TECHNOLOGY ENABLED IMPACT REPORTING PRACTICE ACROSS THE INVESTMENT CHAIN
ACKNOWLEDGEMENTS

The Social Impact Investing Taskforce thank the representatives from reporting organisations, investors and technology and data providers who have contributed, generously providing their time, insights, and feedback to strengthen the quality of this report. This includes:

The Taskforce gratefully acknowledges the helpful input received from the project’s advisers:
- Carol Adams, Professor of Accounting at Durham University Business School and Swinburne Business School and Chair of the Global Reporting Initiative’s (GRI) Stakeholder Council
- Russell Picot, Chair of the Trustee Board of HSBC Bank (UK)’s pension scheme and Special Advisor to the Taskforce on Climate related Financial Disclosures (TCFD)
- John Lelliot, Chairman of the Natural Capital Coalition, Non-Executive Director and Chair of the Audit and Risk Committee of the Environment Agency and the Covent Garden Market Authority, and
- Luke McLaughlin, Sustainability and Accounting Manager, A4S

The Taskforce would also like to thank Deloitte and the Department for Culture, Media and Sport for sponsoring this report and the Deloitte team for leading the engagement of contributing organisations and authorship of the paper. Specifically we extend our thanks to Anna Swaithes of DCMS, and Sam Baker, Rafi Addlestone, Clare Butler and Kerri Venable of Deloitte

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There is mounting evidence that citizens want to understand the social and environmental impact both of their investments, and of the organisations they work for, purchase from and interact with in their daily lives. This means actors across the investment chain need to come together to agree consistent and comparable ways to measure and report on impact. This report brings evidence from the market to highlight this need and the critical role for technology and data. We look forward to the Impact Investing Institute taking forward this work in practical ways to support actors across the investment chain aligning on impact measurement and reporting.

David Knott, Director of the Office for Civil Society, Department of Digital, Culture Media and Sport

As this report concludes, ensuring that material impacts are anchored in the business purpose and strategy of reporting organisations is fundamental to the effective measurement and reporting of impact. The Impact Investing Institute looks forward to building on the key messages of this report and working across the investment chain to facilitate the convergence of approaches to the measurement and reporting of impact.

Dame Elizabeth Corley, Chair of the Impact Investing Institute

At Deloitte our purpose is to make an impact that matters and we embed this ideal in our work every day. But as we strive to be a purpose-led organisation, we need to develop our approach to impact measurement to help us to track our progress, to hold ourselves accountable and to help us take strategic decisions for impact. Alongside the Impact Investing Institute, we are committed to pushing forward the debate on this topic and to help ourselves and our clients to better understand and deliver positive social and environmental impact.

Nick Owen, Chairman of Deloitte UK

Yorkshire Water was pleased to participate in this project. For a business to remain successful it is clear that they need to shape their strategy and decision-making around a strong social purpose and a sound understanding of their social and environmental impacts. The report reaffirms this imperative as well as capturing some of the key challenges and enablers that practitioners in this field are facing. We look forward to working with the Impact Investing Institute and other organisations to continue maturing and standardising approaches for impact reporting.

Ms Liz Barber, Chief Executive, Yorkshire Water

Big Society Capital welcomes this report with the emphasis it puts on the need to link impact measurement and reporting to strategy and business model and to develop solutions through collaborative working across the investment chain. We look forward to working in partnership with the Impact Investing Institute to support the implementation of the report’s recommendations in those sectors and themes most material to Big Society Capital’s purpose and strategy.

Sir Harvey McGrath, Chairman, Big Society Capital.
In the Better Reporting Landscape Report the foreword concluded: “…let us be clear that all the major actors are on the train, not waiting at a station. We are on our way.” The findings in this report demonstrate that while progress is being made, the challenges to effective impact reporting practice are great. Without significant action from progressive keystone players, the rate of change in impact reporting practice will be insufficient to meet society’s global challenges including the climate emergency.

Measurement and reporting influences behaviour but, as this report acknowledges, it is only a single, albeit important, part of a necessary systematic transformation. The development of impact investing and impact reporting has the potential to enable the capital market system to be transformed to meet society’s need for a sustainable future. Let us be clear that in our view impact reporting is about system transformation not incremental transparency.

In July 2018 the Financial Reporting Council revised the UK Corporate Governance Code, setting out as principle 1A on leadership: “A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.” The small word “and” is the key to transforming an old system based on a model solely of shareholder primacy to a new system reflecting a model of stewardship on behalf of all stakeholders. Impact reporting is the means by which stakeholders can hold boards to account for their contribution to wider society.

The technology focus of this report provides insights and ideas for progress. On reflection it seems surprising that the incredible developments in mechanisms for disclosing information both to and by society have not yet been reflected in corporate reporting. At a public level, the internet has democraatised information, but the publication, distribution and accessibility of corporate information still reflects earlier technologies. One possibility is that the focus on the primary audience being shareholders has led to paper and .pdf still dominating. Future thinking about better reporting being for shareholders and wider society may in time be seen as the tipping point of capital market transformation.

We commend this report and thank the participating organisations, the individuals who volunteered their time and expertise, and of course the Deloitte team led by Sam Baker who were and are exceptional.

Olivia Dickson and Paul Druckman
Co-Chairs Better Reporting
Social Impact Investing Implementation Taskforce
**KEY MESSAGES**

**CONTEXT**

In the face of mounting global challenges for both people and planet, key stakeholders and wider society expect the organisations with whom they interact to declare their intent to make a positive contribution to the Sustainable Development Goals and the Paris Climate Agreement.

Demonstrating progress through accessible environmental and social (E&S) impact reporting is a critical means of ensuring authentic accountability. Whilst regulators and standard setters have a role to play, organisations themselves have a responsibility to provide information that is transparent, clear and useful. At present organisations’ reporting practices are neither consistent nor comparable and are not reflective of impact. Instead a plethora of reporting standards and frameworks, mostly generating outcome data with weak or unexplained relationships to real E&S impact, support fragmented approaches to reporting.

**VISION AND ASPIRATION – THE WHY? WHAT? HOW?**

‘Why’ organisations measure and report should be rooted in the understanding that E&S impacts are critical to their business model and should inform and flow from strategy and purpose. Organisations should embed material E&S impacts in their core business strategy and call them out in their purpose.

In order to achieve a positive impact on the environment and society, organisations should not only report on their E&S impact but also link their material E&S impacts to business strategy, and use E&S reporting to inform business decisions and improve impact performance. Leading practitioners recognise the value of E&S reporting as a key input to strategic decision making, as a marker of long term sustainable performance and as a driver of an element of executive remuneration.

‘What’ organisations measure and report should be transparent, consistent and comparable, and reflect and drive real impact. Specific material impacts on the wider world should be reported alongside generic responsible business indicators. Ultimately E&S reporting by impact theme should be standardised.

Leading practitioners embrace ‘theory of change’ methods to help articulate a priority set of specific ‘impact themes’ that are most material to the strategy and business model, minimising negative impacts and maximising positive impacts on the wider world. These impact themes, often expressed through a statement of corporate purpose, are then tied to clear (and where possible, standardised) metrics and KPIs. Leading practitioners differentiate between reporting on specific, business model related priority impact themes and broader, responsible business indicators.

‘How’ organisations invest in their E&S measurement and reporting systems should reflect their commitment to the SDGs and be commensurate with the inter-dependence of E&S impacts and long-term sustainable success. Organisations should improve resourcing and structures for E&S reporting teams, housing them in core functions with links to key decision makers.

Organisations face a need to invest in better resourcing models and structures. Many E&S reporting teams are stretched and under resourced, overwhelmed with a huge amount of surveys and requests for information, and often working in silos. Leading practitioners have increased investment in E&S reporting teams and house them in core strategy and finance functions, with clear links to key decision makers within the business, including the CEO and Board.

**CRITICAL ENABLERS – TECHNOLOGY SUPPORTING COMMON APPROACHES ACROSS INVESTMENT CHAIN**

Technology relevant to E&S reporting will be critical to accelerating progress. Without a technology infrastructure to underpin E&S data collection, measurement and verification, even substantial investments in E&S reporting teams are unlikely to fill the resourcing gap or achieve progress at the speed and level required.

The growing sector of technology and data providers, and organisational uptake of their technologies and services, will play a critical role in catalysing a more efficient and effective system. Leading organisations are already engaging with technology and data providers and adopting and integrating digital technologies into their measurement and reporting systems to accelerate progress.

Asset owners and managers, reporting organisations, technology and data providers and other parties should work together to develop system-wide solutions. Together they should develop common approaches, create system wide tools, and sector / theme specific metrics and KPIs, and share clear, accessible data sets.

System wide mechanisms for reducing the reporting burden should be created. A public depository of data, metrics, KPIs, tools and approaches, properly governed, accessible by and distributable to all, will be key to reducing the E&S reporting burden. Across stakeholder groups there should be improved awareness of key terminology, and public sharing of effective approaches and data sets, to accelerate the drive towards impact transparency and comparability.
EXECUTIVE SUMMARY

BACKGROUND

This paper builds on the Better Reporting Landscape Report to identify good practices and challenges in embedding environmental and social measurement and reporting across sectors and to provide key recommendations for realising the vision of the Better Reporting Programme of the Social Impact Investing Taskforce.

The Better Reporting Programme seeks to contribute to a vision of ‘transparent, consistent, comparable impact reporting that reflects and drives real impact’ by facilitating convergence of approaches to environmental and social impact measurement and reporting by businesses, social enterprises and investors based in the UK, including those operating internationally."
B. MEDIUM-TERM ASPIRATION

The Better Reporting workstream’s vision emphasises transparency, consistency, comparability, and ultimately standardised, environmental and social measurement and reporting. The medium-term aspiration is built around specific areas that need to be addressed to work towards this vision.

This aspiration can be summarised as: E&S measurement and reporting practice that is anchored in the purpose, strategy, operations and culture of the reporting organisation; and serves the needs of investors and wider stakeholders supported by a leading technology and data provider sector.

MEDIUM-TERM ASPIRATION FOR REPORTING ORGANISATIONS

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<thead>
<tr>
<th>Why</th>
<th>What</th>
<th>How</th>
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<tr>
<td>The importance of E&amp;S impact is recognised across the stakeholder group</td>
<td>Efficient reporting on a broad set of responsible business KPIs that do not vary by organisation supplements measurement of organisation specific E&amp;S themes</td>
<td>The ‘theory of change’ and the specification of the impact themes are owned by the Strategy function</td>
</tr>
<tr>
<td>E&amp;S impact is seen as a critical component of the business model, anchored in the purpose, strategy, operations and culture of the organisation</td>
<td>Dynamic measurement and reporting of E&amp;S impact, or close proxies, supported by a ‘theory of change’, for a small number of impact themes</td>
<td>Measurement and reporting of both impact theme KPIs and the responsible business KPIs is owned by the finance department</td>
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<tr>
<td>E&amp;S impact is seen as important to management and is linked to executive remuneration</td>
<td>Use of standard KPIs, by E&amp;S theme and sector, together with a common language for impact, and standard approaches to E&amp;S measurement and reporting</td>
<td>Core reporting systems are configured to provide finance grade reporting against the impact themes</td>
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<td></td>
<td>Description of the strategic relationship between financial performance and societal impact, and demonstration of the financial implications of intended impact by E&amp;S theme</td>
<td>Third-party technology and data providers supplement support with systems, theme specific data sets and insight</td>
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<td></td>
<td></td>
<td>External assurance on E&amp;S measurement and reporting is provided by professional services firms and/or technology and data providers</td>
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7. “Themes” describe areas of Environmental or Social impact which contribute to and can be directly mapped to the Sustainable Development Goals and their Targets
8. Explained in the body of the report by a description of the way inputs, outputs, outcomes are linked to impact
9. For example, an environmental theme would be plastic waste and a social theme would be gender equality
10. Some E&S themes are of particular importance to sectors or groups of sectors, e.g. use of fertiliser in agriculture, and should be standardised at a sector level

MEDIUM-TERM ASPIRATION FOR INVESTORS

Identification of, and performance against, an organisation’s impact themes plays a key role in the underlying value creation philosophy.

Reporting organisations provide information of a quality on par with financial information to support investor decision making and stewardship activities relating to these impact themes, together with broader responsible business reporting.

Third-party technology companies provide systems, data and analytics to support the validation and comparison of E&S performance.

MEDIUM-TERM ASPIRATION FOR TECHNOLOGY AND DATA PROVIDERS

The technology and data sector provides both the investor community and the reporting organisations with systems, models, data, insight and interoperability to enhance the measurement and reporting of E&S themes, reduce costs for both parties and promote standardisation and comparability. They also provide assurance on the quality and veracity of the underlying data.

C. CHALLENGES

Given the growing recognition of the importance of E&S impact information, we might expect each part of the system to make clear and precise demands for it. E&S outputs, outcomes and impact would be measured and reported effectively and be a part of the narrative of value creation. We might expect a well-structured supporting industry of data, analysis, standards and taxonomies facilitating the work of well-resourced internal teams. These internal teams would be directly represented at Board and Executive level, responsible for providing the information required to direct a business towards greater E&S impact and long-term success.

Executive incentives would include E&S targets.

However, this is not how the market is functioning. In general, E&S themes are not seen as critical to business models, and organisations are not being run and managed with intentional E&S impact. Reporting organisations are also currently burdened with excessive reporting (e.g. seven different surveys asking similar questions, all going to different stakeholders). In addition, the economic argument for sustainable development has not yet been widely proven and accepted, although the data is starting to come through now. As a result, E&S measurement and reporting is under-developed and under-resourced, and costs the reporting organisations too much. This results in incomplete and untimely data, un-informed investors, and stifles the third-party industry of technology and data providers seeking to support the collection and analysis of data on E&S themes. Intermediaries like rating agencies, index providers, and analysts in investment management can all help the market function better through significant time and cost reduction to mobilise disclosure, make organisation performance more transparent and provide benchmarking and support to help reporting organisations improve their impact. However, it all starts with the reporting organisation beginning to manage their operations with E&S impact at the core, and knowing how to report, where to get the data from and committing to effective monitoring and measurement.
Amongst key stakeholders, there is a growing interest in the reporting of performance against E&S themes. For example, consumers increasingly look to buy from companies who are having a demonstrable positive impact on society.1 In the investor community, interest is primarily driven by growing customer demand for E&S related products and investments, with a number of investors quoting the increasing number of millennial retail investors who prefer to ‘do good’ with their money; as well as by increasing concern about the risks that various emerging E&S themes could pose to financial value in the long term. On the other hand, there is only a limited recognition of the E&S impact as a driver of fundamental value for investee companies, especially outside the topic of carbon disclosure and “green” activities. It is difficult to see this changing whilst the primary basis for E&S performance, typically referred to as ESG by the investment community, continues to be delivered through simplistic pro-forma questionnaires or non-standardised disclosures.

There is an emerging industry of technology companies seeking to support companies to collate and analyse data on E&S issues. Whilst they see the gap in the market, they struggle to fill it having neither the access they need to the companies to develop deep insight, sufficiently complete data sets from outside the reporting organisation, nor the scale required to enable effective analysis of the accessible data.

### D. GOOD PRACTICE

The challenges noted above reflect the underlying issue that the effective measurement, management and reporting of E&S impact is not a core discipline within reporting organisations and requires new and enlightened management approaches and the requisite systems and processes to support them. Benefits will accrue to those who get it right, but given the immaturity of the market,12 many organisations still believe the case for properly resourcing E&S measurement and reporting typically lacks the required level of empirical evidence. However, stakeholders are beginning to recognise the economic argument for sustainable financing, estimated at circa $12 trillion per year global growth opportunity in new markets13, and there are already examples of good and progressive practice within reporting organisations, across the investment chain, and in the technology and data provider sector.

#### EXAMPLES OF EFFORTS TO REPORT ON IMPACT

Practice is currently focused on the measurement and reporting of outputs and outcomes, rather than ‘impact’ (see the appendices for definitions). Whilst no organisation would claim to be an exemplar, some of the participants in this study illustrate good practice and others pointed to examples in the market.

**System level success:** the Task Force on Climate-related Financial Disclosures (TCFD) aims to help companies provide voluntary, consistent climate-related financial risk disclosures for use both by the companies and their stakeholders. Whilst measurement and reporting of climate change as a theme still has a long way to go, for instance disclosures emphasise risk, and public returns suggest few are yet reporting the financial implications of these risks, TCFD has gained support from over 500 international companies causing a systemic shift towards co-ordination and coalescence for reporting on this E&S theme.

**Company level success:** Bulb was founded with the express purpose of achieving positive environmental impact, helping people reduce their carbon emissions and save on their energy bills, by providing affordable, renewable energy. This commitment is at the heart of their business purpose, strategy, operations and management systems, and central to their measurement and reporting. This is enshrined in their B Corp status. For example, Bulb has an open source, KPI dashboard that captures information on their carbon savings. Every level of the business knows their carbon saving targets and these are reviewed at the weekly company meeting.

#### EXAMPLES OF GOOD PRACTICE AGAINST THE WHY, WHAT AND HOW OF THE VISION

Each of the reporting organisation participants illustrate good practice against some part of the vision laid out above.

**Good practice examples of Why measurement and reporting is carried out**

- **Vodafone** have three impact pillars, formulated by deep consideration of business-society “win-wins”, reporting on the themes below the pillars is conducted regularly, and feeds directly into the executive committee.
- **Cordant Group** became the UK’s largest social enterprise in 2017, creating the overarching motivation for measurement and reporting of impact themes.

**Good practice examples of What is measured and reported on**

- **Pentland Brands** have a clear social purpose underpinned by three principles, and report on a set of bespoke KPIs against each of these principles.
- **Standard Chartered** this year reported four non-financial measures alongside their five financial measures, to give an idea of overall performance within their overall integrated report.

**Examples of efforts to report on impact**

- **SSE** have used the SDGs as a tool to conduct an in-depth materiality assessment14 and identify appropriate E&S metrics.
- **Good practice examples of How measurement and reporting is carried out**
  - **Yorkshire Water** have embedded their sustainability reporting team into the finance department; leveraging a multi-capital approach to link E&S themes to a broader concept of value.
  - **Unilever** have established clear governance, ownership and oversight procedures for E&S themes and accompanying metrics, and are beginning to automate parts of the process.
  - **Associated British Foods** have summarised over 2000 questions from external questionnaires and benchmarks into 200 questions, in order to streamline processes for responding to data requests in view of its decentralised structure.

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11 See Edelman, In Brands We Trust? 2019
12 For maturity journey, see Better Reporting Landscape Report, page 26
14 The process of identifying and assessing potential ESG issues that could affect your business and stakeholders, and condensing them into a short-list of topics to inform company strategy, targets and reporting
E. RECOMMENDATIONS

• Few expect a world in which as much attention is paid to E&S impact as it is to financial outcomes tomorrow, or even the day after. But there is a sense of urgency present, particularly with regards to climate change, which is translating into progression and a desire to advance, at both individual organisation and system level. As noted by the participants in our workshops, E&S themes have the power to bring business and society together.

• As such, experience gathered from interviewees has been distilled into a small number of potentially high impact, proposed actions at system, organisation, investor and technology and data provider level.

SYSTEM LEVEL

• Evidence and promote the link between E&S impact, generation of value for shareholders and long-term sustainable success: it’s in all actors’ interests to help develop the empirical evidence at organisation and system level of the way E&S impact contributes to the longer term sustainable success of an organisation. This requires the education and immersion of all in this topic up and down the organisation and all the way through the value chain.

• Build on the existing efforts to establish a standardised set of KPIs for key E&S themes, potentially by sector that can be either adopted or built upon by reporting organisations, saving effort, contributing to comparability and allowing research and analysis to be shared more effectively.

• Continue to develop shared definitions, taxonomies, methods and approaches for E&S measurement and reporting: the regulators and standards organisations have an obvious role in this regard but individual organisations, or ideally groups of same sector organisations, can also contribute by testing, influencing, implementing and publishing methods and approaches. Technology and data providers can also help share good practice and enable more effective data collection for E&S themes.

• Share the different methodologies and approaches currently in use: create a public depository to record the different methods and approaches used by participating organisations in their measurement and reporting of E&S themes. This central depository should be open to all stakeholders and participants and be part of an effort to increase communication across the value chain.

• Engage in meaningful, collaborative work between various actors and stakeholders across the investment chain (e.g., reporting organisations, investors as asset managers and asset owners) as well as across the investment chain, to further the above system level recommendations.

COMPANY LEVEL

• Develop impact themes that are aligned to the business model and supported by a theory of change to define measurement and reporting requirements. Formalise and test a ‘theory of change’ which explains how the business model relates to specific E&S themes (“impact themes”), the expected E&S outputs, outcomes and ultimately, impacts, and how this works in concert with creation of value for shareholders. House and resource the theory of change in the strategy function and re-test regularly. Use the theory of change to identify the E&S KPIs to focus on, which will act as proxies for impact.

• Embed E&S KPIs into the management and management information systems and develop related targets – declaring a clear intent on behalf of the organisation. House and resource these systems in the finance function with suitable expertise and dedicated resource. Where appropriate link KPIs to executive remuneration.

• Provide transparency to third parties on underlying data and approaches, particularly where the data, approaches or KPIs used are not following published standards. Develop a clear and consistent communications framework for sharing key messages. Externally assure approaches using professional services firms or third-party technology and data providers.

INVESTOR LEVEL

• Look beyond ESG data and assess the impact themes that are embedded in the strategy and business model of an organisation. Given the evolving nature of the market, investors need to look beyond third-party provided ESG data, and engage with the reporting organisation on approaches used including, critically the theory of change, the impact themes and links to value creation and the long term sustainable success of the business.

• Investors need to exercise stewardship to help organisations embed ESG data in the strategy and business model, and suggest mechanisms to assess executive performance based on these values, for example, by tying it to remuneration. Additionally, as required by the new Stewardship Code, investors need to report on the outcome that their stewardship has had on where they have engaged with investee companies on their E&S impact.

• Investors need to embrace and commit to delivering E&S impact across their own organisations, take into account material ESG factors (including climate change), deploy the house view consistently and not constrain this to niche parts of their product portfolio.

TECHNOLOGY AND DATA PROVIDER LEVEL

• Contribute to the data sets for E&S themes: technology and data providers need to help develop deep data sets for specific, priority E&S themes by sector, building a critical mass of data and insight that enhances the understanding of, and approach to, E&S impact measurement and reporting.

• Develop tools to effectively link products and services to core and existing systems within reporting organisations, reducing the time and thus cost burden on reporting companies and increasing the day to day utility of the data such that it can also inform business decisions.

• Work with third parties or develop service arms to help organisations to use their technology and data effectively, upgrading from annual, manual processes to a system that is dynamic and automated.
MATCHING THESE RECOMMENDATIONS TO THE 7 DRIVERS OF COALESCENCE

Each of these recommendations, distilled from the interactions with the project participants, further in some way the development of the drivers of coalescence identified in the Landscape Report. This support is illustrated in the table below.

<table>
<thead>
<tr>
<th>The Seven Drivers of Coalescence</th>
<th>Recommendation</th>
<th>Company</th>
<th>Investors</th>
<th>Tech and data providers</th>
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AND RECOMMENDATIONS FOR US ALL

Transformation needs system change, not just the actions of progressive individual actors. Sustainability is a uniting theme, and all stakeholders can benefit from enhanced E&S measurement and reporting. And so, the ask for us all is to:

- **Educate** ourselves, as citizens, employees and asset owners, in the E&S themes, the SDGs, and the way the different parts of the ecosystem interact; creatively utilise marketing and advertising platforms to drive awareness and urgency
- **Act:** contribute to positive E&S impact through daily purchasing choices and actions. Where able, contribute to businesses, products and solutions seeking to achieve a positive impact on society.
- **Collaborate** through forums that cut across the different stakeholder groups, identifying opportunities to provide help that meets the needs of different parts of the ecosystem; and
- **Advocate:** help all understand the importance and need for effective E&S measurement and reporting, its contribution to strengthening business models, and bringing business and society together. Try to ensure advocacy converts to policy and incentives for action.
BACKGROUND

INTRODUCTION

In December 2016, the UK Government set up an independent Advisory Group, chaired by Elizabeth Corley (Vice Chair of Allianz Global Investors), to answer an important question: How can the providers of savings, pensions and investments engage with individuals to enable them to support more easily the things they care about through their savings and investment choices?

The Advisory Group published their report ‘Growing a Culture of Social Impact Investing in the UK’ in November 2017. The Advisory Group’s report made recommendations in five key areas:

1. Improve deal flow and the ability to invest at scale.
2. Strengthen competence and confidence within the financial services industry.
3. Develop better reporting of non-financial outcomes.
4. Make it easier for people to invest.
5. Maintain momentum and build cohesion across initiatives.

In March 2018, the Prime Minister commissioned an Implementation Taskforce to carry forward the five action areas. The Taskforce refined the focus of the third recommendation to be the “better reporting of environmental and social (E&S) impact” with the goal of moving coalescence forwards, in order to achieve harmonised environmental and social impact reporting across the investment chain.15

In October 2018, the Taskforce published the Better Reporting Landscape Report.17 The Landscape Report set out an overview of the current landscape of E&S reporting approaches based on insights from a call for evidence, expert interviews and desk-research. It also explored the challenges to, and opportunities for, coalescence of E&S reporting. These challenges and opportunities were summarised as 7 drivers of coalescence: 1) A common definition of impact, 2) Standardised theme / sector specific KPIs and metrics, 3) A common anchoring in the SDGs, 4) Commonly adopted impact reporting principles, 5) The need for reporting organisations to make declarations of intent, 6) More effective use of technology, 7) A firmer legal and regulatory underpinning.

Since then, the Better Reporting workstream of the Implementation Taskforce has been reconstituted as the Better Reporting workstream of the Impact Investing Institute.

The Better Reporting workstream seeks to contribute to a vision of ‘transparent, consistent, comparable impact reporting that reflects and drives real impact’ by facilitating convergence of approaches to environmental and social impact measurement and reporting by businesses, social enterprises and investors based in the UK, including those operating internationally.

This paper builds on the Better Reporting Landscape Report, and is part of one of the wider efforts of the Better Reporting workstream to advance leading-edge reporting practice via “reporting lab” style projects, bringing together small groups of progressive organisations and individuals to share and advance their approaches to reporting E&S impact, and to make their approaches and learnings open source.

The Better Reporting workstream intends that this paper and the associated projects will promote an integrated approach to E&S reporting that delivers on the vision above by enabling the anchoring of E&S impact in organisational purpose, strategy, culture and operations and facilitating transparency by reporting organisations of their E&S impact. This will go on to enable members of the public to make purchasing choices and investors to make investment decisions based on the ascribed E&S impact of the organisation – leading in a virtuous circle, to companies looking to offer products and services that deliver greater E&S impact.

KEY DEFINITIONS
As detailed in the Better Reporting Landscape Report (Section 3.1), there are definitional challenges inherent in E&S measurement and reporting. The appendices to this paper have a comprehensive list of definitions, but the small number below are particularly critical.

THE “THEORY OF CHANGE” MODEL AND IMPACT
The Taskforce defines impact with reference to the ‘theory of change’ framework, which articulates a causal model of an organisation’s undertakings, and the links between its activities and ultimate E&S effects.

Through this conceptual model, impact is understood as the positive or negative long-term effects for defined beneficiaries that have resulted from initial outcomes, where these outcomes have been driven by the immediately resulting outputs of discrete activities or interventions, themselves being the product of the deployment of resources, or inputs.

The diagram below illustrates the theory of change through a specific example, in this case a malaria prevention program where the inputs are used to deliver a core activity of distributing bed nets, which results in subsequent outputs, outcomes and impact.18

FIGURE 1
Theory of change causal model from input through to impact, applied to the effort of bed net distribution

E&S THEMES AND IMPACT THEMES
“E&S themes” is the term used to describe an environmental, social or economic impact of an organisation. These impacts can be best expressed in terms of the themes and sub-themes encompassed by the SDGs. Examples of E&S themes include plastic waste reduction, women’s access to internet and fair employment.

E&S themes are very often described in a way specific to the organisation, which creates an immediate barrier to effective communication with stakeholders and to comparability. Hence the adoption of the SDG framework to anchor reporting of these E&S themes in a common language was proposed as a driver of coalescence.

Where E&S themes are called out by the reporting organisation as material to their strategy and business model, then they are referred to as “impact themes”.

E&S MEASUREMENT AND REPORTING AND ESG
This paper defines E&S measurement and reporting as all activity, carried out by any actor (businesses, social enterprises, investors or investor intermediaries, e.g. technology companies), that relates to activity to both measure and report on aspects of the relationship between an organisation and their environment or social impact, described by E&S theme. It should be noted that E&S measurement and reporting is no substitute for ‘doing’ and that disclosure of this kind is not of value in and of itself, it should exist to enable an increased contribution to E&S themes and not detract from it.

ESG (Environmental, Social, and Governance) is used to describe the information that the investment industry typically receives on the environment and society in terms of its impact on the environment and society in terms of its impact upon a company, that relates to activity to both measure and report on aspects of the relationship between an organisation and their environment or social impact, described by E&S theme. It should be noted that E&S measurement and reporting is no substitute for ‘doing’ and that disclosure of this kind is not of value in and of itself, it should exist to enable an increased contribution to E&S themes and not detract from it.

In the medium term, the reporting organisation ideally has the requisite measurement and reporting disciplines to report on both the extent to which an organisation is run to responsible business norms rather than attempting to assess the E&S impact an organisation has on its impact themes. Progressive investors are looking beyond ESG to explore E&S impact.

For the purposes of this paper, we understand ‘E&S measurement and reporting’ to refer to measurement and reporting across all aspects of the theory of change, and ‘E&S impact measurement and reporting’ to refer specifically to the final element of the theory of change – impact.

18 Adapted from Wallman-Stokes et al., What are we talking about when we talk about impact? The Center for High Impact Philanthropy, Women Moving Millions, September 2015. Other examples will explicitly include ‘activities’ between ‘inputs’ and ‘outputs’.
THE ROLE OF E&S MEASUREMENT AND REPORTING

Organisations increasingly need to explain and prove both their enduring purpose, in terms of their role in society, and the extent to which they are a responsible business to their stakeholders. Effective E&S reporting supports both these components. Mature E&S reporting, i.e. E&S impact reporting, seeks to demonstrate the way the organisation has contributed to a specific E&S theme e.g. increased the safety and security of people in need through the provision of affordable housing, not the input to that contribution e.g. the number of affordable houses.

FIGURE 2
System implications of effective E&S measurement and reporting

Better reporting provides the information and transparency to stakeholders to allow them to make decisions on the basis of impact on wider society, and create further evidence that embedding a commitment to societal impact through core strategy and operations can strengthen long-term financial performance.

For many organisations, the teams responsible for E&S measurement and reporting are also often tasked with E&S “doing” i.e. delivering improvements in E&S performance. So, while reporting is hugely important to ensure organisations are accountable and authentic, and to monitor the effectiveness of investments and programmes, E&S measurement and reporting activities and standards will have limited effect if they do not serve as a driver of improvements to an organisation’s E&S performance.

APPRAOCH

The insights in this paper use the body of evidence developed for the Landscape Report and its call for evidence, some additional desk research and interviews and two workshops with industry experts and participating organisations including:

- 9 reporting organisations from a variety of sectors, who to date have committed substantial investment in E&S reporting resource;
- 6 investment firms, together encompassing both asset management and asset ownership roles, who are currently using E&S reporting (typically referring to this as ESG and/or Impact) to make or influence investment decisions; and
- 5 technology and data providers developing tools and data to leverage emerging technologies e.g. Artificial Intelligence / Machine Learning, Blockchain) to support E&S measurement and reporting.

“Investors”, covering both asset management and asset ownership roles, and reporting organisations were both chosen on the basis that they are progressive: that they have committed to making an impact on people and/or the planet in some way. Clearly investors are also reporting organisations in their own right, where they have provided insight on that basis, they have been treated as reporting organisations.

The two roundtables were used to share, discuss and debate the participants’ perspectives. Both interviews and roundtables were structured around three key questions: (i) what do organisations measure and report in terms of E&S themes, (ii) why do organisations choose to measure and report and (iii) how do they execute this? Insights were tested and validated through further expert interviews with advisers to the Taskforce.

Participants, in all cases, provided views both on their own immediate experience and their broader views on the market. These views have been the primary source for this paper which distils them, and represents them as commentary on the direction of travel, a vision for where E&S measurement and reporting should be, challenges, and catalysts for future progress. Good practice is called out, and conclusions made in the form of recommendations for each type of actor and more broadly across the system.19.

19 In this context, the ‘system’ reflects collaboration across the multitude of actors and stakeholders invested in sustainable development broadly, including the long term success of commercial enterprises and investment funds.
THE SYSTEM

Progress towards more effective E&S measurement and reporting is a system-wide concern. Across all stakeholder groups, there is widespread interest in tracking progress against E&S themes, in particular climate change due to the particularly catastrophic implications of inaction. Across consumers, governments, corporations, investors, NGOs, regulators and the media, there is sustained and growing pressure for the system as a whole to demonstrate progress against environmental and social challenges.

For significant progress to be made, there are three critical system actors that should take a lead – each of which have formed a focus for this study of reporting practice and are explored further below.

• First, the investment community (asset owners and asset managers) has a role to understand the value of E&S contributions, seek evidence from investee companies, and make decisions on this basis;

• Second, reporting organisations need to be willing to increase transparency, and to measure and report consistent, comparable and standardised information relating to their contribution to E&S themes; and

• Third, technology and data companies have a role to support the reporting organisations and the investor community to make it less taxing on the reporting organisation, by aggregating, augmenting, analysing, assuring and communicating this data in a timely manner.

THE INVESTMENT COMMUNITY

The Taskforce has adopted the Spectrum of Capital framework which defines five types of investment approach relating to this ambition: Traditional, Responsible, Sustainable, Impact-Driven and Philanthropy. These are defined in terms of their financial and impact goals and are shown below:

FIGURE 3
The Spectrum of Capital
Choices and strategies for investors on the ‘spectrum of capital’

<table>
<thead>
<tr>
<th>APPROACH</th>
<th>TRADITIONAL</th>
<th>RESPONSIBLE</th>
<th>SUSTAINABLE</th>
<th>IMPACT DRIVEN</th>
<th>PHILANTHROPY</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINANCIAL GOALS</td>
<td>Target competitive risk-adjusted financial returns</td>
<td>Unchartered returns</td>
<td>Below-market returns</td>
<td>Partial capital preservation</td>
<td>Complete capital loss</td>
</tr>
<tr>
<td>IMPACT GOALS</td>
<td>A Avoid harm and mitigate ESG risks</td>
<td>B Benefit all stakeholders</td>
<td>C Contribute to solutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DESCRIPTION</td>
<td>Limited or no regard for ESG practices or societal impact</td>
<td>Mitigate risky ESG practices, often in order to protect value</td>
<td>Adopt progressive ESG practices that may/are expected to enhance value</td>
<td>Address societal challenges that generate competitive financial returns for investors</td>
<td>Address societal challenges by supporting non-commercially viable models, inc. guarantees</td>
</tr>
</tbody>
</table>
| Source: Bridges Impact+ and the Impact Management Project.
Where asset owners or asset managers have an interest in the E&S contribution of their investee companies, they look to E&S measurement and reporting to support their analysis and decision making, either through ESG ratings and reports or in other ways e.g. through direct engagement. They also leverage E&S measurement and reporting to design investment products for their customers and enable them to select investments on that basis. Finally, investors use E&S measurement and reporting of companies they invest in as a tool to inform reporting on their own contribution to E&S themes.

As defined in the original Advisory Group report, ‘social impact investment’ consists of investment in the share or loan capital of those companies and enterprises that not only measure and report their wider impact on society, but also hold themselves accountable for delivering and increasing positive impact. Increasingly, responsible and sustainable investing are seen as core components of good investment practice, but impact driven investing is far from the norm, representing a fraction (502 billion) of the broader market.

Organisations of all types have a role to play in the reporting of their contribution to E&S themes alongside, or better still integrated into, their traditional reporting on financial performance. For some E&S themes and types of organisation, reporting is mandatory (for example on Modern Slavery in the UK), whereas for other E&S themes reporting is recommended as good practice. Organisations report against E&S in terms of their CSR initiatives e.g. number of volunteer days, the characteristics that make them a responsible business e.g. their position on gender balance, and their impact themes e.g. enhancing quality-adjusted life years for a specific population.

Through the measurement and reporting of progress against each area, reporting organisations can articulate the full scope of benefits that they bring to the wider world. Investing in the measurement and reporting of impact on their impact themes, and its place in the business model, contributes to the longer term success of the organisation.

### Spectrum of Investee Organisation

<table>
<thead>
<tr>
<th>Approach</th>
<th>COMPLIANT</th>
<th>RESPONSIBLE</th>
<th>SUSTAINABLE</th>
<th>IMPACT-LED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact goals</td>
<td>Comply to E&amp;S related legal criteria</td>
<td>Avoid harm to stakeholders</td>
<td>Benefit all stakeholders</td>
<td>Contribute to solutions</td>
</tr>
<tr>
<td>Description</td>
<td>Organisation operates according to minimum legal requirements (i.e. publishes Modern Slavery disclosure)</td>
<td>Organisation operates responsibly, mitigating risky business practices that harm stakeholders by embedding socially responsible policies</td>
<td>Organisation operates sustainably, with operations and activities that benefit all stakeholders</td>
<td>Organisation is fully impact-led, with strategy, products and services intentionally contributing to E&amp;S themes most relevant to the organisation</td>
</tr>
</tbody>
</table>

### TECHNOLOGY AND DATA PROVIDERS

Alongside reporting organisations and the investment community, this paper considers the potential role that technology and data providers can play in supporting reporting organisations and the investment community through the aggregation, augmentation, analysis, assurance and communication of E&S information. Overall, this makes E&S reporting a far more efficient and effective process for all stakeholders.

Joining established ratings agencies and index providers, new technology and data providers are leveraging artificial intelligence / machine learning and new data sources e.g. social media, satellite imagery, IoT to gather and develop large data sets, apply algorithmic learning. This is bringing new insights and increase transparency to both the performance of individual companies and the system.

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21 Advisory Group to UK Government, Growing a Culture of Social Impact Investing in the UK, 2017
22 Sizing the Impact Investing Market, The GIIN, 2019
INVESTOR EXPECTATIONS

Effective E&S reporting to and from the investment community can play a critical role: allowing the investors who want to invest in good to do so, providing the basis for analyses that help them better understand the impact that company E&S contributions have on the world and on financial outcomes, and allowing companies to be held to account. In summary, E&S reporting plays a critical role in stimulating the resourcing and delivery of corporate driven environmental and social impact.

The investment community is represented in this study by pension funds and investment managers, each with different aims and ambitions but each commenting across the investment value chain on the way E&S information on investee companies is used. This section plays back their reflections in terms of the direction the system is heading, challenges faced, good practices and finally catalysts to advance progress.

DIRECTION OF TRAVEL

There is growing recognition of the role that E&S contributions play in successful business, with climate change management seen as particularly important. “Under [climate change] we’re making good progress – there’s a massive piece of work to think about our portfolio in a different way” - Standard Chartered. “You’d have to be pretty eccentric to deny the science around climate change – it’s now mainstream. People are asking about products that tilt away from carbon intensity. And for us, clearly if you’re structuring those products, you have to have a set of metrics to justify your decisions” - Legal and General. “Climate impact is acknowledged as most ‘desirable’ impact to record” - RBS.

Whilst interest in E&S themes has to date been largely about risk management, there’s increasing interest in positive and intentional impact. “There is a strong belief throughout the organisation that ESG factors are sources of both long term risk and returns” - First State.

Pension funds and investment managers are also seeing increased interest in E&S themes from their members and customers, and in particular millennials. “There is empirical evidence that millennials want their investments to ‘do good’” - RBS. “Everyone is now an investor, due to pension auto enrolments, etc. Individual investors are also becoming more interested in the E&S impact of the fund and companies they are investing in, and therefore more interested in E&S measurement and reporting” - Roundtable participant.

And providers are offering E&S theme tilted portfolios or investments shaped by ESG indices e.g. the gender pay gap. “We have an index for equal gender pay, recognising the significant interest in and pressure on greater diversity” - Legal and General.

The Impact investing philosophy is becoming widely adopted even if the market is far from mature: “I think impact investing is becoming pervasive and integral - it started off as a minority interest, and has now grown to a point where we really want to put discipline around it” - Legal and General.

For those looking for change, there is good evidence that investor attitudes can be a catalyst. One interviewee noted that executive pay excesses were managed effectively and relatively quickly through investor pressure. “Take Exec remuneration. This was a big issue a few years ago, but the following year, there was much less voting on this issue against boards. It’s a good thing because it means [companies] are responding to the shifts and starting to make appropriate changes” - Roundtable participant. However there is some concern that the market is still far from universally recognising the influence of E&S contributions, which reduces the transformational effect in multiple ways e.g. by providing alternative buyers for divested assets such as tobacco.
Continued momentum depends in large part on the quality of the information being provided. Certainly progress has been made: e.g. in the UK, when it comes to E&S measurement and reporting, “is at a 5 out of 10 on progress and tracking positively...5 years ago, it would’ve been a 2” – Legal and General. However, a lack of quality reporting translates into a lack of products, and outposts of believers within investment managers tasked with curating impact style investment products are more frequently found than organisations with an organisation wide belief in E&S as a ‘greenwashing’ – Hermes. As a result, a significant amount of research and analysis is being conducted in house with third-party and company data to better understand E&S impact, its influence on success and its input into the products and services that the Investment Managers seek.

The broader trend of increased interest, combined with the inadequate quality and quantity of information flowing from companies, is resulting in significant increases in in-house resources required at investment managers to conduct E&S related analysis and extend beyond the standard ESG inputs.

**CHALLENGES**

All stakeholders call out multiple issues with the status quo that is retarding progress: issues in the investment community, the reporting organisations, and also others in the ecosystem including the technology and data providers.

A current concern is that both companies and investors see the benefits of marketing E&S progress, and over-promote their E&S prowess, either their own or of their portfolio, e.g.: “green-washing”. “There is evidence that other large corporates are ‘greenwashing’ their numbers, rather than embracing ESG values” – RBS. Reporting against the SDGs was one area of concern highlighted, with reporting organisations seen as using them superficially e.g. high level mapping, to promote their green credentials. “Although the SDG language is helping and they will continue incorporating them into the report, we do worry about companies using the goals without sufficient thought or rigour” – Baillie Gifford.

However, more fundamentally, E&S reporting by companies is not perceived to be sufficiently strong. “There is a paucity of information, with only the most basic information is available” – First State. “Most companies have not yet structured an approach for E&S reporting and/or their approach is very immature. Many are just sticking with bare minimum reporting requirements. Others are willing to think more broadly about E&S impact, but approaches are totally fragmented and lack depth” – Roundtable participant. The poor levels of company reporting mean that investment managers need to supplement with their own work which, while directionally helpful, is currently far from being a substitute for direct, company sourced information. The poor level of information reduces the value of the E&S perspective, results in a lack of broader appreciation of the role it can play, and builds a high level of cynicism.

This in turn influences the extent to which the broader discipline is taken seriously. “There is often a lack of knowledge and understanding of the importance of E&S themes to the business on the boards of companies, in fact in many cases virtually none. How do you incentivise management to value this research when you’re competing with lack of expertise and willingness to engage with the subject matter?” – First State.

The remedy to this is significant long-term investment in E&S measurement and reporting, but companies are reluctant not least because the business case is difficult to make, in part because of the lack of quality data. “Long-term investment in ESG needed, but organisations are reluctant to commit that time or money to developing the appropriate IP” – RBS.

The investment community compound the challenge by having simplistic expectations, looking for a single number or index that shows E&S performance, and is comparable across companies. This quest holds back progress and is symptomatic of the lack of willingness to engage on both sides to really understand the underlying issues. This is in spite of the well-researched links between performance and ESG, “Investors are still seeking to gauge investment performance by a single number i.e. return against some particular benchmark. A wholesale move towards valuing E&S performance cannot happen until a broader set of performance metrics is demanded” – First State.

“Measurement is critical, but if you try to distil down to a single number, you won’t be able to manage it. Impact is not straightforward, at times its counter-intuitive, it’s multi-dimensional. And if you think you’re only held accountable to publish a number every year, it will lead to complacency.” – Hermes.

The lack of common language, as identified in the Landscape Report, also holds progress back and is a precursor to any sort of standardisation or comparability. Frameworks continue to proliferate, and companies and investment managers are also creating their own approaches. “(We have) created our own set of methodologies to assess how companies are doing across various ESG indicators” – Legal and General.

Not surprisingly, existing benchmarks and indices are not seen as particularly valuable to either the company or investor: “Effective ESG benchmarks don’t exist” – Roundtable participant. This constrains the investment industry as performance becomes difficult to assess, which is all important when there are costs associated with the specification and deployment of E&S/ESG tilts or weightings.

Given the importance of understanding the context to properly assess performance against E&S themes, qualitative research is required but this is costly for investors, and access to the company can be a challenge. “Company-provided data tends to be insufficient to bridge the gap between outcomes and impact, primarily because the most useful and most sensitive data is not disclosed. As a result, the team uses qualitative data and estimation from other public sources to fill in the gaps. This is a resource intensive process and leaves the team uneasy as reaching a verified conclusion isn’t possible.” – Hermes.

The technology and data providers in this space are seen to be under-shooting in terms of the value they bring: “Technology and data providers often sell on their ability to analyse vast volumes of data that they have access to, not the quality or usefulness of their analysis, which is indicative of the immaturity of the marketplace” – First State. As a result, investment managers see their own systems and approaches as more sophisticated than those of third parties.

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GOOD PRACTICE

Participants in interviews for this paper were recruited on the basis that they were seen to be progressive, and as such have provided illustrations of good practice.

Sophisticated investment managers differentiate between broad E&S impacts, and intentional, targeted positive impact. “Investors should be cautious about the distinction between impacts and impact. The first involves the unintended consequences of a company’s effect on the world, whilst impact is driven by a company’s intentionality. Companies tend to either focus on the former or celebrate the other without recognising negative impact. Intentionality is key, and we expect the companies in our portfolio to clearly demonstrate this.” – Hermes.

That intentional positive impact should be defined as part of a theory of change, and there are signs that others are recognising the value of this: “There is renewed recognition that sustainability isn’t just a risk management issue, we are now looking for new [positive impact] opportunities.” – Standard Chartered.

Impact, in almost all cases, is necessarily highly contextual and that context needs to be understood. “Impact in principle is unique to its context. Everything we do is based on context...” – Hermes.

Even those in the vanguard seek to leverage established frameworks and approaches including the SDGs. “I think there’s more untapped potential [in the SDGs] as a framework to understand our contributions, and then go down to the next level to guide what we do.” – Standard Chartered.

Interviewees recognised that this requires effort on both sides: working with company management to impress upon them the importance of their E&S impact, and the importance of effective E&S measurement and reporting. This implies some level of stewardship, ideally through regular meetings with company management, and supplemental research and analysis. “We interact heavily with the organisations that we are looking to invest in, in order to understand the quality and culture of their management team and their attitudes to their E&S impact.” – First State.

“We have continuous feedback loops to show how the investee companies are doing [against specific E&S themes].” – Legal and General.

Good practice also involves working with other organisations and groups to share approaches, and contribute to improvements. These organisations include academia, standards organisations, companies and others in the investment community.

Establishing E&S performance as a part of the house philosophy of value creation, and driving it consistently into strategy and product and service design is certainly the ambition of the more advanced in the market place if not current practice.

CATALYSTS

Investment community interviewees identified a number of key catalysts to help move the market forward. These can be grouped in terms of: education, communication, standards, strategy and technology.

Better education for all stakeholders is seen as a critical stepping stone to a better functioning market. Investors need to understand why, asking for a few metrics cannot be sufficient or valuable, they need to be able to understand the strategy, the related theory of change, and what the metrics represent. This is being introduced to curricula e.g. for the CFA (Chartered Financial Analyst certificate), but only latterly. Board level education for pension funds, investment managers and companies is also critical to create the demand and informed interest. Fundamental to this education is the need for investors to embrace E&S impact across their own organisations, take into account material ESG factors (including climate change), deploy their house view consistently and not constrain this to niche parts of their product portfolio.

Better dialogue is required across the value chain: between asset owners and asset managers, between the asset managers and the companies, and between the industry and supporting technology and data providers. Preferences and expectations need to be communicated more effectively, and the ability to evidence performance against these expectations needs be carefully articulated given the immaturity of E&S reporting. “Major stakeholders are not clear of what is expected of them, e.g. what the most material things should be reported on, or asked about.” – First State.

Companies need to explain how they are investing in the underlying infrastructure to capture E&S impact data.

Standards, or greater standardisation across definitions, language, process, formats, is generally seen as an important enabler and various initiatives were cited e.g. the Impact Management Project, the Investment Leaders Group and plenty of discussion around the SDGs and their ability to help. “Some commonality would help pull people together to all push in a similar direction. For example, the five dimensions of impact [from IMP] are helpful in creating a common language/framework for people to use. We’d need better standard disclosure on material non-financial areas to find a scalable reporting solution that can work for the industry at large, beyond specific impact funds.” – Baillie Gifford.

However standards are not seen as a panacea and concerns were expressed about the extent to which standardisation helps or hinders in a heterogeneous, context specific discipline. “Standardisation risks creating complacency for impact reporting.” – Hermes. “If we become too granular or standardised, we get bogged down in the numbers and standards and we can lose sight of what it is that we’re trying to achieve.” – Baillie Gifford

Practitioners reflected on the importance of looking beyond ESG data to assess progress against E&S themes that are holistically embedded in the strategy and business model of an enterprise. Given the evolving nature of the market, investors need to look beyond third-party provided ESG data, and engage with the reporting organisation on approaches used including, critically the theory of change, the impact themes and links to value creation and the long term sustainable success of the business. This requires investors to exercise stewardship to help embed ESG data in the strategy and business model, and suggest mechanisms to assess executive performance based on these values, for example, by tying it to remuneration.

Finally technology is expected to play an important part going forward, providing new forms of data that is not reliant on disclosure e.g. satellite data of a companies’ physical infrastructure and its proximate environment, AI/ ML to help sift and identify themes that are actually material to the company: “Materiality 2.0”, and technology to underpin some of the enablers above e.g. better ways of communicating retail investor choices. The paradigm shift asked of the technology and data industry is that they move from aggregating to augmenting data. “The challenge and next step is to engage companies and data aggregators to get better, more sophisticated insight into impact.” – First State.
This section sets out a series of insights on reporting practice within reporting organisations across three key topics:

- **What** organisations measure and report on in terms of E&S themes and their financial implications;
- **Why** organisations measure and report on E&S themes, in terms of demand from stakeholders and influence of E&S information on strategic decision making; and
- **How** organisations measure and report E&S information, in terms of their operating model for measurement and reporting, the data they collate and manage, their reporting approach, outputs and stakeholder engagement.

For the insights underneath each topic, this section explores: (i) the direction of travel, (ii) a view on key challenges and (iii) reflections on possible catalysts to support future progress. Good practice is shown throughout as case studies.

A consistent theme across each topic, and a consensus amongst interviewees, is the relative immaturity of the E&S measurement and reporting agenda, and, as a result, limited evidence of prioritisation, investment, understanding, standardisation and effective practice. “When set against the centuries of development of methods and standards for financial accounting, E&S reporting is comparatively immature” – Unilever. “Sustainability accounting is not as concrete as financial accounting, making it harder for people to prioritise” – Yorkshire Water.

However, there is reason to hope. Interviewees suggest that there is an increase in the number of organisations that are using theory of change methods to demonstrate the impact of core activities on the environment and society against a small number of priority E&S themes.

As more and more organisations recognise the interdependence between their impact on the environment and society and long-term success, more organisations invest in E&S measurement and reporting, adding to the body of knowledge and creating peer-pressure, and encouraging others to follow. As this continues, it can help build the necessary skills, capability and understanding required for the system to re-orientate more broadly.

Engaging organisations to take up this approach will require a co-ordinated effort that demonstrates its benefits and the key steps towards implementation. Organisations demonstrating good practice have a key role to play in sharing their methodologies and approaches to enable best practice to emerge.

**WHAT**

This section explores reporting practice in terms of where across the theory of change organisations focus their measurement and reporting, the nature of KPIs that are used, and the degree to which organisations measure and report on the financial implications of the impact they have on the environment and society.

**A.1 OUTPUT TO IMPACT**

Where across the ‘theory of change’ do organisations report?

**DIRECTION OF TRAVEL**

The theory of change framework (see Figure 1) positions reporting as a means of demonstrating the relationship between the activities of an organisation, the immediate outputs, the consequent outcomes and the broader, subsequent impact on the environment and society. Reporting at the activity end of the framework is clearly easier: those activities are within the control of the organisation e.g. publishing school books. Reporting impact is more difficult, requiring a good understanding of the entity impacted in order to identify the nature of the change that the organisation has effected e.g. better educated people. Whilst difficult, it’s critical to try and measure impact in order to ensure that company resources are intentionally and effectively directed at maximising positive impact commensurate with delivering intended financial returns.
Interviewees agreed that whilst E&S measurement and reporting is increasing, organisations tend to report only on E&S outputs, with far more limited reporting of E&S outcomes or impact. Even for leading practitioners, reporting of impact is seen as an aspiration. Yorkshire Water for example, described their aspiration to move “towards the impact end of the spectrum”. A pragmatic approach is to establish the link between activities and impact, but then measure and report on proxies. “We are looking to measure impacts but, in practice, this is very hard. Therefore we use proxies, based on measuring the outputs of our activities. We do so based on evidence-based theories of change which give us confidence that the activities will lead to the desired outcomes even if we cannot currently measure them all directly” – UNWAV.

Impact is typically contextual, and requires information that may not currently be quantified or available. “We tell a narrative about our impact, by connecting our different initiatives to our impact aspirations and using qualitative and quantitative information. For example, we have created milestones to help us measure the impact we will make by accommodating 10 million electric vehicles in GB by 2030. We are using qualitative means to demonstrate our impact in championing fair work, by leading the Living Wage in Scotland, establishing pilots and promoting the Living Wage with suppliers” – SSE.

The measurement of some E&S themes is more advanced than others. The measurement and reporting of greenhouse gas (GHG) emissions, building on initiatives such as TCFD, has achieved greater standardisation of approaches for measurement. However, this is a special case. Output measures for GHG emissions do not need contextualising and are not geo-specific. As a result the distinction between outputs, outcomes, and impact is limited.

Effective impact measurement needs to deal with negative impacts too, either on the identified theme or outside of that theme e.g. pollutants created in the process of developing an electric car. “Across the market, where impact reporting is attempted, it is almost always limited to positive impact with companies only rarely being transparent about their negative impacts” – Social Finance.

Impact management projects are helping to establish the link between reporting on a small number of critical themes (which we call “impact themes” in this paper), broader coverage of a set of themes that might be referred to as “sustainability” or “responsible business”; and the adoption of ESG criteria. In this context, organisations are struggling to provide a coherent narrative around their contribution to E&S themes that stakeholders can recognise and find useful.

Where organisations do attempt to take forward quantitative measures of their E&S contribution, they quickly come across challenges of contextualisation and geo-specificity, i.e. Impacts experienced in one locale might be of far greater significance than if experienced in another one. As a result, organisations tend to focus on less comparable qualitative approaches to measurement and reporting of their E&S outputs, outcomes or impact. “On measuring value or impact over time, it’s one of the things we’re trying to work out. For example, if you build a lot of housing for older generations, can you claim the value on less falls and hip injuries? We think there’s value and that we contribute, but there isn’t a standardised methodology” – Legal and General.

Organisations also struggle to develop E&S measures beyond outputs, because they do not sufficiently understand the drivers of their intended impact. Without investing in a process to set out their theory of change, organisations cannot establish the link between their activities and E&S contribution and therefore cannot develop effective measures to track progress. This is widely considered to be a symptom, or indeed a cause, of the relative immaturity of the E&S measurement landscape.

Finally, organisations struggle to develop E&S measures due to the paucity of baseline data against which they can compare – particularly for outcomes and impact. Without clear and available information on the broader market, any E&S measures that organisations develop and report against can lack integrity and hence resonance with wider stakeholders.
Catalysts – For Reporting Organisations

Organisations should adopt and embed clear definitions of E&S themes, outputs, outcomes and impact. Where companies use terms relating to impact or sustainability, they should provide clear definitions, ideally rooted in wider industry standards or initiatives, such as the Impact Management Project.

Organisations should apply the ‘theory of change’ approach to describe how their activities lead to their intended E&S impact. This requires organisations to select priority E&S themes (“impact themes”) against which they can develop a suite of clear targets and measures of progress across their outputs, outcomes and impact.

Catalysts – For Other Actors

There is an important role for regulatory guidance to highlight clear definitions of terms relating to impact and to encourage organisations to use these terms consistently.

Corporate governance guidance could also relate their business model to the theory of change. To provide confidence that activities will lead to a positive contribution against each theme, organisations would need to define them ourselves.”

Third-party data providers have an important role to provide a better understanding of baseline data against impact themes. This will help organisations provide comparisons to add greater meaning to their developing E&S measurement and reporting.

Unilever | Measuring impact through a theory of change

Under the Sustainable Living Plan (USLP), Unilever committed to 3 big goals, 9 pillars and 50+ underlying targets relating to environmental and social themes. All of these targets are supported by KPIs which vary in their complexity.

KPIs and targets were prioritised and developed through the use of theories of change, which provide confidence that activities will lead to a positive contribution against each theme.

Constructing the theory of change involved defining the intended E&S change, an understanding of the cause of that change and assigning appropriate KPIs and targets to track progress. For example, to reduce the incidence of diarrhoea (impact), targets were developed around training more people to wash their hands (outcomes), as driven through more hand washing campaigns (outputs).

KPIs and targets were designed so they either measure the change directly, or through clear proxies. Where possible, external standards are used, but many of the areas do not have commonly accepted standard measures and so Unilever has to internally define them.

Measures and targets aim to contribute to an end-to-end understanding of the E&S implications of the activities of the company. For example, when choosing materials, a view of the waste footprint across the entire value chain is conducted to understand whether, for example, a switch from plastic to glass or aluminium would lead to a better overall outcome for the environment or society.

A.2 KPIs

Do organisations measure and report against similar E&S KPIs by theme?

Direction of Travel

Whilst a small number of standard KPIs have been comparatively standardised for well-understood, material issues such as carbon emissions and internal workforce metrics (e.g. gender pay gap), there is widespread variation and fragmentation of E&S related KPIs in the broader sense. Various standard setters provide guidance and example KPIs, e.g. Sustainability Accounting Standards Board (SASB), the Global Impact Investing Network (GIIN). However, adoption is variable and reporting organisations do not feel sufficiently guided.

As a result, leading practitioners are crafting bespoke KPIs against impact themes that are of most material relevance to the success of their company. “We used the SDG themes as a basis to identify four material business goals for 2030, and then created bespoke KPIs to track progress against them” – SSE. “Metrics are difficult to define and are industry specific. Under the Unilever Sustainable Living Plan, we committed to 3 big goals, 9 pillars and 50+ underlying targets. All of these are supported by KPIs which vary greatly in their complexity/degree of challenge in accordance with what we are striving to measure. We use external standards where we can but many of the areas do not have commonly accepted standard measures so we have to define them ourselves.” – Unilever.

Across the interviews and roundtables, participants debated the potential role for the SDGs to be a standardised basis for framing and prioritising E&S themes. Participants reflected on the challenge of drawing direct relevance between the SDG goals / targets and business-specific metrics and indicators. Without business model relevant SMART24 metrics and indicators, the SDGs were seen to be most relevant as a tool for assessing and capturing at a high level “impact themes” relevant to the business, for strategy development, or as a communications framework, rather than as a specific framework against which companies can measure and report their impact.

24 Specific, Measurable, Agreed, Realistic and Time-based
For most E&S themes, commonly accepted standards and guidelines do not yet exist. Many of these themes, especially those relating to social impacts, tend to be less well understood and highly context specific (e.g., polluted water in a sea vs. a drinking well has vastly different impacts on society), further stalling progress towards standardisation of KPIs. “It isn’t viable to find a single number for impact against a specific theme because impact is specific to its context. Take jobs – a quality job in Detroit, Doncaster, Delhi or Dar es Salaam. These are very different in scale and opportunity. How do you aggregate that into one number?” – Hermes.

Lack of standardised KPIs has led to a proliferation of non-standardised approaches and bespoke KPIs, which in turn has led to a lack of comparability and credibility of E&S measurement and reporting. “At the moment it’s such an open space that everyone is going off and doing different things for themselves, often in quite different directions” – Baillie Gifford.

Many organisations are not transparent in terms of sharing their approach to crafting bespoke KPIs, leading investors to question the validity of approaches. “There is confusion as to how well it is being measured. When [we] talk to corporates, [we] often wonder how good the science is? For example, with emissions avoided, companies can’t yet measure with an accuracy that they are willing to report on, and [we don’t] want to estimate for the company when they can’t even estimate it themselves” – Hermes.

“Even if organisations are using the same proxies, there are so many methods that outputs can be very different” – Roundtable participant.

Overly standardised KPIs could be inhibitive or lead to negative behaviours. For example, interviews report observing “box-ticking” behaviour from organisations in their approach to responding to sustainability surveys.

Indeed, “many companies are becoming experts at answering these surveys in a way that results in a high score, whilst not actually considering sustainability deeply within the business” – Roundtable participant.

As more KPIs become standardised there is a risk that box-ticking become increasingly prevalent, as organisations distort what they do in order to uphold the KPIs or seek to “window dress” the KPIs for investors externally, without giving much thought to what they actually mean internally. As it was put in a roundtable discussion, “business authenticity within a standard framework [of KPIs] is just very difficult”.

Organisations should choose their KPIs, metrics and approaches with reference to their impact themes and the availability of credible and relevant data. They should declare intent and establish targets that acknowledge both internal and wider market contexts.

To avoid over-standardisation and “box-ticking”, and to allow good practice approaches and metrics for measuring bespoke KPIs to emerge, a hybrid approach for the development of KPIs was suggested:

- Where E&S themes are well understood, organisations can collaborate to agree a common approach to KPIs and measurement.

For example, the impact of reforestation is relatively observable, making it easier to measure and report on. Organisations can work together to develop commonly accepted measures of the E&S impact of these activities.

- More broadly, where organisations have similar business models and material impacts, they can be brought together to define clear KPIs for the relevant E&S theme – for example, organisations within the mining, agriculture and textiles and clothing sectors could collaborate within their sectors on KPIs and associated metrics relating to water usage.

“We need to work in partnership to get an industry view, not individual company view - this aggregation of industry impact could drive systemic change. We need to build consensus between organisations working on the same thing and create groups of people focused on establishing sensible targets. In other words, standardisation from the bottom up” – Roundtable participant.

Where E&S themes are less well understood, perhaps because they are more context specific, organisations should describe clearly the approach they use to craft bespoke KPIs, so stakeholders are clear on the processes, assumptions and calculations they have made. Ideally they would also allow stakeholders to drill down into each KPI, seeing its constituent parts and their source. With this transparency in place, the market can begin to coalesce around candidate KPIs for broader use.

Catalysts – All Actors

An open source, central register, or depository that holds standard KPIs, emerging KPIs developed in collaboration and new approaches to the design of individual bespoke KPIs, as well as supporting metrics, frameworks and existing standards, would facilitate transparency across the system and the sharing of good practice. This could be structured by theme, using the SDGs as a guiding taxonomy for specific E&S themes. This could build on existing efforts, for example, World Wide Generation’s “Sustainability Taxonomy” which is mapped to over 80 existing frameworks, standards and policies, and is designed to be dynamically refreshed and updated to reduce the reporting burden placed on organisations. Management and governance of the central depository could be coordinated by an organisation aiming to strengthen the market infrastructure for impact investing.

This central depository could subsequently enable an independent verification process for the assessment of E&S measurement approaches against criteria such as completeness, timeliness, granularity, and quality. An accompanying ratings system could certify how organisations report relative to the criteria, providing a clear guide to investors on the validity of E&S information.

Roundtable participants suggested that investors would have an important role to play in taking a central depository concept forward, given their reach, their understanding of approaches companies take to E&S reporting and their motivation to drive comparability.

Participants suggested the initiation of a working group combining various stakeholder groups, such as investors e.g. via the Investment Association or similar, reporting organisations e.g. via the I00 Group, and the social sector. If a central depository could be created, it would benefit investors and all reporting organisations, and could aid coalescence, evolving best practice and developing a population of standardised KPIs.

“At the very least we need to be able to describe what people are doing, even if the KPIs are not directly comparable. This allows best practice to evolve” – Roundtable participant.

To prevent fragmentation of the market, companies should be transparent in how they build bespoke KPIs and measure progress towards them, and collaborate by sector and/or theme.

Measurement of the small number of priority E&S themes should be supplemented with efficient reporting on a broader set of more generic ‘responsible business’ KPIs25, that do not vary by organisation. Over time, increased transparency and sharing of ‘responsible business’ metrics and measurement approaches is expected to contribute to coalescence of these more generic KPIs and associated metrics.
**CASE STUDY**

**TCFD | Standardising KPIs**

The aim of the Taskforce on Climate-Related Financial Disclosures (TCFD) is to help companies understand what financial markets want from disclosure in order to measure and respond to climate change risks, and encourage firms to align their disclosures with investors’ needs.

The Taskforce drew on member expertise, stakeholder engagement and existing climate-related disclosure regimes to identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate related risks and opportunities – and used this information to develop voluntary, consistent climate-related financial risk disclosures for use by companies.

The disclosures emphasise governance, strategy, risk management, metrics and targets, and consider the physical, liability and transition risks of contributing to climate change.

TCFD, although voluntary, already has the support of over 500 global companies and represents a shift from fragmentation of company and industry approaches to climate change disclosure, towards co-ordination and coalescence across industry against this important theme.

TCFD was highlighted in the roundtable as a step in the right direction: “Initiatives such as the Workforce Disclosure Initiative (WDI) and the TCFD are welcomed, and acknowledged to help bring clarity as to what data matters/should be a priority, because it was built bottom up rather than top down it has buy in.”

**CASE STUDY**

**Vodafone | Bespoke KPIs that inform executive decision making**

Vodafone have conducted a detailed process to define three strategic E&S impact pillars: women’s empowerment, youth skills and jobs, and energy innovation. For each strategic E&S impact pillar, a detailed process was taken forward to define clear sub-themes and measures of progress.

For example, to deliver women’s empowerment, Vodafone established a target to connect an additional 50 million female customers in Africa and India to help close the ‘mobile gender gap’. This target was developed through a detailed exploration of the ‘business and society win-wins’ that are specific to the industry and the geographic context of business operations.

Vodafone report on their progress against the target through quarterly reports to the Executive Committee.

There are more metrics to develop, for example, to find measures for how Vodafone can help young people to develop digital skills. ‘Even if we don’t have the metrics to report against, we start with what we have’.

There is more to do in relating this to financials, and not just cost but revenue growth – for example, understanding the financial benefits associated with meeting the 50m female subscriber target.

**CASE STUDY**

**Pentland Brands | Bespoke KPIs on key themes**

Pentland has a clear purpose underpinned by 3 principles: building brands with social purpose, future proofing the supply chain, and respecting human rights & tackling human equality.

Where the Group has been focused on a theme for a long time, they have developed a clear approach to reporting progress. For example, Pentland have been working on ethical sourcing for twenty years and have developed a robust methodology. However, as Pentland don’t own their own factories, they find it challenging to access useful data on E&S themes deep into the supply chain.

Pentland hope that as more businesses take sustainable supply chains seriously, there will be a clear template to follow, with common, published, sector specific KPIs to use, to work with suppliers to capture good data that can feed in to a company level dashboard against which they can report.

**A.3 FINANCIAL IMPLICATIONS**

Do organisations measure and report on the financial implications of their impact on the environment or society?

**DIRECTION OF TRAVEL**

Whilst the broad belief that the impact of an organisation on the environment and on society is linked to its longer term success, this needs to be explained as part of the business model and demonstrated through measurement and reporting. E&S measurement and reporting is unlikely to be mainstream within an organisation without this link being made. “It’s really important to articulate the link between wider societal impact and the financials, to show why being a good business contributes to the bottom line” – Pentland Brands. “As long as the commercial benefits derived from a commitment to E&S impact are difficult to measure, it’s very challenging to communicate effectively on this topic” – Unilever.

In recent years, there have been numerous efforts to capture a link between the impact of an organisation on the environment and society and the organisation’s financial value but there is no commonly used framework with widespread resonance. Today six of the FTSE 100 describe their annual report as ‘integrated’ by linking financial to other forms of capital. New approaches to connect E&S themes to different forms of capital are emerging. However, most organisations do not attempt to develop an integrated understanding of value that demonstrate the financial impact of their E&S contribution.

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27 See Adams, C A (2017) The SDGs, integrated thinking and the integrated report. IIRC and ICAS
The more progressive organisations use narrative-based approaches to highlight the links between their E&S contribution and financial implications in terms of: (i) risks mitigated, (ii) reputational benefits, (iii) stakeholder engagement benefits, particularly talent and (iv) specific E&S related growth opportunities. Some work with integrated reporting approaches, but all agree that more needs to be done to link financial and E&S contributions.

“Organisations that are making a commitment to sustainable development are seeing direct impact on their bottom line and profitability. Consumers are now 90% more likely to switch to a purpose-driven brand who can prove their impact. Such organisations are outperforming on the stock market and in revenue. Any company delivering products/services to support the SDGs will be the next billion and trillion dollar company due to market share and scale. The data is out there but it’s hard to bring this to the fore due to lack of standardisation in sustainability reporting.” — World Wide Generation

CHALLENGES

In general, organisations find it difficult to measure the financial value of their intangible assets – such as the capability of their workforce. This is especially challenging in the E&S context, where organisations are aiming to measure their contributions to benefits often realised outside their own operation or direct sphere of influence.

This challenge is compounded when organisations fail to bring all aspects of their measurement and reporting (both financial and E&S) together, through shared teams.

systems and processes. Where measurement and reporting is siloed and conducted across separate timelapses and standards, there is little practical opportunity to draw the necessary links between financial and E&S impacts.

As a result of these challenges, where organisations do seek to draw a link between E&S contribution and financial value they tend to use qualitative methods to do so, sometimes leaning just on a short note in a materiality assessment.

CATALYSTS – REPORTING ORGANISATION LEVEL

Organisations should develop a clear theory of change to help understand the drivers of E&S impact and to build a linkage between drivers of E&S impact and financial value. For example, using the theory of change to understand which organisational activities deliver both impact and value, and how they do it, will help qualitative links be measured and reported.

Organisations that are making a commitment to sustainable development are seeing direct impact on their bottom line and profitability. Consumers are now 90% more likely to switch to a purpose-driven brand who can prove their impact. Such organisations are outperforming on the stock market and in revenue. Any company delivering products/services to support the SDGs will be the next billion and trillion dollar company due to market share and scale. The data is out there but it’s hard to bring this to the fore due to lack of standardisation in sustainability reporting.” — World Wide Generation

CATALYSTS – OTHER ACTORS

Organisations, industry bodies and academia should play an ever greater role in developing a bank of evidence that sets out the link between a positive contribution to wider society and long-term sustainable financial success/generation of value to shareholders.

Through increased openness and transparency, leading organisations can share their approaches for measuring the financial impact of contributing to E&S themes and enable others to progress.

CASE STUDY

Standard Chartered | Integrated reporting/links to financials

With people and purpose now at the heart of the SC strategy, E&S measurement and reporting has more leverage. Efforts to integrate non-financial targets into broader planning are being made, its impact on reporting teams investigated, and more broadly how sustainability and non-financial reporting can be used to shape strategy.

Whilst the reporting season is still dominated by financial reporting, financial and non-financial reporting are being linked. Every year there’s a little more progress. This year, a non-financial measure of success was added against our sustainability aspirations, providing a sense of overall performance and cumulative average.

As a result of the top-down mandate to engage with sustainability, the Corporate Finance team have embraced this way of thinking and are keen to include it as part of company reporting. The report includes 4 non-financial targets (e.g. people and sustainability related) and 5 financial targets (e.g. typical commercials – return on equity, profit before tax, etc.).

The reporting landscape is much more cognisant of non-financial reporting now – SC joined the IRC at a time when there wasn’t a growing alignment (or requirement or demand) for integrated reporting. SC are now in a far better position as they continue to develop their own integrated approach.
WHY ORGANISATIONS MEASURE AND REPORT

Reporting organisations in the UK are required to conduct some form of measurement and reporting on specific E&S themes such as Modern Slavery and Gender Pay. Beyond the reporting that is mandated, there are both internal and external motivations for E&S measurement and reporting:

• An organisation’s impact on the environment and on society is seen as a critical component of the business model with implications for strategy, and so measurement and reporting is required to run the organisation effectively; and

• E&S measurement is expected by third-party stakeholders including customers, NGOs, regulators and importantly investors. This is reiterated in Principle 1C of the UK Corporate Governance Code.28

Whilst these two motivations are clearly related, they originate from different parts in the organisation and currently have distinct implications.

B.1 STRATEGIC INFLUENCE

Is E&S performance at the heart of the business model?

DIRECTION OF TRAVEL

There is increasing recognition of the strategic value associated with a positive contribution to E&S themes. Organisation’s motivations differ but span purpose, differentiation, risk management, brand reputation and stakeholder engagement and are often influenced by the recognition that E&S themes are increasingly in focus, and that business is being called upon to make an effective contribution. This is reflected in Principle IA of the UK Corporate Governance Code, which states that “A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society”.

More progressive organisations frame their intended E&S contribution through an articulation of their purpose, which ties their core business model to a small number of impact themes, and then embed that purpose in strategy, operations, culture and communications.

“Last year we went through a major change by re-articulating the business strategy on the basis of our four impact pillars. This has created an impetus to re-structure and re-focus business activities, for example, pulling out of retail energy. As a result, there is now a consensus that we’re pinning our flag to low carbon” – SSE.

“We have a clear purpose underpinned by 3 principles: building brands with social purpose, future proofing supply chain, and respecting human rights & tackling human inequality” – Pentland Brands.

However, whilst many organisations do call out their intended E&S contribution, few authentically embed this in the business model and the way the organisation works. Instead, organisations typically see E&S themes in terms of a ‘responsible business’ agenda – focused on protecting their license to operate and mitigating reputational risks. Others will further limit their engagement on E&S themes to corporate social responsibility (CSR) efforts that may complement the core business but are far removed from strategic and operational decision making.

CHALLENGES

Organisations will only incorporate E&S themes as inputs to strategic decision making when these themes are recognised as relevant to the business, and valuable to strategy development. For many organisations the main inhibitor to this is the lack of clear understanding of the relationship between progress on E&S themes and financial impact (see previous section).

Where organisations do recognise the strategic value of a commitment to E&S themes, they face a considerable challenge in embedding this commitment within their organisation – particularly if large, heterogeneous and well-established. Unless an organisation is set up with their contribution to E&S themes in mind, their business model with the attendant dimensions of strategy, operations, processes, systems and incentives is likely to have been developed with a narrower focus on short and medium term commercial considerations. This leads to challenges for developing and incorporating E&S measures, as the processes and systems that have evolved over time are not designed to incorporate E&S considerations as an input to decision making.

Organisations further struggle to incorporate E&S themes within strategy and operations where E&S measurement and reporting functions and associated capability are isolated, typically within a CSR or sustainability function, and lack Executive sponsorship.

CATALYSTS – REPORTING ORGANISATION LEVEL

Organisations should reflect their commitment to E&S themes, sometimes declared in a statement of corporate purpose, stating the role this commitment plays in the business model. This needs to be under-pinned by a theory of change that shows how the business creates E&S impact, and how this strengthens the business model. This commitment needs to be translated into targets and into strategic, operational, cultural and communications activities.

The top level commitment should ideally be owned by the strategy function, supported by finance in terms of targets, reporting and detailed planning.

To under-score commitment, there should be a clear and visible link to executive remuneration.

CATALYSTS – OTHER ACTORS

System level changes need to take place to support organisations as they adopt E&S themes.

Good practice needs to be called out and rewarded. This requires recognition of efforts to develop the right commitments and design the business around them, rather than expecting businesses to be able to demonstrate their achievements in terms of impact. That will come.

Boards and supporting educators and institutions need to equip both executives and non-executives with both the understanding and the tools to act.

Regulators and assurance need to help promote this approach, by for instance ensuring that the companies act and the guidance it comes with is used to drive change in this direction.

28 Principle IC of the UK Corporate Governance Code (2018) states in the context of long-term sustainable success: “The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.”
Bulb | Purpose-led E&S Impact

Bulb was founded on the basis of achieving positive environmental impact with a mission to help people reduce their carbon emissions and save on their energy bills by providing affordable, renewable energy. As a result, this commitment is at the heart of its strategy, leadership approach, systems, and measurement and reporting.

In an interview with Bulb it was explained that Bulb is “not using transparency or positive impact work as a marketing exercise – they actually believe in it.” Bulb cite their mission as critical to their success; they are one of the fastest growing companies in the UK.

Bulb were founded as a B-Corp, which requires conformance to an extensive set of requirements for how the business is run, from their strategy through to their pay ratios. They also set themselves strict guidelines about where they source energy from. For example, they do not buy electricity generated from burning biomass, and only buy low-impact hydroelectricity.

As a young company and mission-led business, they have been able to construct their business model in a way that can comply with the requirements from the outset. They have not needed to retrofit old performance management systems, introduce new initiatives, or push a competing green/sustainability agenda. It’s been business as usual since inception. For example, they have an open source KPI dashboard and OKR (objectives and key results) system.

Those data points are embedded into company reporting, and updated on a weekly basis - every level of the business knows the emission goals.

SSE Group | Making E&S central to strategy

SSE has been on a journey to embed E&S into their day to day business, by identifying material E&S themes, increasing the E&S reporting teams’ links to strategy and tying remuneration to performance against those themes.

SSE recently rearticulated their strategy to intensify their focus on sustainability, and they now report against 4 core E&S business goals for 2030, each linked to an SDG:

- Cut carbon intensity by 50% (SDG 13);
- Treble renewable energy output (30TWh) (SDG 7);
- Help accommodate 10m electric vehicles (SDG 9); and
- Champion Fair Tax and a real Living Wage (SDG 8).

The sustainability lead’s role also changed from Head of Sustainability (under Corporate Affairs and Sustainability) to Chief Sustainability Officer (now reporting to the CEO). Both changes highlighting the importance of E&S sustainability to SSE’s business.

To further demonstrate their commitment, the Remuneration Committee recently agreed to tie the 4 SDG-linked company goals to executive remuneration.

Is E&S reporting motivated by external stakeholder demand?

**DIRECTION OF TRAVEL**

There are demands from across the spectrum of stakeholders, including consumers, regulators, investors and the labour market – for organisations to measure and report on their E&S contribution. This is of course positive, as an indication of the increasing expectation on business to make a positive commitment to E&S themes, but remains largely unfocussed and as such can impede progress. “Consumers increasingly want to know that the organisations they work with and buy from are doing good in society” - Cordant Group. “Business customers are looking to see the impact above and beyond the norm – they’re asking about the social value that we create” - SSE. “A message that came through strongly from customers was about ‘us doing the right thing for communities and the environment’ and they want evidence of that” - Yorkshire Water. “Within our group is a retailer with a big presence on the high street, and we know that their consumers want to see what they are doing to react to ESG related challenges” - ABF. “Employees across the group are increasingly interested in the social impact, especially their carbon footprint” - Unilever.

Alongside this increased pressure from stakeholders to call out and report on E&S contribution, organisations are also experiencing a marked increase in demands for specific E&S information through new reporting requirements and increased volumes of data and disclosure requests from organisations with strong E&S agendas, such as NGOs, data intermediaries and others. “Individual organisations are increasingly contacting us for data. Requests for disclosure are coming from multiple sources including the Workforce Disclosure Initiative, individual investors, benchmarks and NGOs” - ABF.

These requests often demand bespoke, time intensive responses. Organisations need to consider which to prioritise and how to respond efficiently, and all declare an aspiration for the market to be rationalised and better structured, such that core data sets can be leveraged by third-parties without individual requests. “Companies are disclosing different information currently but there is a drive for principles that clearly define the types of disclosure expected by each company” - ABF.
CHALLENGES
Stakeholder demands lack consistency and can cover a broad range of E&S themes and specific issues, driven by the specific interest of the third-party rather than necessarily being a material issue for the reporting organisation. This creates inefficiency and can divert the market from the most material, company specific areas of contribution. “There is no consensus on what is important to different stakeholders.” - ABF.

Where some level of thematic consistency is achieved, the data requested often varies by stakeholder and will rarely match the company data resulting in time consuming, bespoke, expensive processes.

The lack of consistency between those seeking the information and what is material for the reporting organisation, results in bespoke internal approaches, primary research and the manual collection of new data sets. “Our aim is to respond to all requests for participation and information but, for the market to be effective, there needs to be more harmonisation across these requests.” - ABF.

As a result of increasing, unfocused demand for E&S information from stakeholders, reporting functions, including those in the relatively progressive participant set, spend the majority of their time responding to demands from stakeholders. There is a sense that E&S reporting is becoming a “tick-box” or branding exercise in response to external demand and reputation management, as opposed to an exercise to derive strategic value through informed, conscientious decision making to deliver greater E&S impact and lock in long term value.

CATALYSTS - OTHER ACTORS
Leading organisations should champion good practice and share how they effectively address demand for E&S information.

In order to streamline slightly different data requests pertaining to specific E&S themes, our participants agreed that various external standards and initiatives are helpful in providing guidelines on what datasets to collect and report on, and that more such initiatives would be welcome. For example, initiatives such as WDI, TCFD were welcomed by organisations as they helped bring clarity as to what data matters and should be prioritised around the workforce, and around carbon emissions. “Standards help to clarify what to report on and how. In terms of reporting, the team is mostly focused on CDP and WDI. We did some work off the back of the WDI (investors are very focused on this), which is basically the standardisation of HR data” - SSE.

“[There are] signs that investors are consolidating information, like the WDI, which reduces some of the fragmentation” - ABF.

CATALYSTS – REPORTING ORGANISATION LEVEL
Organisations should prioritise a few E&S themes most material to their business, and focus data disclosure around those themes. Leading organisations have already begun to do this: by defining what E&S themes are most material to their business, giving them a stronger imperative to prioritise data requests for those themes over others. For example, Unilever conducted a reporting deep-dive into their palm oil and cocoa supply chains, as they are currently areas of heightened material importance to stakeholders. SSE similarly are “overwhelmed by requests” so are trying to take the lead and align what they report on to the requests they receive by focussing on the themes most material to their business.

In order to educate stakeholders and focus their demands towards the E&S themes most pertinent to the organisation, organisations should construct a consistent communications framework, linking impact themes to KPIs and information. This framework could be adapted according to the stakeholder. For example, the high-street consumer would receive a different format of information than a benchmarking organisation, but both formats would pertain to the same material E&S themes.

CASE STUDY
ABF | Streamlining data requests
ABF experienced multiple requests for disclosure from initiatives such as the Workforce Disclosure Initiative, individual investors, NGOs and individual organisations in search of E&S data to sell on. ABF found this fragmentation complex and resource intensive to serve and lacked a basis of prioritisation for the incoming requests.

In response, they ran a process to define which requests were opportunistic and which were duplicating upon a theme, taking 2,200 questions from external questionnaires/benchmarks, and summarising them into 200 questions, each pertaining to 1 of 12 ESG themes.

Now, individual businesses within ABF respond to a subset of the 200 that are relevant to their product/area. This consolidation enhances efficiency, effectiveness and provides consistency year on year, with ABF covering all areas of ESG reporting they feel are material.
HOW ORGANISATIONS MEASURE AND REPORT

Following on from what organisations report and why they do it, this section focuses on how they do it in terms of data and systems, resourcing and role within the organisation.

C.1 DATA AND SYSTEMS

Is E&S measurement and reporting supported by key systems and based on appropriate data?

DIRECTION OF TRAVEL

E&S data collection and analysis is typically a time-consuming, inefficient process; collection involves largely manual processes reaching out to multiple parts of the organisation, with analysis conducted mainly through Excel. Even the more progressive struggle with inefficient data analysis and collection mechanisms. “It is a resource intensive process, due to number of people involved, the nature of what is being measured and the complexity of some of the measures themselves” – Unilever. “Data collection and analysis is done primarily in Excel” – Roundtable participant. “Data collection can definitely be manual and inefficient” – SAP.

Some more automated systems are in place for well-established themes and related data e.g. workforce turnover, but overall core systems for capturing, analysing and reporting on E&S data are lacking. The systems and processes that are in place largely focus on internal/ input data, rather than external/ output to impact data. “Any input data (that’s regulated) is well organised and anything core to the internal workings of the business is easy to find. Whereas impact / more external data is informally collected – not mandated, requires a lot of gathering / aggregating / making assumptions / applying other metrics, e.g. data for the value to local communities or workforce wellbeing” – Yorkshire Water.

Some organisations are beginning to invest in IT solutions to automate all or part of processes. For example, Unilever is “partially automated – we are moving away from spreadsheets and investing in IT solutions to collect, record and cleanse the data, but we still have manual interactions.”

Organisations who started out with an impact orientation differ. For example, Bulb “aren’t trying to retrofit new data systems” and rather have “an open source KPI dashboard and OKR (objectives and key results) system – fed into by a larger data warehouse. Those data points are being embedded into company reporting, and updated on a weekly basis.”

Interviewees agreed that moving towards an automated, core system for continuous E&S data input and analysis would be the ideal, and would be necessary to “free up time spent on data collection, aggregation, reporting and responding to requests which would give reporters more time to influence leaders with insights drawn from the E&S data” – Roundtable participant. However, such systems do not exist, and the vast majority of organisations recognise that they are many years away from achieving this. “Yes, an automated system would be the ideal but I have no idea how it would happen or work” – Roundtable participant. “A system with centralised inputs and the rest done for you would be great but who would create this?” – Roundtable participant. “There is a requirement to have more dynamic data around the business, but it doesn’t currently exist” – Yorkshire Water

CHALLENGE

Currently, core systems for E&S impact measurement do not exist within organisations, making continuous collection and reporting of data extremely challenging.

Due to the lack of core systems, data aggregation from various parts of the business is also a time consuming challenge. “A critical challenge is the data collection from the separate businesses into Group centre” – ABF. “Aggregation is hard. For some metrics we collect data from many sources and consolidate, others are calculated centrally” – Unilever.

Some newer IT systems and system modules enable automated E&S data input and analysis, but integration with companies’ existing IT architecture is typically limited, making their implementation costly for the company. Additionally, until there is clarity on standards and definitions, organisations may be reluctant to invest in new ICT systems and technologies that could be soon not serve their desired function. However, some organisations have begun to undergo such transformations, recognising the value that these systems will bring. Yorkshire Water is currently undergoing a SAP software transformation “which should provide much more access and structure for data input.”

There are also gaps in terms of data availability, and concerns around assurance of new sources of data. “If we break down the E&S umbrella into underlying sub themes, we are faced with massive data gaps – with different data availability for each issue. For instance, carbon accounting is more developed than social inclusion.” – Datamaran. “Data inputted must be quality and verified” – Roundtable participant. These data gaps are hard to fill, involving qualitative conversations or data from unverified sources, and further slow-down the process.

CATALYSTS – REPORTING ORGANISATION LEVEL

Progress towards organisations having core systems to capture and analyse E&S data in house largely relies on third parties improving the sophistication and availability of IT systems, especially ones that integrate with existing company architecture. Alternatively, companies can partner with technology and data providers to outsource some of the work burden and speed up the reporting process.

As these system challenges are tackled, companies can enhance measurement and reporting by ensuring sufficient resource and capability is given to the E&S reporting team, to enable the team to report more regularly and make the information produced to be more relevant to both the strategy and the running of the business.

Emerging small and purpose-led companies can bypass these steps by starting off with E&S data systems in place to provide continuous monitoring and updates of E&S performance. These companies can differentiate on this basis, and act as good practice example for others.
is also able to send permission-based data dashboards, enabling different stakeholders, e.g. consumers or investor relations, to see different levels of data.

Companies, government bodies and third-party providers should work together to increase the availability of credible data – from both internal and external sources. Bodies such as ONS should continue to improve the quality of public E&S data sets. Similarly, third parties e.g. the major professional services groups should increase investment in their capability to assure E&S data, measurement and reporting.

**C.2 RESOURCING AND POSITION IN THE ORGANISATION**

**Is E&S measurement and reporting sufficiently resourced? Is it effectively positioned within the organisation?**

**DIRECTION OF TRAVEL**

E&S measurement and reporting teams are generally seen to be becoming better resourced and more central to the business, with stronger links to other functions and decision makers. “The CSO now sits on 2 to 3 executive committees, which signals how central sustainability has become to the organisation” – SSE.

However, this shift is far from universal, with many teams remaining stretched and distant from the core decision makers.

**CHALLENGES**

Many E&S teams remain small and under resourced, and are overwhelmed with multiple, disparate requests for E&S information. They spend a significant proportion of their time gathering data to respond to these requests, as opposed to analysing and drawing out insights from the data that could be used to influence strategy and business decisions. For example, SSE’s E&S reporting team of four people is “overwhelmed by requests”.

Measurement and reporting is often housed in CSR or Sustainability departments, separate from the core decision-making functions. Further, the information they report on is often neither asked for nor shared with decision makers. Measurement and reporting is often not prioritised by leadership, leading to unclear reporting lines, and often being guided by conflicting priorities and messages, especially in larger businesses. “Our sustainability report is created mostly by those in the Brand division by a team of c. 6 people: most issues are operational, such as internal or supply chain audits. The report itself is focussed on ESG/CSR, with much of information reported on a voluntary basis” – Pentland Brands.

These under-resourced and often relatively isolated E&S teams are currently “not taken seriously” by other departments, both in terms of the metrics they share and the deadlines they impose. For example, in many organisations, “data comes from many departments but the deadlines are considered soft” because they are not coming from people who sit in finance where requests are treated more seriously” – Carol Adams, Advisor. Unless value is placed on E&S themes, teams will not be effectively resourced, will not be given authority and will not be able to use their insights to influence strategy.

Even when reporting teams do have links to relevant decision makers, E&S information is often not shared widely (e.g. to lower level employees or broadly across the exec) and transparency across the organisation is low. For example, Yorkshire Water indicated that “beyond high level decision makers – relatively few people working for Yorkshire are familiar with the capitals (E&S impact pillars)”. Transparency up and down the organisation around E&S information is vital to get conversations going, connections made and value recognised. With this transparency reporting teams’ efforts will be impeded.
CATALYSTS - REPORTING ORGANISATION LEVEL

Ideally, the E&S reporting teams will become central to and well embedded within the business, housed in or at the same level as the finance function, so that financial and non-financial measures are treated with the same level of rigour and supported by similar controls, systems and capabilities. The E&S reporting team must also have clear and direct links to the strategy function that holds the theory of change and controls critical business decisions, which will both inform and be informed by the measurement and reporting. This is already starting to happen in many of the organisations interviewed. “The Board committees are very involved in the sustainability strategy, reviewing the reported data and reviewing the plans/results for external assurance of that data” - Unilever. “The Sustainability team with sits in Finance and Regulation with direct link to the CFO via the Head of Sustainability” - Yorkshire Water.

As teams become better resourced, mechanisms to build the necessary specialism should be developed including where possible, individual “metric” owners, providing more time to draw insights from theme specific data and to influence decision makers. Unilever is leading on this with “Metric owners in each team measure and report against their specific metric to the central team. Information & Analytics support collating the information. The Finance team, who manage the overall process, spend an average of about 25% of their time on reporting”.

CATALYSTS - OTHER ACTORS

Encourage the growth of third-party technology-based providers to support data capture, collation and analysis to assist the E&S measurement and reporting teams with their workload.

CASE STUDY

Yorkshire water | An embedded and well-resourced sustainability (& reporting) team

The sustainability team sits within Finance and Regulation, and has direct links to the CFO via the Head of Sustainability and has had significant input into the development of the business strategy. Additionally, the Capitals approach used by the sustainability team is now a factor in decisions made outside of the sustainability department - “it started out as a categorisation or conceptual framework and has become something that’s applied in day-to-day decision making”.

For example, the Land and Property department uses these reports/the six capitals to facilitate decision-making in the business and with third parties: “we have a farm tenancy and the farmer is going to retire – should we put it back up for rent, should we partner with a trust/society, should we sell it? We want to factor in all the capitals when we make these decisions.”
Technology and Data Providers

THE NEED FOR SUPPORT

A new sector of E&S measurement technology and data providers is emerging, seeking to provide supporting services, software and data to reporting organisations and investors interested in E&S information, and help address many of the challenges described in the sections above.

Across the participant interviewees, there is widespread optimism that the growth of technology and data providers represents a critical catalyst to enabling better E&S measurement and reporting. Going forward, it will be important for reporting organisations, investors and technology and data providers to work together in close partnerships, to ensure technology is being implemented in the most effective ways and to achieve mutually agreed upon goals.

There are four challenges against which technology and data providers can offer a solution:

1) New sources of data and analyses. Technology and data providers can support the creation of new data sets that can fill in extensive data gaps across many emerging E&S themes e.g. the precise location of physical infrastructure, insight into beneficiaries’ lives, or sensor-based inputs of air quality. Through the application of AI/ML, providers can deliver more efficient, more effective analysis than individual E&S reporting team members who lack the data sources and the systems. Roundtable participants suggested that the market would benefit if technology and data providers “pursued depth rather than breadth” i.e. focused on augmenting and enhancing specific data sets for specific themes rather than aggregating publicly available information at the maximum possible scale across all themes. “We are not experts in every single field – it would be great if providers focussed on themes and added a level of expertise” – Hermes.

2) Assurance and triangulation. For E&S measurement and reporting to be credible, it requires assurance, and assurance requires triangulation. Technology and data providers need to help validate E&S measurement and reporting by gain evidence to substantiate claims, comparing and contrasting with relevant market data, a key input into the assurance process. Emerging technologies, especially Blockchain, will play a potentially transformative role in this task. This can be challenging where progress against E&S themes is context specific; for example, a manufacturing company could examine and contextualise this statement, and discover that the manufacturing plants in question are actually in highly water stressed areas, indicating that water remains a material issue requiring continued focus. Through a broader understanding of the data landscape and an objective perspective on organisation’s E&S measurement and reporting, technology and data providers can reduce reliance on company disclosure, and simultaneously push companies to report more meaningfully.

3) Linking outputs and outcomes to impact. Technology and data providers can play a critical role helping evidence the links between an organisation’s activities and their E&S outputs, outcomes and impact. This involves drawing together output data of an organisation activities with geo-specific E&S data from public and other aggregated sources (e.g. on community or environmental characteristics) to identify correlations and causations. Roundtable participants saw this as a particularly important role for technology and data providers to play, and specifically for investors who “currently have a vast amount of ESG data, but very little outcome or impact data”, “there is a vast amount of data on company policies but not of outcome of those policies” – Hermes.

4) Automation. As noted in this report, measurement and reporting is too often done too infrequently, and manually. Automating the acquisition, augmentation, analysis and communication of E&S data is a critical pre-condition of materially influencing the way the business is run. This could be done through adaptations to the core ERP systems, and/or specialist systems with appropriate APIs into existing systems, both internal and external. Investors interviewed reflected on the challenges of existing approaches that deploy relatively manual methods to examine and analyse the E&S contribution of a small number of potential investee companies, showing the need both within the reporting organisations and the investment community.

5) Transparency and Trust. Lack of transparency at various stages of E&S measurement and reporting and a lack of trusted data, are currently creating major impasses to impact investing, preventing trillions of dollars from being invested in sustainable development solutions. The investment community needs trusted, transparent data to be empowered to make decisions in investment divestment and to create sustainability products at scale. Similarly, reporting organisations are struggling to track their data at scale, and provide a level of assurance to their results. Technology and data providers have an opportunity to consolidate data collection and reporting in a transparent way, and provide a level of third-party data assurance, overall increasing trust and transparency between reporting organisations, the investment community and other stakeholders.
THE LANDSCAPE OF TECHNOLOGY AND DATA PROVIDERS

As the sector of E&S measurement and reporting technology and data grows, there are an emerging set of archetypal products and services on offer. Most companies appear to focus on one of these product or service types, but cross-cutting propositions are emerging:

1. E&S measurement and reporting software: e.g., So Pact is a “data platform not a database”, allowing users to upload E&S data for comparative analysis;

2. E&S measurement and reporting services to reporting organisations (i.e. software and data): e.g., Datamaran “harnesses technology to make raw E&S data usable and able to support decision-makers with an improved materiality analysis process – one that seamlessly integrates into Enterprise Risk Management”;

3. E&S measurement and reporting services to investors: e.g. Util uses machine learning to help responsible investors estimate the impact of companies and investments on people, planet and pocket; and

4. E&S data: ratings / indices / benchmarking: e.g., The Dow Jones Sustainability Index family tracks the stock performance of the world’s leading companies in terms of economic, environmental and social criteria.

5. Sustainability monitoring, reporting, verification cross cutting: e.g., World Wide Generation’s G17Eco platform collects data directly from the reporting organisations via data bots, the reporting indicators are mapped to globally recognised standards, frameworks and policies. Data is then disseminated to assurers/rating agencies and then to the investment community in real-time with provenance using distributed ledger technology. It can perform this service for all sectors, organisations, projects and investment categories.

For each of these archetypes, service provision can vary from providing just one element of E&S measurement and reporting, to a more comprehensive offering but using internal company data only, to measurement and reporting using internal and external data, and finally anything required to measure actual impact data (i.e. geographical and context specific impact of products, services and operations).

In addition to type of E&S reporting conducted, reporting technology and data providers can be categorised by breadth of focus, target end user, core and wider offerings.

| BREADTH OF FOCUS | TARGET END USER | CORE PRODUCT | WIDER OFFERINGS?
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<tr>
<td>Just ESG or impact</td>
<td>Investors vs. corporates vs. both</td>
<td>Data as a service vs. software as a service vs. both</td>
<td>Just data/product vs. product + advisory services</td>
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<td>Datamaran provides an evidence-based perspective into regulatory, strategic and reputational risks. It tracks 100 non-financial topics by sifting and analysing millions of data points from publicly available sources, including corporate reports, regulations and initiatives, as well as news and social media.</td>
<td>Util “Our state-of-the-art technology quantifies the positive and negative impact of every company on people and planet. Using our analytics, we work alongside investors to build investment strategies that meet the SDGs.”</td>
<td>Software as a service</td>
<td>Just data/product vs. product + advisory services</td>
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<tr>
<td>Wider</td>
<td>Corporates Ecodesk “We are data experts who help organisations develop the expertise and capabilities they need to make smarter ESG driven decisions.”</td>
<td>Data as a service</td>
<td>Greenstone+ “At Greenstone we understand that it isn’t all about the software. That’s why we provide a range of targeted services to help you get the most from our software across Environment, CSR, Health &amp; Safety and SupplierPortal. Whether you have been measuring and reporting non-financial data for years, or are just starting out, we’re ready to advise and support you at every step of your journey.”</td>
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CHALLENGES

It was agreed across interviews that the technology itself is not what is holding back uptake of E&S measurement and reporting technologies. AI and Machine Learning technologies are ready and fit for purpose. Rather, challenges exist around data, or lack thereof, and uncertain assumptions, methodologies and priorities. The four specific challenges identified were:

1) Methodology / assumptions.

“Technology is only useful as a tool e.g. when processing large amounts of data with the correct value judgements”. - Roundtable participant.

There is a lack of consensus regarding method and assumptions needed for E&S measurement (especially impact measurement) i.e. which signals to apply to unstructured data to help identify E&S impact, risks and opportunities. “AI/ML is very useful to automate parts of the process. However, the output is only as good as the method and assumptions fed in - and currently these methods and assumptions are uncertain and lack comparability”. - Roundtable participant.

Deferring to AI/ML gives the provider less quality assurance control or certainty of accuracy, hence why many providers currently only use AI to scrub datasets, and analysts to draw insights. Governance in this area is also lacking, so good practice protocol is uncertain.

2) Uncertainty regarding companies’ and investors’ E&S priorities.

Data providers are also uncertain what E&S themes and data clients (be it companies or investors) are most interested in, or what data the wider market actually needs. This has led to a proliferation of companies focussing on a wide range of impact themes – as opposed to specialisation and depth against a few. The range in number of themes and specific issues focussed on is wide: from 16 ESG themes all the way to 200, and from 57 ESG “hot topics” to 400. Some themes remain the same across providers, i.e. forced labour; whilst others are less well covered e.g. marijuana focussed on by one provider, fracking by another.

3) A lack of usable, verifiable datasets.

“The technology exists to measure impact, but part of the issue is the lack of data to assess”. - Roundtable participant.

All technology and data providers struggled with finding usable, and more importantly, verifiable datasets in the public domain and/or provided by companies. On the one hand, many companies are unwilling to provide certain confidential and sensitive data sets which would improve the accuracy of third-party E&S measurement. On the other hand, many external, public data sets are not yet complete, or lack credibility. There is also a vast amount of various types of unstructured data available that could help with E&S measurement, but this is not yet usable to technology and data providers (i.e. images). So, as per the challenge surrounding methodology, the technology is also only as good as the data fed in, and if credible data does not exist then accurate E&S measurement and reporting cannot occur.

4) Willingness of reporting organisations.

There is also a demand-side challenge regarding willingness of reporting organisation to adopt sustainability measuring technology and build it into their own systems. This challenge could stem from many origins: high cost of system implementation, lack of resources set aside for E&S activities, uncertainty of how systems would affect current organisational functioning, and lack of understanding of the market of providers / best provider to select. This challenging is currently stifling innovation, and impacting scalability of tech provider’s valuable solutions.

CATALYSTS

Technology and data providers must work together with investors and companies to come up with agreed assumptions and standardised approaches that improve the accuracy of their E&S measurement and reporting outputs and services. For example, World Wide Generation is exploring developing its public good assets, in conjunction with the City of London Impact Management Project, Impact Investing Institute and Green Finance Institute to create a standardised approach for the UK and beyond.

The sector needs to deploy more resources to creating, automating and augmenting data sets, and less time aggregating and analysing existing, incomplete data sets. Ideally this would be in collaboration with companies, investors and government bodies to increase the availability of credible data and identify the relevant public data to capture for specific E&S themes. This might mean more specialisation by specific themes and/ or industries. Ultimately, the deep data sets developed should be made available through a public register, contributing the development of a critical mass of data and insight that enhances the understanding of, and approach to, E&S impact measurement and reporting.

The specialist technology and data provider sector also needs to work closely with the mainstream ERP and business operations management software providers in order to link their products and services to core and existing systems within reporting organisations, thus providing integrated management solutions, e.g. solutions that help organisations manage their operations and activities from an E&S perspective.

Finally, the technology and data sector should work with third parties or develop their own service arms to help organisations to use their technology and data most effectively, upgrading from annual, manual processes to a system that is dynamic and automated.
VISION AND ASPIRATION – THE WHY? WHAT? HOW?

‘Why’ organisations measure and report should be rooted in the understanding that E&S impacts are critical to their business model and should inform and flow from strategy and purpose. Organisations should embed material E&S impacts in their core business strategy and call them out in their purpose.

In order to achieve a positive impact on the environment and society, organisations should not only report on their E&S impact but also link their material E&S impacts to business strategy, and use E&S reporting to inform business decisions and improve impact performance. Leading practitioners recognise the value of E&S reporting as a key input to strategic decision making, as a marker of long term sustainable performance and as a driver of an element of executive remuneration.

‘What’ organisations measure and report should be transparent, consistent and comparable, and reflect and drive real impact. Specific material impacts on the wider world should be reported alongside generic responsible business indicators. Ultimately E&S reporting by impact theme should be standardised.

Leading practitioners embrace ‘theory of change’ methods to help articulate a priority set of specific ‘impact themes’ that are most material to the strategy and business model, and represent their intended impact on the wider world – often expressed through a statement of corporate purpose. These impact themes are then tied to clear (and where possible, standardised) metrics and KPIs. Leading practitioners differentiate between reporting on specific, business model related priority impact themes and broader, responsible business indicators.

‘How’ organisations invest in their E&S measurement and reporting systems should reflect their commitment to the SDGs and be commensurate with the inter-dependence of E&S impacts and long-term sustainable success. Organisations should improve resourcing and structures for E&S reporting teams, housing them in core functions with links to key decision makers.

Organisations face a need to invest in better resourcing models and structures. Many E&S reporting teams are stretched and under resourced, overwhelmed with a huge amount of surveys and requests for information, and often working in silos. Leading practitioners have increased investment in E&S reporting teams and house them in core strategy and finance functions, with clear links to key decision makers within the business, including the CEO and Board.
CRITICAL ENABLERS – TECHNOLOGY SUPPORTING COMMON APPROACHES ACROSS INVESTMENT CHAIN

Technology relevant to E&S reporting will be critical to accelerating progress. Without a technology infrastructure to underpin E&S data collection, measurement and verification, even substantial investments in E&S reporting teams are unlikely to fill the resourcing gap or achieve progress at the speed and level required.

The growing sector of technology and data providers, and organisational uptake of their technologies and services, will play a critical role in catalysing a more efficient and effective system. Leading organisations are already engaging with technology and data providers and adopting and integrating digital technologies into their measurement and reporting systems to accelerate progress.

Asset owners and managers, reporting organisations, technology and data providers and other parties should work together to develop system-wide solutions. Together they should develop common approaches, create system-wide tools, and sector / theme specific metrics and KPIs, and share clear, accessible data sets.

System wide mechanisms for reducing the reporting burden should be created. A public depository of data, metrics, KPIs, tools and approaches, properly governed, accessible by and distributable to all, will be key to reducing the E&S reporting burden. Across stakeholder groups there should be improved awareness of key terminology, and public sharing of effective approaches and data sets, to accelerate the drive towards impact transparency and comparability.
APPENDIX

PARTICIPANT ORGANISATIONS

REPORTING ORGANISATIONS (9)
Bulb, Cordant Group, Pentland Brands, ABF, SSE, Standard Chartered, Unilever, Vodafone, Yorkshire Water

INVESTORS (6)
Baillie Gifford, First State Investments, Hermes Investment, LGIM, RBS Pension Fund, Social Finance

TECHNOLOGY AND DATA PROVIDERS (5)
SoPact, Coriolis, Datamaran, Util, World Wide Generation

KEY RECOMMENDATIONS

**System**
- Evidence and promote the link between E&S impact, generation of value for shareholders and long-term sustainable success
- Establish a standardised set of KPIs for key E&S themes, potentially by sector
- Develop shared definitions, taxonomies, methods and approaches for E&S measurement and reporting
- Create a public depository to record the different methods and approaches
- Engage in meaningful, collaborative work between various actors and stakeholders across the investment chain

**Company**
- Develop impact themes that are aligned to the business model and supported by a theory of change to define measurement and reporting
- Embed E&S KPIs into the management and management information systems
- Provide transparency to third parties on underlying data and approaches

**Investors**
- Look beyond ESG data and assess the impact themes that are embedded in the strategy and business model of an organisation
- Exercise stewardship to help organisations embed ESG data in the strategy and business model
- Embrace and commit to delivering E&S impact across their own organisations

**Tech and data providers**
- Contribute to the data sets for E&S themes
- Link products and services to core and existing systems within reporting organisations
- Work with third parties or develop service arms to help organisations to use their technology and data effectively

KEY DEFINITIONS, FOLLOWING ON FROM THE LANDSCAPE REPORT

**ISSUE LENSES**

**E&S themes**
An environmental, social or economic impact of an organisation expressed in terms of the themes and sub-themes encompassed by the SDGs.

**Environmental and social impact**
Positive or negative effects on the environment (impact on planet), society (impact on people) and economy (impact on long-term prosperity). Impact is highly contextual to the E&S theme in question and/or industries.

**ESG**
ESG stands for Environmental, Social and Governance. ESG factors are a set of non-financial factors which relate to a company’s, or companies’, handling of sustainable, ethical and corporate governance issues. There is no single agreed list of factors.

**Impact theme**
An E&S theme called out by a reporting organisation as a material part of its business model

**Responsible business themes and indicators**
A larger number of E&S themes and topics relevant to all businesses, i.e. workforce remuneration, shareholder voting policy, human rights issues

**SDGs**
The Sustainable Development Goals, otherwise known as the Global Goals, are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. The SDGs were ratified in 2015 by all member states of the UN. The 17 Goals and 169 Targets form a broad reference for environmental, social and economic themes.30

**REPORTING AND REPORTING ORGANISATIONS**

**ERP**
“ERP” stands for enterprise resource planning. It refers to a suite of software that organizations use to manage day-to-day business activities, such as accounting, procurement, project management, risk management and compliance, and supply chain operations.

**ESG reporting**
Reporting against ESG, where ESG stands for Environmental, Social and Governance. ESG factors relate to a company’s, or companies’, handling of sustainable, ethical and corporate governance issues. There is no single agreed list of factors. Often ‘ESG Reporting’ is used interchangeably with ‘Sustainability Reporting’.

**“Green washing”**
Greenwashing is the practice of making an unsubstantiated or misleading claim or report about the environmental benefits of a product, service, technology or company practice.
**Impact reporting**
Non-financial reporting specifically focused on environmental and social impact, as opposed to outcome (See section 3, Figure 2 of the Landscape Report).

**Indicators**
Quantitative or qualitative factor or variable that provides a simple and reliable means to measure achievement, to reflect the changes connected to an intervention, or to help assess the performance of an actor.

**KPIs**
Key Performance Indicators. A target or measure of performance, used to evaluate the success of an organization, employee, etc. in meeting objectives. A KPI is designed to help users quickly evaluate the current value and status of a metric against a defined target. Example: % reduction in carbon emissions

**Non-financial reporting**
Reporting which does not directly report on the financial transactions of a company or set of companies; this could include brand reputation, staff retention, environmental impacts and contributions (whether positive or negative).

**Metrics**
A system or standard unit of measurement typically accompanied by associated collection methods. A metric is the "quantifiable measure" of a KPI, used to track, monitor and assess the success or failure of the KPI. Example: Co2e (metric for carbon emissions)

**Reporting approaches**
The set of reporting inputs (such as methods and tools) and reporting outputs (such as an Annual Report or website) used to report on the performance and impact of a company or set of companies (See further classification and definitions in section 3 of the Landscape Report).

**Reporting framework**
A documented independent approach to assist companies in preparing reports and disclosures – in this context, traditionally badged as ‘sustainability’ or ‘ESG’. Reporting frameworks require businesses to provide quantitative and qualitative non-financial information to supplement financial information to assess the prospects of the company.

**Reporting practitioner**
An individual or organisation who advises on and/or produces reporting inputs and/or outputs.

**SASB**
The Sustainability Accounting Standards Boards. The mission of the Sustainability Accounting Standards Board (SASB) Foundation is to establish industry-specific disclosure standards across environmental, social, and governance topics that facilitate communication between companies and investors about financially material, decision-useful information.

**Sustainability reporting**
Typically sustainability reporting covers environmental and social themes related to business activities, such as carbon emissions, water use, and gender equality. Often this reporting is focused on outputs or outcomes rather than impact (See section 3, Figure 2 of the Landscape Report). 'ESG Reporting' is sometimes used interchangeably with 'Sustainability Reporting'.

**TCFD**
The Task Force on Climate-related Financial Disclosures. The TCFD will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.

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**THEORY OF CHANGE**

**Theory of change**
A comprehensive description and illustration of how and why a desired impact is expected to happen in a particular context. It is focused in particular on mapping out what has been described as the “missing middle” between what a program or change initiative does (its activities or interventions) and how these lead to desired goals being achieved. It does this by first identifying the desired long-term goals (impact) and then works back from these to identify all the conditions (outcomes) that must be in place (and how these relate to one another causally) for the goals to occur.

**Input**
The financial, human, and material resources used for the intervention.

**Activity**
Actions taken or work performed through which inputs, such as funds, technical assistance and other types of resources are mobilized to produce specific outputs.

**Output**
The products, capital goods and services which immediately result from a development intervention; may also include changes resulting from the intervention which are relevant to the achievement of outcomes.

**Outcome**
The likely or achieved short-term and medium-term effects of an activities’ outputs.

**Impact**
Positive and negative long-term effects produced by an activity, directly or indirectly, intended or unintended.

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## ACTORS AND ACTIVITIES IN THE INVESTMENT DOMAIN

<table>
<thead>
<tr>
<th>Definition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>GIIN</td>
<td>Global Impact Investing Network</td>
</tr>
<tr>
<td>Impact investment</td>
<td>Investment that actively and intentionally addresses societal challenges, either generate competitive returns or where returns are largely unknown</td>
</tr>
<tr>
<td>Institutional investor</td>
<td>An organisation who invests money in a corporate capacity.</td>
</tr>
<tr>
<td>Investors</td>
<td>An individual or organisation who contributes to the debt or equity funding of a company or set of companies, either directly or through an investment manager. An investor will often be the Asset Owner.</td>
</tr>
<tr>
<td>Investee</td>
<td>The end recipient of investment from investors. This is typically a company.</td>
</tr>
<tr>
<td>Investment manager</td>
<td>The intermediary provider of investment products and services, which enables an individual or organisation to invest money into a company or set of companies. Asset Manager is a synonym for this term, although in some companies there may be distinct departments or role holders based on the category of assets, i.e. financial securities vs property.</td>
</tr>
<tr>
<td>Responsible investment</td>
<td>Investments which mitigate risk ESG practises, often in order to protect value of investment</td>
</tr>
<tr>
<td>Retail investor</td>
<td>An individual investor who invests money in a personal capacity.</td>
</tr>
<tr>
<td>Sustainable Investment</td>
<td>Investments that adopt progressive ESG practices that may/are expected to enhance value for all stakeholders</td>
</tr>
</tbody>
</table>