Executive summary

"There´s a fundamental opportunity for business today to impact and address these social problems, and this opportunity is the largest business opportunity we see in business"
Michael Porter[12]

The purpose of this section is to summarize the main conclusions reached on the measurement and management of social impact in organizations, that will be discussed throughout the different sections of the document:

1. Regulators and supervisors around the world are developing a comprehensive regulation package to promote from the transition to a more sustainable economy, largely arising from the international impact of the 2030 Agenda on Sustainable Development and the Paris Agreement reached at the United Nations Framework Convention on Climate Change in 2016.

2. The two main objectives of this legislation are: (i) the integration of ESG criteria and risks into organizations' strategy, governance, management, decision-making and internal processes; and (ii) the promotion of sustainability disclosure across all economic sectors, including transparency on ESG risk management and environmental[13] and social impact.

3. The European Union has emerged as the international institutional leader of this trend. Some of the milestones it has achieved within its regulatory effort have been: the launch of the Sustainable Finance Plan in March 2018, the Action Plan for Financing Sustainable Growth (2018) and the launch of the Next Generation funds for the period 2021-2027 which, together with the EU's long-term budget, has become a temporary instrument designed to boost recovery

4. Despite this important regulatory effort, there are no regulations specifically referring to how companies should measure and manage environmental and social externalities[14], and international standards are covering this lack of regulation for the time being.

5. In spite of the important role of these standards, some problems still need to be addressed, such as the lack of uniform principles and criteria for measuring impacts and the need to establish parameters that allow for consistency and comparability of the reported information. All this should be achieved through a collaborative effort between the different institutions and organizations involved.

6. Recently, and beyond the reporting of the various philanthropic investments or initiatives carried out by Corporate Social Responsibility departments or corporate foundations, organizations have begun to invest resources and effort into measuring their social impact, in order to use this information as a key input for managing and refocusing their business models.

7. Some of the reasons behind this change in trend are the growing demand for this type of information from investors and clients, as well as the opportunities behind this type of corporate action leveraged on sustainability criteria (such as cost savings as a result of ESG risk mitigation or capturing market value from new financing opportunities).

8. Management Solutions has developed an approach that addresses this issue holistically and responds to the needs of organizations, also considering their limitations and targeting those elements that most concern them.

[12] Michael Porter (Harvard Business School)
[13] Management Solutions (2020).
[14] Secondary impacts for society or the environment, whether positive or negative, generated as a result of the organization's activity and not reflected in the cost of producing goods or services, therefore not reflected in their market price.

9. This approach follows a structure consisting of three main phases: screening, assessment and reporting

10. The screening phase aims to build a frame of reference based on the conceptual definition of impact, the identification of areas of analysis for the classification of impacts, and the development of impact narratives as detailed descriptions of how a project or activity will positively or negatively affect the criteria under consideration.

11. The Assessment phase deals with the evaluation and quantification of impacts, underpinned by the appropriate methodology, the definition of the necessary indicators, the impact attribution exercise and the identification of sources and data capture.

12. Finally, the reporting phase covers aggregating the economic value of the previously calculated impacts and communicating this information in order to set objectives and monitor results.

13. In order to illustrate this approach, this document provides a practical exercise in which the economic and social impact of a project in the energy sector is measured using the aforementioned methodology to find out the total social and environmental impact generated.

14. The project in question generates a total monetary impact of approximately 54 million euros in year 1 of the project. This amount results from the economic impact (mainly in terms of GDP; 39 million euros), the social impact (mainly represented by the sustainable remuneration of employees; 9 million euros), and the negative environmental impact (CO emissions2 become the largest item at -1 million euros).

15. In addition, in order to analyze how established these practices are in the market, a benchmarking exercise has been carried out to identify examples of good practices already effectively implemented by companies in the financial, telecommunications, construction and pharmaceutical sectors, among others.

16. This analysis covers more than 60 companies from different geographies and sectors that are considered to be strongly commitment to sustainability based on the scores issued by the top sustainability indices, such as the Dow Jones Sustainability Index, MSCI or the B-Corporation Certification, as well as their membership in associations or cross-industry initiatives such as the Value Balancing Alliance or the Impact Institute. Of the companies analyzed, fewer than 20% are currently disclosing the results of their social impact measurement exercises.

17. Specifically, a number of best practices by companies that have already begun to report their measurement results have been identified, including: reporting of the information in independent documents or reports (impact reports, Social Value Report, Integrated Profit and Loss Statement, Impact Report, 4-dimensional P&L or ESG Report, etc.); inclusion of results on the impact generated by the company as a whole; integration and linkage of these analyses with the company's strategy based on the relationship between its values and principles and its impact objectives; structuring of these impacts into the three areas (economic, social and environmental) proposed by J. Elkington's Triple Bottom Line; use of the materiality matrix as an input to build the impact measurement framework structure; and the use of market and internationally recognized impact measurement methodologies to develop impact quantification exercises (SROI[15], True Price, Integrated Profit & Loss Assessment Methodology, etc.).

18. Finally, and due to their incipient development, it is worth highlighting that there is ample room for great improvement in the implementation of social impact management and measurement practices in organizations, including broadening the measurement scope, improving the calculations, sources and data used, and standardizing practices, with the aim of achieving effective integration of these impacts in management processes.

[15] SROI: Social Return On Investment is a methodology used to measure and quantify monetarily the social value of an organization, project or initiative.