational infrastructure, and scholarships among others	<b>Water consumption</b> Impacts on water scarcity caused by Argos' water consumption
		<b>Biodiversity</b> Impacts on biodiversity due to extraction operations and facilities as well as offsets and rehabilitation programs
		<b>Alternative materials and fuels</b> Impacts of replacing raw materials and fuels with alternative ones, which results in avoided CO <sub>2</sub> emissions

Figure 1: Economic, social and environmental indicators used for KPMG True Value analysis of Cementos Argos

## A large-scale regional approach brought new challenges

This project, in many ways, ventured into uncharted waters. This was the first time KPMG applied its True Value methodology in Latin America, which meant a large amount of new site-specific statistics and data had to be sourced for the analysis. Data on the cost of living, education levels and other indicators were in many cases challenging to find and had to be extrapolated from global or regional data.

The geographical extent of Argos' operations also added complexity to the analysis. For example, the societal value of employee salaries varies considerably across the region due to large differences in the cost-of-living. Similarly, the impacts of water scarcity differ widely according to the region and the season. The KPMG True Value analysis had to take into account these differences in order to provide accurate and reliable insights.

## Results: What did we learn?

Argos used the TV analysis to produce its Value Added Statement (VAS) in 2016 which combines the company's financial earnings and its monetized socio-economic impacts into a single value<sup>2</sup>. Based on 2016 results, the company established a process to continue measuring and publishing its annual VAS. The 2017 VAS shows that Argos created USD 1,017.5 million value for society through its positive socio-economic impacts including salaries, community investment and the use of alternative materials and fuels. This value is reduced in USD 383.2 million by significant negative environmental impacts, primarily GHG emissions but also air emissions, and water consumption. Overall, Argos creates a net value to society 4.73 times its retained earnings.

*While some expected Argos' environmental impacts to dominate the analysis, the project demonstrated that, in fact, the value of Argos' positive socio-economic impacts is far greater. "This helped us realize that our investment in our people makes a considerable contribution to the local economies", said María Isabel Echeverri, Vice President of Sustainability, Cementos Argos.*

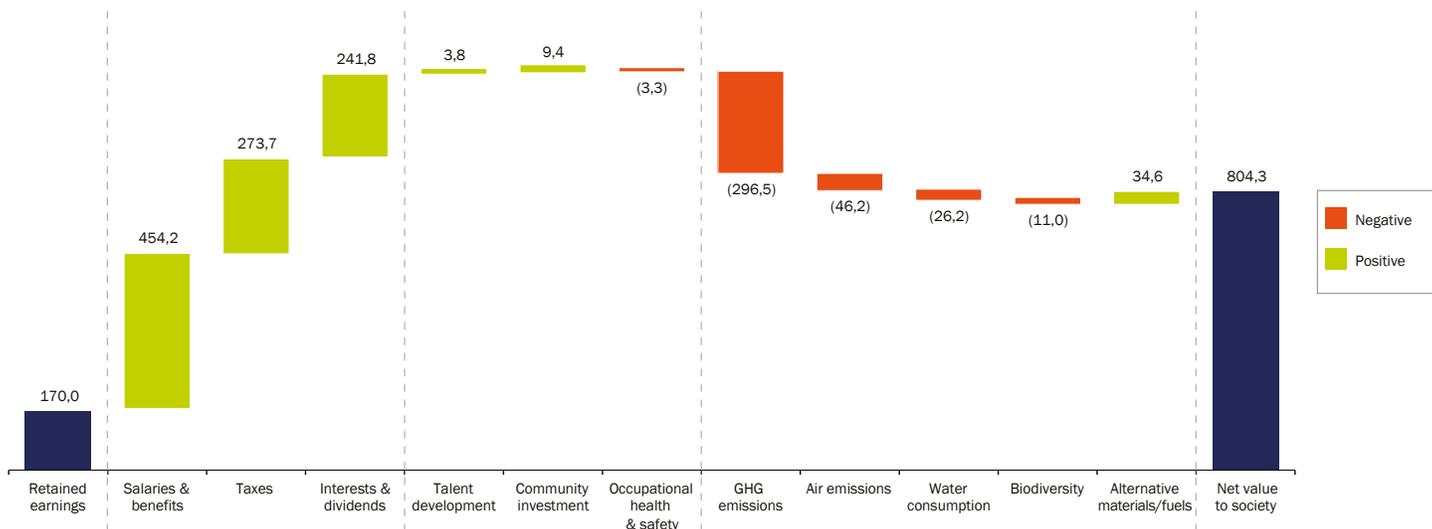


Figure 2: Argos Value-Added Statement 2017

The VAS calculates the net value Argos creates for society during a fiscal year and presents the results as a financial bridge chart (see Figure 2). The chart shows the financial benefits retained by Argos during the year as well as the value generated or reduced for society through the company's most significant economic, social

and environmental impacts, both positive and negative. The final bar on the right hand side of the chart represents the net value that Argos creates for society after all its economic, social and environmental impacts have been accounted for.

<sup>2</sup> 2017 Results were published in 2018 Q1 and are available at <https://www.argos.co/Media/Default/images/vas-2017.pdf>



## Economic

Cementos Argos' most significant economic impact arises from the payment of salaries and benefits to employees. This stimulates the economy and is valued at USD 454.2 million. Societal value created through taxes paid to the government is worth USD 273.7 million and a societal value of USD 241.8 million arises from payments to capital providers.

Significant economic value is created through supplier spending. However, due to the fact that environmental and social impacts for suppliers are not currently quantified, this item was excluded from the overall VAS calculations.

## Social

Argos has a considerable portfolio of investments in social projects in the geographies where it operates. This is captured under the indicator Community Investment. Some of the least developed markets lack basic services and infrastructure. For example, in Haiti, Argos provides electricity to surrounding communities.

## Environmental

The 2017 results revealed that 78% of Argos' negative environmental impact arose from greenhouse gas emissions. In addition, the TV methodology helped Argos compare the relative impact of different potential investment options to reduce emissions.

## Net Value to Society

Quantifying these impacts has been a valuable tool for engaging with Argos' stakeholders (which include communities, employees, investors and shareholders, authorities, clients, suppliers, associations and partnerships, and the media) in a fact-based discussion about the positive and negative impacts of Argos to society and its specific communities. The TV methodology helped compare the return on different investment lines across regions.

# What is KPMG True Value?

KPMG True Value is a tool to understand how the value a business creates and reduces for society is likely to affect the value it creates for shareholders. This knowledge provides a new lens for decision-making to improve performance, inform strategy and increase influence.

KPMG True Value is a 3-step process that can be applied across sectors and geographies. It is scalable and can be applied to a whole company, a division or a specific project.

## KPMG True Value steps

<b>1</b>	Identify the value a company creates and reduces for society through its externalities and express this in financial terms.
<b>2</b>	Assess how the internalization of externalities is likely to affect future earnings (through regulation, stakeholder action and market dynamics).
<b>3</b>	Develop business cases that build and protect future value for shareholders by increasing the value created for society.

## Where has KPMG True Value been applied?

### **Cement:** **Holcim / Ambuja Cement** (India)



Holcim subsidiary Ambuja Cement used KPMG's True Value methodology to quantify risks to its future profitability. As a result, Ambuja has identified projects that will benefit society and boost future profitability. Holcim has also applied the KPMG True Value methodology at other subsidiaries and at corporate level.



### **Retail** **Kingfisher** (Europe and Asia)

Kingfisher is a leading home improvement retailer with 1176 stores in 11 countries. KPMG member firms have provided assurance on Kingfisher's reporting of its Net Positive initiative which aims to make a positive contribution to people and the environment, while growing a stronger, more profitable business.



### **Finance:** **Private equity** (Europe)

KPMG True Value has been used at the private equity arm of a global financial institution to quantify social and environmental risks and opportunities at a number of portfolio companies. The analysis has helped the firm identify strategies to reduce risk and build long-term value within its portfolio.



### **Food production and retailing** (Major food retailer)

KPMG member firms worked with an international food retailer to quantify the societal value the company creates and reduces through its food products. This analysis has helped the company to develop its corporate responsibility strategy.

## What's next?



### Influencing capital investment decisions

Although still in its early stages, Argos plans to use the results of the VAS in its capital expenditure allocation process in the future. Examples of this may include exploring the use of alternative materials that could lower greenhouse gas emissions to compare social and environmental returns among different energy efficiency projects for the company.

#### 2017 progress

Argos conducted the first evaluation to analyze the financial and environmental costs of investments in machinery and equipment.



### Communicating with Stakeholders

The First Argos Value Added Statement (VAS) was released in 2016. Information from this report was used as a basis for communicating to a variety of stakeholders on the topics that are most important and relevant to them. Argos intends to further expand the discussion around the results and also to include the different actors in the selection process of projects in the near future.

#### 2017 progress

Argos disclosed the methodology and results of their VAS for external, internal and specialized audiences.

***"Engaging with community leaders from the areas in which we operate is very important for our license to operate in these environments. Having monetized information about the value we bring to the communities is a real benefit of this methodology" María Isabel Echeverri.***



## Managing Risks of Externalities

In terms of preparing for and internalizing possible risks from externalities, the results around water consumption were very useful. The company is currently using its valuation methodologies in order to improve the quantification of risks related to water scarcity. This information will be useful when considering water use reduction investments and to estimate the financial benefits of complying with Argos' environmental strategy.

*Having these data has raised awareness of both Argos' positive and negative impacts to society, Echeverri specifically mentioned: **"As part of our long-term strategic plan for 2025, we have included a goal to return more to society than what we take from it. Ultimately, our objective is to have a positive impact on society and the environment while mitigating our negative impacts and continue to thrive as a company"***

### 2017 progress

Argos mapped potential risks of internalization of negative externalities associated with the strategic risks of the company.

Argos also developed new methods to quantify its risks, based on the valuation of their externalities (see 2017 case study: <https://www.argos.co/Media/Default/images/vas-2017.pdf>)



This casestudy was written by KPMG in Columbia.  
columbia@kpmg.com.co

# Your local contacts

## **KPMG AG**

Badenerstrasse 172  
PO Box  
8036 Zurich

**[kpmg.ch/sustainability](https://www.kpmg.ch/sustainability)**

## **Silvan Jurt**

Partner  
Corporate Audit  
Head Corporate Sustainability  
Services  
+41 58 249 50 25  
sjurt@kpmg.com

## **Patrick Schmucki**

Director  
Corporate Responsibility Officer  
+41 58 249 27 35  
pschmucki@kpmg.com



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