

Analysis of the degree of advancement of standard market practices

“To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society”.

– Laurence D. Fink⁷⁰



Analysis scope and structure

Currently, examples of good practices are beginning to be identified in organizations from different geographies and sectors that, aware of the importance of pursuing a sustainable economic activity, are defining and implementing evaluation models that allow the real value of the impact generated to be objectively quantified.

In this sense, the purpose of this section is to mention, by way of illustration, some examples of good practices already effectively implemented in some organizations.

The analysis covered more than 60 firms from different geographies and sectors⁷¹ with a strong commitment to sustainability. This commitment has been inferred through the scoring assigned by different standards measuring the sustainability of business practices (e.g. Dow Jones Sustainability Index, MSCI, B-Corporation Certification) and through membership in associations or multi-sector initiatives such as the Value Balancing Alliance or the Impact Institute.

Of this group, fewer than 20%⁷² are currently disclosing social impact measurement, but are implementing a number of best practices:

General aspects

Impact measurement exercise maturity: most of the companies analyzed have started to perform these exercises very recently. In the most advanced cases in the sample, impact assessments have been carried out since 2015-2016. Apart from a few exceptions, these are one-off practices that are not yet being implemented on a recurring basis every fiscal year⁷³.

Type of reporting: the sample analyzed shows the use of different formats for reporting the results of the impact measurement exercises, including the generation and disclosure of independent impact reports, the development of ad hoc sections integrated in the statements of non-financial information and the inclusion of references in the annual reports.

In this case, the most robust measurement examples (in terms of completeness, depth, process and methodological approach) are produced as independent reports published together with the rest of the company's management information. Most of the firms analyzed⁷⁴ opt for this reporting format, calling it a Social Value Report, Integrated Profit and Loss Statement, Impact Report, 4-dimensional P&L or ESG Report.

Measurement focus and objectives: seven of the ten companies analyzed have opted for impact exercises that cover the organization's entire activity. The other two options observed are: measuring the impact generated by a business line, segment or division especially representative of the activity⁷⁵, or measuring projects that are not directly part of the firm's activity but in which the organization has invested capital

⁷⁰Laurence D. Fink CEO of Black Rock in his now customary 2018 annual letter to various stakeholders.

⁷¹The organizations analyzed belong to the banking, automotive, energy, food, household and personal products, construction materials, chemicals, pharmaceuticals and biotechnology, telecommunications, retail, construction, professional services, technology, transportation and other industries, and their parent companies operate mainly in Europe.

⁷²This ratio is made up of the following companies: Telefónica, Grifols, LafargeHolcim, PSA, Ferrovial, ABN Amro, Alliander, AkzoNobel, Novartis, Bureau Veritas and Acciona.

⁷³Of the sample of companies that disclose impact information, some began to carry out these exercises in 2015, such as AkzoNobel, which published a report in that year (there is no information on the following years), Alliander, or Novartis, which has been working on "Impact Valuation" qualitatively also since 2015. LafargeHolcim, for its part, started in 2016.

⁷⁴A total of 60% of the companies in the sample that are currently reporting information on social impact measurement include the entire exercise in a separate report.

⁷⁵Measurement of the impact generated from a division that represents 80% of the company's turnover, or from a business segment in specific geographies.



with a clear intention to generate impact, linking it to the nature of its business⁷⁶.

Structure

Relationship between corporate strategy and impact: All the organizations analyzed conduct some kind of materiality study, which allows them to prioritize the issues that are most relevant for both the business and the different stakeholders. However, apart from a few exceptions, the materiality exercise is not integrated with the social impact assessment, but is instead carried out in parallel and included in the relevant annual report. The organizations that do present an integrated exercise⁷⁷ use the materiality matrix as an input to build the impact measurement framework structure (e.g. using stakeholders or material elements identified as axes of analysis).

On the other hand, only a few of the companies⁷⁸ analyzed link corporate strategy (specifically their values and principles) with the impact objectives pursued, reflecting the consistency between the two, and thus constituting a first step towards integrating social impact measurement into management.

Impact areas analyzed: although the typology of analysis axes used by each company varies slightly⁷⁹, in essence the total sample of companies analyzed shows that the three areas proposed by J. Elkington's Triple Bottom Line⁸⁰ (economic, social and environmental) are the three areas addressed by all of them.

Definition of impact narratives: it is observed that impact narratives are used in some cases as a means to justify the impact measurement exercise (e.g. describing in detail the relationship between the organization's activity and each of its lines of business, stakeholder and value creating topic identified⁸¹). This good practice is explicitly carried out by only 30% of companies in the sample analyzed⁸².

Use of international standards as a reference: all the organizations analyzed use some of the international benchmark standards. The most commonly used are the United Nations SDGs as the international framework par excellence⁸³, the Impact Management Project frameworks (with classifications that include what is an impact, how long the effect of such an impact lasts, stakeholders, the contribution problem and risk factors), and the Social & Human Capital

⁷⁶Such as Ferrovial, from the development of a water and sanitation infrastructure project in developing countries.

⁷⁷Telefónica, Grifols, PSA Group, ABN Amro y Novartis.

⁷⁸50% of the total number of companies analyzed carry out this practice, aligning corporate strategy with the objectives of the SDGs (e.g. Telefónica), extending the objectives in the Corporate Social Responsibility plan to the rest of the company (e.g. PSA Group or Novartis), considering Value Creating Topics as part of the strategy and linking them to the company's pillars (e.g. ABN Amro), etc.

⁷⁹These are two different examples of categories used by two international companies: four capitals: productive, social, human and natural; and on the other hand, four axes: suppliers, socio-economic, financial and environmental.

⁸⁰Elkington J. (1998).

⁸¹Impact Report de ABN Amro (2020).

⁸²The efforts by Acciona, ABN Amro, Telefónica and LafargeHolcim stand out.

⁸³For example, Telefónica, Grifols and Alliander use the SDG framework.

⁸⁴Telefónica or AkzoNobel use the Impact Management Project framework.

Protocol⁸⁴, or the structure of the IIRC's⁸⁵ international Integrated Reporting (IR) framework and its six capitals (human, social and relational, natural, financial, industrial, intellectual).

Measurement and monitoring

Use of measurement methodologies and publication of calculations: many of the companies analyzed use market methodologies, including the SROI⁸⁶ for measuring project impact, the input-output methodology for measuring socio-economic impacts (e.g. employment generation or development of economic activity based on GDP growth), the True Price methodology⁸⁷ or the Integrated Profit & Loss Assessment Methodology⁸⁸.

In this case, good practice is related to transparency in the disclosure of the calculations, as well as the sources and data used.

Aggregation and monitoring of results: finally, we identify whether or not there are methods or tools that allow the aggregation of the results of these exercises, making it easier for organizations to follow up and monitor the evolution of the results achieved and the impact objectives defined.

Generating an ESG P&L as a method of aggregating the measured impact is considered good practice, since it allows the impact generated to be objectified through a monetized evaluation, facilitating its monitoring, control and unified reporting⁸⁹.

So far, few companies report their measurement results, and those that do have started only recently (in the last 5-6 years). With some exceptions, this is not yet a practice that is being implemented on a recurring basis every fiscal year.

The practices carried out and the results present some common elements both in terms of format (reporting typology, approach and objectives, etc.) and content (use of international standards for the definition of the structure, application of impact measurement methodologies for the development of calculations, etc.).

On the other hand, there are no major differences between the exercises carried out by organizations belonging to different industries and geographies, except for the necessary sectorial adaptation.

⁸⁵PSA Groupe, for example, uses the international framework of six capitals defined by Integrated Reporting.

⁸⁶Ferrovial and Grifols have implemented the SROI methodology to measure the social impact of their projects.

⁸⁷In the Netherlands, worthy of note is the influence of the True Price methodology (now Impact Institute), which has helped Alliander or AkzoNobel, among others.

⁸⁸Implemented by ABN Amro.

⁸⁹Only some of the companies analyzed whose measurement exercises stand out for their completeness and robustness (Telefónica, Akzo Nobel, LafargeHolcim, ABN Amro and Alliander), calculate ESG-P&L. A notable example is that of AkzoNobel, which performs a quantitative assessment resulting in monetary metrics. The measurement and monetization exercise follows four phases: measurement of outputs or results by type of capital, estimation of the consequences of these outputs, estimation of the impacts of these consequences, monetization of the impact.

