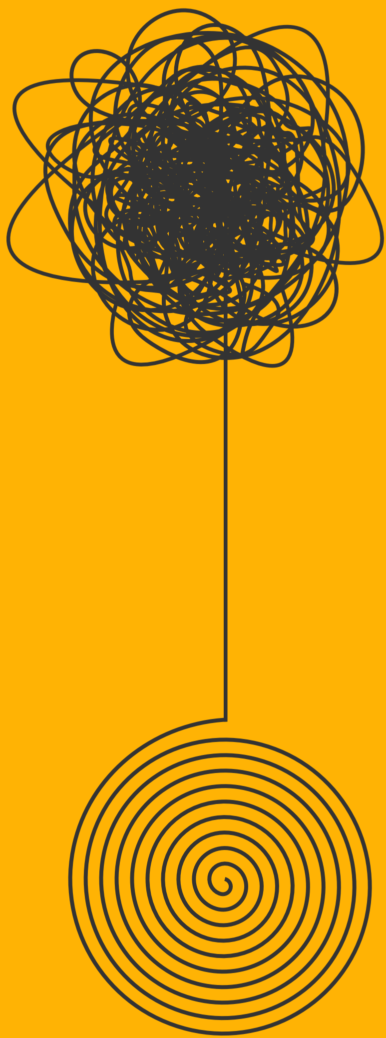


Solve for S

How businesses can approach the S in ESG
and how partnerships with civil society can help.

SEPTEMBER 2022

A report by ReGenerate

Supported by Q5 partners
and commissioned by the Law Family Commission
on Civil Society, run by Pro Bono Economics

Contents

Table of Acronyms

ACRONYM	MEANING
B4SI	Business for Societal Impact
BSI	British Standards Institution
CDSB	Climate Disclosure Standards Board
CDP	Formerly the Carbon Disclosure Project
EFRAG	European Financial Reporting Advisory Group
FRC	Financial Reporting Council
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
GSG	Global Steering Group
IFRS	International Financial Reporting Standards Board
IIRC	International Integrated Reporting Council
IMP	Impact Management Platform
IPCC	Intergovernmental Panel on Climate Change
ISO	International Organization for Standardization
ISSB	International Sustainability Standards Board
SASB	Sustainability Accounting Standards Board
SCDDA	Supply Chain Due Diligence Act
SDG	Sustainable Development Goals
SEC	U.S. Securities and Exchange Commission
TCFD	Task force for Climate-related Financial Disclosures
TIFD	Task force for Inequality-related Financial Disclosures
TNFD	Task force for Nature-related Financial Disclosures
TOMs	Themes, Outcomes, Measures
UNFCCC	United Nations Framework Convention on Climate Change
VRF	Value Reporting Foundation
WDI	Workforce Disclosure Initiative
WELLBY	A framework to value wellbeing
XBRL	eXtensible Business Reporting Language

Summary

As society is facing growing risks from the impacts of climate change, other social issues are emerging and are being seen to have a destabilising effect. While business can benefit society by employing people, paying taxes and creating services and products people want, it is within the power of businesses to go further, and to address many of these issues more directly. This can range from being increasingly aware of the impacts they can have on their workforce, consumers and communities, to actively aiming to reduce harms and increase the benefits that result from the way that they operate. The way that the investment system provides capital can make a large difference to how businesses operate, and at the same time, there is an increasing role for civil society to play in partnerships with business in helping to deliver social benefit. This briefing paper therefore relates to how businesses can approach the S in ESG as an investment tool, and how partnerships with civil society can help.

IN PART ONE WE SET THE SCENE OF THE ESG LANDSCAPE.

We start by making sense of the ESG landscape with the goal of creating a common understanding. We map out the key actors and describe how they relate to each other. People that work in the investment field may be familiar with many of the relationships, so this aims to provide an accessible description for those less familiar with the topic. It is a complex space and the complexity is increased when common terms that were intended for specific usage are adopted, and the meaning adapted by others. This has led to a situation where some terms have multiple meanings, so we address some of those terms that relate to ESG and describe some of the different viewpoints. Finally, we make the case that how comparisons to the relative development of the three topics in ESG (the E, the S and the G) are made could be reframed, and that doing so could change the nature of the conversation. A re-framing of the questions could help to identify new opportunities for making progress on how social issues are addressed by ESG investors.

IN PART TWO WE DESCRIBE OPPORTUNITIES FOR BUSINESSES IN RELATION TO THE S IN ESG.

We describe why businesses should care about their social impact, whether because future regulation will increasingly require businesses to monitor their impacts, or how other market forces mean that transparency on social impacts can be good for business. Social impact is broad by nature, so we describe the distinct categories of impact used by the European Commission, and how breaking down the issues into these categories can make the task of monitoring, evaluation and management more accessible. For each of the different categories we make suggestions on how businesses could start to integrate practices into their operations. Finally, we describe what other external actors could do to further support and encourage businesses to manage their social impact.

IN PART THREE WE DESCRIBE THE ROLE OF CIVIL SOCIETY PARTNERSHIPS WITH BUSINESS.

Partnerships between civil society and business can exist in many forms and can be mutually beneficial. We outline some types of partnerships, alongside their benefits and challenges. We describe some of the motivations that lead to businesses partnering with civil society and how they can benefit the business while helping to deliver positive outcomes for society. Finally, we describe what could be done to incentivise more corporate engagement with civil society, ranging from regulating how such partnerships are reported, to other market-based solutions.

The findings in this report are based on literature reviews, including research papers, articles and thought leadership pieces available in the media. It also synthesises some of the live debates relating to three public consultations made by some of the world's most influential governing bodies in the corporate reporting space that were occuring at the time of writing. We conducted thirty-five interviews with industry experts from business, investment, standard setters, ESG aggregators and civil society.

We hope that this report will contribute to creating a shared and common understanding of how ESG as a tool can support and encourage positive business impacts on society, and how civil society partnerships can help businesses with their social impact goals.

Summary of recommendations

Throughout the paper we make several recommendations to different stakeholders. A summary of the key recommendations is listed below, including a reference to the corresponding sections in the paper for more information.

FOR BUSINESSES

For those wanting to begin managing their social impact, a message that we heard regularly is to start simple and just do it. More frequently than not, people commented that companies are rewarded more for a transparent appraisal of their impacts and acknowledging their imperfections and laying a roadmap to address them, than not being transparent at all and using marketing as a tool for social-washing.
See section: How businesses could improve the way they measure and report social issues

Without doubt, social impact management is a complex topic, but we found that by applying the EU categorisation of social issues, the complexity can begin to be broken down into something manageable.
See section: Breaking social impacts into categories

Seek partnerships aligned with purpose. Identify where partnerships with civil society can enhance a company's mission and help to fulfil it in a way that also drives financial materiality. **See section:** Partnerships for purpose

Voluntarily share results to the Workforce Disclosure Initiative and the Business for Societal Impact.
See section: What can other actors do to support and encourage business

FOR CIVIL SOCIETY

That civil society could coordinate and coalesce, to drive progress on one or more systemic social issue, using the tools that we know work from the climate change movement, such as consensus building, measurable and time bound targets, utilising the power of financial markets, disclosures and transparency. Systemic issues might be the eradication of poverty, the improvement of wellbeing, or addressing inequalities. Traction is already being made with the Workforce Disclosure Initiative and the Task force for Inequality-related Financial Disclosures. **See section:** What can other actors do to support and encourage business

That civil society actors seeking partnerships with business begin to adapt, so that they can increasingly partner with organisations on a pro-bono, secondee or a purposeful partnership basis. **See section:** Civil society adapting to corporate partnerships for the win-win

FOR GOVERNMENT

To build on its reputation for leadership on climate change by supporting the forthcoming recommendations due to be made by the ISSB, and to to telegraph such changes to regulation so that professional service providers, investors and business leaders have time to adapt and prepare. See section: Why business should care about social impact

To find ways to incentivise voluntary disclosures to transparency initiatives such as the Workforce Disclosure Initiative and the Business for Societal Impact. **See section:** What can other actors do to support and encourage business and Encouraging more corporate engagement with civil society

Part One - Setting the scene of the ESG landscape

In Part One, we aim to bring readers onto the same page and establish a common understanding on various ESG-related topics, before progressing onto other more business and civil society-related areas. While we appreciate that there is a lot of complexity on this subject, we are deliberately not discussing a lot of the nuances so that this report is accessible to those less familiar with the ESG investment space. As such, we appreciate that this is by no means a complete articulation but one that serves the reader of the report. After describing the landscape we make the case for reframing commonly made comparisons between social and environmental issues and that doing so could lead to different solutions being proposed.

The core components of the ESG landscape

Before we can get into the opportunities that ESG presents to businesses, and relating to social issues in particular, it is important to understand the context and the interplay between the different types of actors. This framing of the landscape is aimed so that readers can understand the different types of actors, their role relating to ESG and why they are important. We have categorised these into four main groups relating to Rule setting, Investment support, Transparency and impact, and Companies, tools and professional services. It can be helpful to review the illustration in the section Mapping the ESG landscape (below) at the same time.

RULE SETTING

INTERNATIONAL FRAMEWORKS: These are widely recognised international frameworks, either ratified or adopted by the majority of countries around the world. They are important because they set globally or regionally recognised standards that jurisdictions adopt into their national laws. How they are adapted differs based on existing local laws and societal norms.

INTERNATIONAL ACCOUNTING GOVERNANCE BODIES: These are governing bodies that aim to achieve standardisation of accountancy practices across the world. Their origins came from a need for more accurate and consistently presented information that assesses and communicates companies' performance and risks to investors to enable flows of capital. They are important because they set the global standards that are adopted by different jurisdictions, such as the USA, Europe, UK and China. Each jurisdiction might adopt and adapt the standards differently according to local laws, regulations, customs and social norms. An example of where divergence has occurred relates to the concept of materiality, which is discussed below.

JURISDICTIONS: These are individual countries or regions. They are important because each has their own laws and customs with which there can be varying degrees of consistency and compatibility with the frameworks set at an international level. Therefore, international frameworks are often written in such a way that they are not entirely prescriptive, allowing them to be adapted at a more local, jurisdiction level.

LAWS AND POLICY: These are the legal frameworks (hard power) and the protocols (soft power) that help to govern a society. They are important because it is through these mechanisms that a government can set the practices that corporations and people should or could follow, as well as the penalties or implications if they are not followed or abused.

REGULATORS: These act on behalf of governments to set the rules that businesses and other entities need to operate by. They are there to protect people and the planet and to support economic growth. They are important because they operate within a jurisdiction or country, and will take guidance from international governing bodies and align recommendations with the local laws and societal norms that underpin what a fair and functioning economy should operate by. While UK-based companies will need to adhere to UK regulation, if they are a multinational or if they trade significantly with other countries, they may need to apply those countries' rules too.

INVESTMENT SUPPORT

STANDARD SETTERS: These are independent bodies, often set up as not-for-profits, that aim to create a consistent framework of metrics that businesses can use to report in a way that meets the needs of regulators and investors. Multiple standard setters have emerged over the past few years. While some have become dominant, there is still a proliferation. Inconsistency between standards makes comparisons between organisations difficult or impossible since the metrics will have been calculated differently. One challenge for businesses is the costs and complexity of producing different reports to different investors that each ask for information to be presented in similar but different ways. Another down-stream challenge is that ESG aggregators need to be able to process information produced to all of the different standards' specifications, which creates a significantly complex exercise.

ESG AGGREGATORS: These are data providers that present information about a company's environmental, social and governance performance. There might be as many as 600 ESG aggregators in the ESG data marketplace around the world.[1] They are important because their outputs are tailored to their customers, which can influence what information is deemed material and how it is presented. Since the vast majority of their customers are investors, the information they present is based on their needs, i.e., financial materiality. While they might have other products that are more 'impact' focused, these are not core. ESG aggregators' reach can be global. They take into account the different standard setters' taxonomies to aid data processing. They are influenced but not led by regulation. There is little consistency between ESG aggregators, as they each consider different issues to be more or less important (see Annex 1), they have different data collection methods, different data processing rules and business logic, differing degrees of manual processing vs the employment of artificial intelligence and machine learning, and different customer bases.

PUBLIC INFORMATION: This includes all information that is publicly available about a company, including self-published information as well as from other external sources that is outside the editorial control of the company, such as the media. It is not just restricted to the information about a company, but also other contextual information about the economy, society and the environment. It is important because ESG aggregators will consume as much information as possible in order to assess the risk and performance of a company to create the final ESG rating.

INVESTORS: We refer to all private and major institutional investors. Investment strategies can range from 'traditional' to responsible, sustainable and impact focused. They are obligated to their fiduciary duty, which is to act in their clients' best interest. They adhere to the relevant regulatory frameworks. They are important because capital flows are a key driving force for business. They have the power to create and change markets. The ESG ecosystem is set up to serve investors, to provide them with information about the risks and opportunities of their investment portfolios. Traditionally, their lens on ESG relates to information that is financially material, i.e. information about environmental, social and governance issues that represents financial risk or opportunities for companies, and not necessarily the effects that a company has on the environment and society, although there are calls for them to broaden their view.

1 Anna Hirai, A., Brady, A., SquareWell Partners, 2021 July, Harvard Law School Forum on Corporate Governance, Managing ESG data and rating risk

TRANSPARENCY AND IMPACT

CENTRAL THEMATIC REPOSITORIES: These are specialist databases containing structured information about many companies, usually based on a specific theme. They are important because they can be used as another source of information for ESG aggregators and investors. They benefit from being in a structured data format that makes processing and comparisons easier. They can be globally available and, as such, can be widely used and influential. For example, the taxonomy that CDP uses has, in effect, become a standard itself.[2]

MOVEMENTS: These are coalitions of people or organisations that have the goal of driving progress on social and/or environmental issues. For the purpose of this report, we are interested in those that are aiming to harness the power of the financial markets to achieve their aims. They are important because when a critical mass of investors are coalescing on a specific need, it has the power to create consensus and drive action and progress towards goals. For example, the framework that was created by the Task force for Climate-related Financial Disclosures (TCFD) has been adopted under many countries' regulations for greenhouse gas emissions (this is discussed in more detail later).

TRANSPARENCY AND IMPACT ADVOCATES: These groups of people or organisations can sit outside of normal boundaries of the ESG landscape, or they may be investors themselves. They advocate for more transparency on the impacts of business on society and the environment. This is a different motivation than those interested in just financial materiality, as they care about impact and transparency for its own sake, not just with regard to how it might affect business success. They are important because they will typically take a social, environmental or double-materiality view of business impacts. They might use the term ESG colloquially to refer to businesses' consideration of their environmental, social and governance impacts outside of the common investor's ESG infrastructure.

COMPANIES, TOOLS AND PROFESSIONAL SERVICES

COMPANIES: These are the millions of local and multinational businesses operating in the UK. They can range from those listed on stock exchanges to privately-run companies. They can be large organisations or small to medium-sized businesses. In total, there are over 6 million registered companies in the UK, with 1.4 million who have one or more employees.[3] They are important because, while less than 1% of UK registered companies are listed and relevant to ESG aggregators, other large numbers of smaller organisations make up the value chains of large corporations.[4] Value chains are increasingly indirectly affected by regulation that is pointed towards the large, listed companies of public interest. For example, the forthcoming greenhouse gas (GHG) emission disclosure regulation that is aligned with the TCFD guidelines will include Scope 3 emissions, which are those from a company's value chain. They are among the hardest emissions to measure.

ACCOUNTANTS & AUDITORS: Accountants are independent professional service providers that review company information, process it, and use it to prepare corporate reports. Auditors are also independent professional service providers that audit and verify the accuracy of the corporate reports to ensure they meet the regulatory minimum standards. They are important because accountants need to understand and adapt to the regulatory requirements for presenting information in business reports. The act of having an independent verification provided by the auditors is intended to instil trust in the information provided. With the forthcoming changes from the international governance bodies, there will probably be a greater role for accountants and auditors moving forwards.

2 CDP was formerly known as the Carbon Disclosure Project

3 Department for Business, Energy & Industrial Strategy, October 2021, Business population estimates

4 While it is hard to get a precise total of UK organisations listed on the London Stock Exchange, the Alternative Investment Market or other markets, the number is likely to be in the low thousands.

BUSINESS INTELLIGENCE SOFTWARE PROVIDERS: These are software and professional service providers that develop data management systems for storing and analysing corporate performance. They are important because sophisticated data management processes can simplify the creation of business reports, and well-developed systems can distil complex performance information to managers and business leaders about the health of the organisation and the efficiency of its operations. They can also store the information over time, allowing them to be able to look at trends and even start predicting future outcomes. There is potential for software providers to play a greater role in the ESG landscape going forward by automating data processing and information flows.

Mapping the ESG landscape

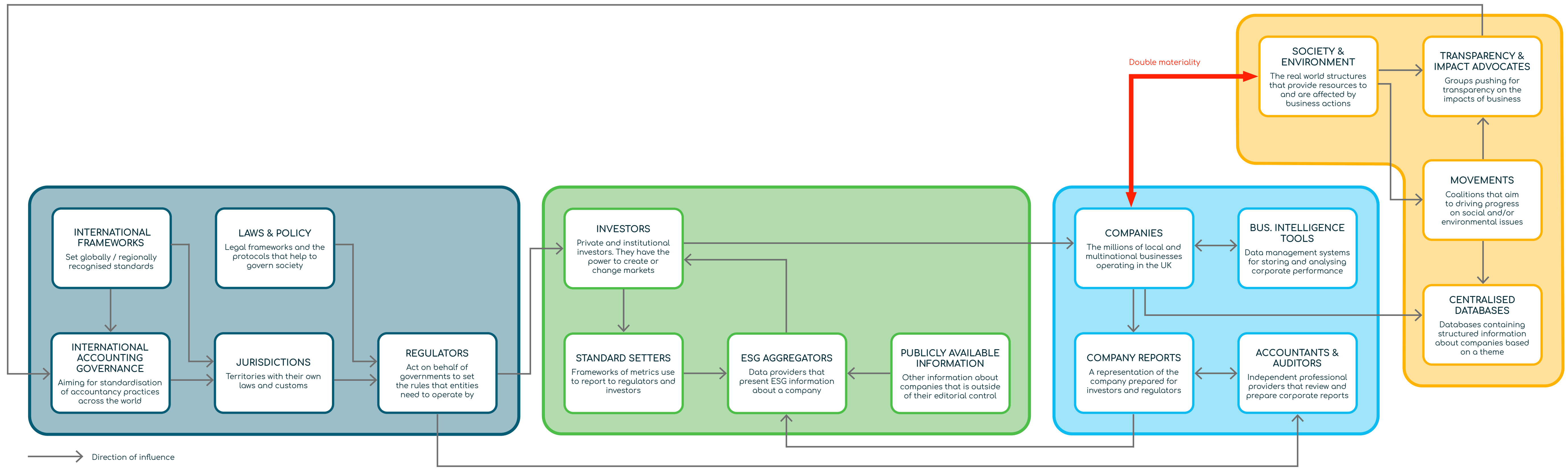
In Figure 1, we draw a map of the ESG, transparency and impact management ecosystem. The information in the map might be well known to those who work in this field but the neverending lists of similar sounding acronyms can be confusing for those new to the topic. As such, it is commonly referred to as the "acronym soup". Since ESG is frequently reported in the media, it can be helpful to know which actors operate where, and with what role.

The scope of the entities visualised is expanded beyond core ESG roles, since many, for example, those in the transparency and impact management space, can influence the system. The individual organisations listed are not exhaustive but provide an example of many of the well known and prominent actors.

Figure 1: Making sense of the ESG, transparency and impact ecosystem, commonly referred to as the "acronym soup"

This map provides a simplified view of the ecosystem that influences the ESG, transparency and impact landscape.

This map provides a simplified view of the ecosystem that influences the ESG, transparency and impact landscape by showing the main organisations and what role they play. The scope of the entities visualised is expanded beyond the ESG space only, as the transparency and impact actors can play an influencing role and some actors operate in multiple-areas. The individual organisations listed are not exhaustive but provide an example of many of the well known and prominent actors. The arrows show a simplified flow of information and influence for readability. In the real world influence often goes in both directions and mapping them all would create undue complexity.



RULE SETTERS

JURISDICTIONS (Examples)

- UK
- EU
- USA
- China
- Japan

INTERNATIONAL FRAMEWORKS (Examples)

There are many, including:
- SDGS - UN Sustainable Development Goals
- International Bill of Human Rights
- The International Labour Organisation (ILO) Framework on the Measurement o Decent Work

REGULATORS (Examples)

- FCA - Financial Conduct Authority (UK)
- FRC - Financial Reporting Council (FRC)
- ARGA - Audit, Reporting and Governance Authority (UK)
- SEC - US Securities and Exchange Commission (USA)
- CSRD - Corporate Sustainability Reporting Directive (EU)

LAWS AND POLICY (Examples)

There are many, including:
- Modern Slavery Act
- Companies Act
- Gender pay
- Climate change act (legislation)
- Net Zero 2050 (policy)
- FCA reporing guidelines

INTERNATIONAL ACCOUNTING GOVERNANCE

- IFRS Foundation - International Financial Reporting Standards Foundation
- IASB - International Accounting Standards Board
- ISSB - International Sustainability Standards Board
- FASB - Financial Accounting Standards Board (USA)
- GAAP - Generally Accepted Accounting Principles (USA)
- **EFRAG - European Financial Reporting Advisory Group (EU)**

INVESTMENT & SUPPORT

PUBLIC INFORMATION (Examples)

- Company information
- Company reports
- Other reports
- Social media
- News and current affairs
- Government data
- NGO data
- ONS - Office for National Statistics
- RepRisk

STANDARD SETTERS (Examples)

There are many, including:
- IFRS - International Financial Reporting Standard
- VRF - Value Reporting Foundation
- CDP
- CDSB - Climate Disclosure Standards Board
- GRI - Global Reporting Initiative
- WEF - World Economic Forum
- IMP - Impact Management Platform

INVESTORS (Examples)

There are many, including:
- Blackrock
- Legal and General
- Federated Hermes International
- Schroders
- Jupiter
- Artemis
- JP Morgan

ESG AGGREGATORS (Examples)

There are many, including:
- MSCI
- S&P Global
- Sustainalytics
- EcoVadis
- Moody's ESG
- Refinitiv

BUSINESSES, TOOLS & PROFESSIONAL SERVICES

ACCOUNTING AND AUDITING (Examples)

- ICAEW - Institute of Chartered Accountants in England and Wales
- EY
- PWC
- Deloitte
- KPMG
- FRP Advisory
- Grant Thornton LLP

BUSINESS INTELLIGENCE TOOLS (Examples)

- Salesforce
- Xero
- Microsoft
- Oracle

TRANSPARENCY & IMPACT

TRANSPARENCY AND IMPACT ADVOCATES (Examples)

There are many, including:
- Amnesty
- Greenpeace
- WWF
- The Institute of Business Ethics
- Institute For Human Rights and Business

MOVEMENTS (Examples)

- TCFD - Task force on Climate-related Financial Disclosures
- GFANZ - Glasgow Financial Alliance for Net Zero
- CA100+ - Climate Action 100+
- WEF - World Economic Forum
- MMMM - Make My Money Matter
- III - Impact Investing Institute
- ShareAction
- B4SI - Business for Societal Impact

THEMATIC CENTRALISED DATABASES (Examples)

- CDP (For emissions, water & deforestation)
- WDI - Workforce Disclosure Initiative (For workforce)
- B4SI - Business for Societal Impact (For business & charities)
- WBA - World Benchmarking Alliance (For multiple topics)
- Tortoise (For multiple topics)

Common interpretations of the E, the S and the G

At the time of writing, there are several public consultations being held by the major governing bodies, which is indicative that this is a fast-moving and rapidly evolving topic.[5,6,7] The nature of the consultations means that stakeholders across the board, from investors to corporate transparency advocates, have the opportunity to respond. In practice, this creates a forum to collect the feedback that represents several conflicting or contrasting views, agendas and ideologies.

Below, we describe some of the key terminology around which there can be different interpretations and where the nuance could have a significant impact on the future scope of the business reporting landscape, and therefore its implications on ESG. For the purpose of this paper, we aim to address two interpretations of the term "ESG". The first, and arguably original definition, focuses on how information about a company's performance on environmental, social and governance issues could be used by investors. The second is where "ESG" has become an alternative word used by a wide range of stakeholders and is often used interchangeably with, or about, a company's sustainability performance.

We address both definitions in this section. To limit the discussion to just businesses seeking investment would mean omitting the vast majority of businesses in the UK, and to focus solely on the transparency of sustainability performance would mean not acknowledging the power that the financial markets have over business behaviour, nor the opportunities to drive change using this lever.

ESG

Technically, "ESG" relates to the information about a company's performance against a set of criteria that enable investors to make better informed assessments about a company's risk and opportunities in relation to issues under the environment, social and governance categories. The three criteria are typically seen through the lens of how the information can affect an investment decision, and are not necessarily concerned with a company's impact on the wider world. This lens is known as "financial materiality" (see below).

The term ESG is also commonly, less technically, used as a shorthand term for more responsible or sustainable investment strategies that aim to manage risks or have a positive impact on society and the environment, beyond how it affects a firm's profitability.

This is important because investors are usually primarily concerned about the financial materiality around social issues, and less about the impact on the social issue itself. A company can be rated highly by an ESG aggregator even if it causes negative impacts on society, as long as it doesn't affect its profitability. If the negative social impact later leads to negative press about the company that effects its profitability, then it could get downgraded. The application of a financial materiality lens has meant that companies with Modern Slavery in their UK supply chains have been AAA rated by some ESG aggregators.[8,9]

Colloquially, outside of the investment space, many people use the acronym ESG to refer to anything to do with business sustainability, without reference to its links with investment. This is important because the different definitions of the term ESG have led to some confusion over its use. When many non-investment people refer to ESG, they are often actually referring to the transparency of a business' impact on social and environmental issues through a non-financial lens.

ENVIRONMENT

Technically, this relates to all of the sub-issues under the umbrella term 'Environment'. More colloquially, people often conflate Environment with climate change due to the recent and prominent focus on the latter. This is important because climate change is just one issue under the Environment umbrella, along with other issues including single-use plastics, water use, deforestation, ocean acidification, biodiversity, etc. Yet when they refer to the E, they are really unconsciously referring to climate change.

5 IFRS Foundation, Exposure Draft and comment letters: General Sustainability-related Disclosures

6 EFRAG, Public consultation on the first set of Draft ESRS

7 SEC, 2022 March, SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors

8 Matety, V., The Times, July 2020, Boohoo's sweatshop suppliers: 'They only exploit us. They make huge profits and pay us peanuts'

9 Tew, I., FT Adviser, August 2020, Boohoo issues highlight ESG 'minefield' for advisers

Environmental issues benefit from being largely based on the natural sciences and therefore it can be easier to define relevant metrics, thresholds and targets. This is important, because the environment can be discussed in more tangible metrics, it can lead people to often state that the E in ESG is 'further ahead' than other issues. However, the systems, tools and expertise to measure these impacts can be expensive and hard to implement, meaning many environmental impacts are still not widely monitored. It is therefore truer to say that the climate change agenda is further ahead while other E issues lag behind, alongside social issues.

SOCIAL

Technically, this relates to all of the sub-issues under the umbrella term 'Social'. Social issues can be broken down into three main categories, 1) the workforce, including the related supply chain, 2) the impact of products and services on consumers, and 3) the impact of the company on communities. Each of these categories can be further broken down into their own sub-issues. This is important because common usage of the label S, often makes it sound like the S is a single issue.

This has implications when people try to make comparisons between the S and the E. On the one hand, people use the term E (a category), when they are really referring to climate change (an issue), on the other hand, they use the term S (a category) as if it is a single issue. As a result, many people appear to be searching for solutions at the level of the S, when they should in fact be searching for solutions at the level of the individual issues under the S.

The TCFD has been successful in galvanising investor focus on climate change, and instrumental in achieving consensus on how companies disclose their greenhouse gas emissions. So, when people ask, "Can there be a TCFD for S?" (which is a common question), the answer is no, not really. In that example, people are asking if an instrument that was designed to tackle a single issue within the environment category can be replicated for the whole social category. Given the composition and complexity of the social category, this doesn't make sense. A more accurate question would be to ask, "Can there be a TCFD for poverty, wellbeing or inequality?", which are all issues under the social category.

There is also the assumption that the S is not as well advanced as the E (or more accurately, climate change), which is not necessarily the case. Outside of the ESG context, many regulations and laws exist and apply under the 'workforce' sub-pillar to influence business conduct relating to social issues. Examples include the Modern Slavery Act, the National Minimum Wage, The Equality Act which helps to address the gender pay gap isse, as well as laws covering general employee rights.[10,11,12,13] There has also been a lot of activity relating to the diversity and inclusion space. It is only recently that a law is being put in place to address corporate greenhouse gas emission disclosures.

This is important because "The S is left behind" is another common statement. There has been a fair amount of activity tackling S related issues at a policy level but perhaps it is not so well integrated in the ESG mechanics to inform investment decisions, meaning the powerful lever of financial markets has not been fully exploited as is beginning to happen towards climate change.[14]

GOVERNANCE

Governance is not a prime focus of this report, however, it is a critical factor that can determine how Environment and Social issues are approached in a corporate setting.

Governance criteria relate to issues that can affect corporate decision making, ranging from board composition, to policies and practices, accounting, business ethics and many more. This is important because Governance makes environmental and social policy real, and is the component of an organisation that actively monitors and drives change. Both 'Hard G' elements, like processes, mandates, accountability levels, decision-making, and 'Soft G' behaviours, like capabilities, values and beliefs, need to come together to successfully govern organisations.

10 Legislation.gov.uk, Modern Slavery Act 2015

11 Legislation.gov.uk, The National Minimum Wage (Amendment) Regulations 2022

12 Legislation.gov.uk, Equality Act 2010

13 Legislation.gov.uk, The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017

14 For example, see Hale, J., Morningstar, 2021 April, Let's not leave behind the S & G in ESG; Stanford Social Innovation Review, 2022 Feb, Fixing the S in ESG; PWC, Understanding ways to report on the 'S'

OBJECTIVITY AND SUBJECTIVITY

While Environmental issues can be defined more objectively with the natural sciences, both Social and Governance issues can be harder to define and achieve consensus on, as they can be more culturally driven and values-based. For example, in some Eastern countries, social norms are very different to those in some Western countries, so that it can be difficult to judge companies in those regions to the same 'S' or 'G' standards. Social norms can even differ between countries that appear more culturally aligned, for example, in the US, it is common for the Chairman and CEO to be the same person, whereas in the UK, the Corporate Governance code does not allow this.[15]

This is important because there are very few issues, particularly at the social and governance level, where there is global consensus. Therefore the tools that can be used are those where there are 'good' levels of agreement, albeit not universal, such as international human rights law or the UN guiding principles on business and human rights.[16] Other consensus building organisations exist such as the International Standards Organisations (ISO). In 2021 they released the "ISO standard 37000:21 Governance of organizations — Guidance" to provide guidance on good business governance.[17]

MATERIALITY

Materiality is a concept that defines what information is important to a particular stakeholder such as a business, an investor or another internal or external party, in order to make a decision. Simply put, if something is "material" to a stakeholder then it matters to them. The international accounting governance bodies, who define what should be deemed as important information for accountants and investors, have provided different definitions of the word and of course this causes inconsistency even at the highest levels. For example:

- A broadly accepted definition from the Corporate Reporting Dialogue states that "material information is that which is reasonably capable of making a difference to the proper evaluation of the issue at hand.[18]
- The U.S. Securities and Exchange Commission (SEC) defines a matter is 'material' "if there is a substantial likelihood that a reasonable person would consider it important", and they leave companies in charge of assessing what is material.[19]
- The International Financial Reporting Standards Board (IFRS) defines information as material "if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."[20]

This is important because different stakeholders in the ecosystem can have a significantly different view on what information is important in order to make the best quality decision. For instance, an investor that must operate with the client's best interests in mind (fiduciary duty) would want to know what information will have a material impact on financial returns. Whereas, a civil society group representing indigenous rights would want to know more about corporate impacts on the environment or society and so will find other information material. Sometimes these views converge, and sometimes they diverge.

Within discussions about materiality, the terms "single-", "double-" and "dynamic-" materiality are often used. To an outsider these terms might sound similar but the importance is highly significant.

15 FRC, 2018 July, The UK Corporate Governance Code, Provision 9, Page 6
16 UN OCHA, 2011 June, Guiding principles on business and human rights
17 International Organization for Standardization, September 2021, ISO 37000:2021 Governance of organizations — Guidance
18 IIRC, Corporate Reporting Dialogue releases a Statement of Common Principles of Materiality
19 SEC, 1999 August, SEC Staff Accounting Bulletin: No. 99 – Materiality
20 IFRS Foundation, 2018 October, Definition of Materiality

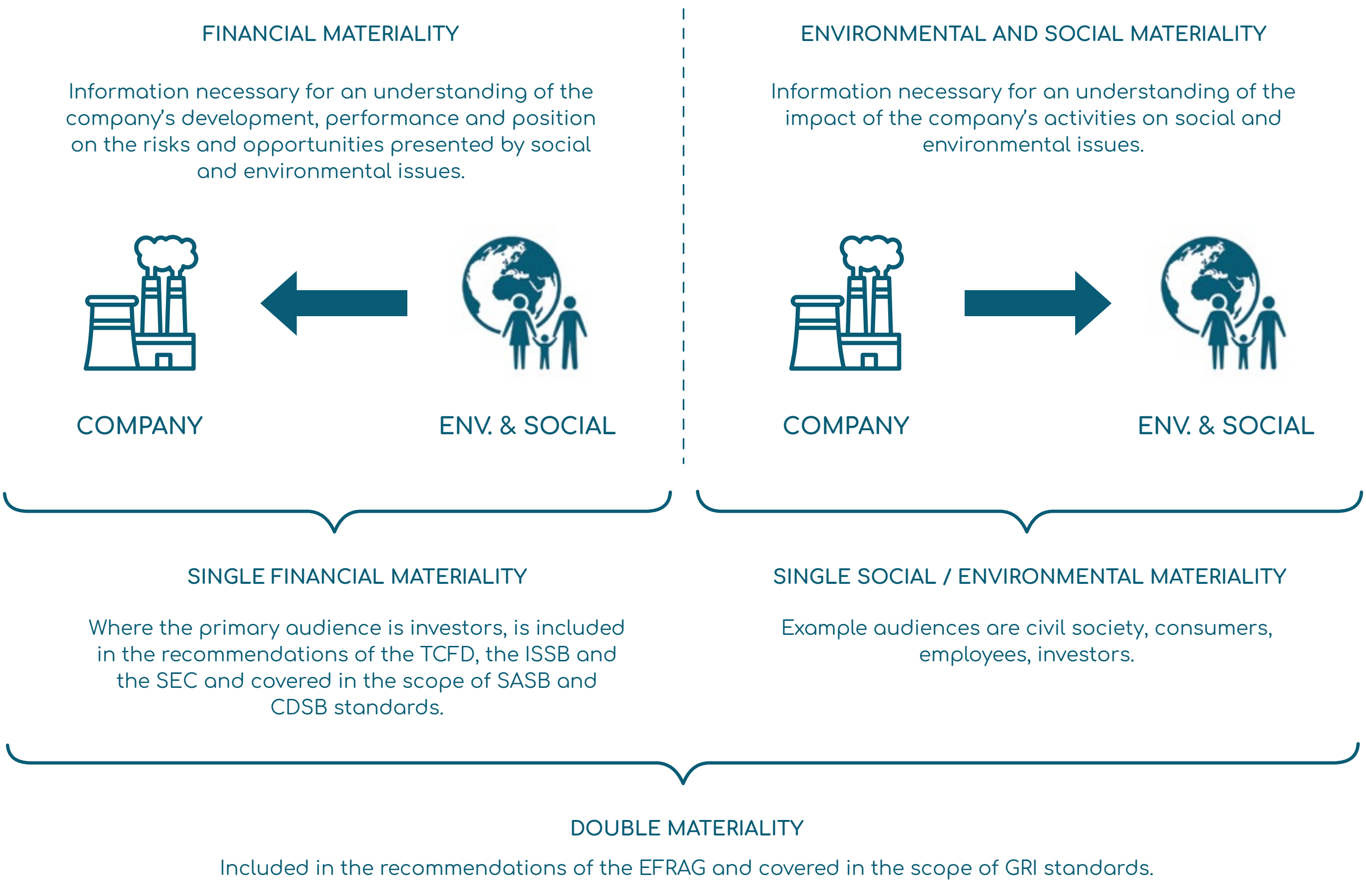
- A single financial lens of materiality could relate to how environmental or social issues impact the potential financial performance of a company. Conversely, a single environmental lens of materiality could relate to the impact that a company has on the environment.
- A double-materiality lens brings both of the examples of single-materiality above into a single view. This can help a company to better understand its sustainability performance and can make a broader range of information available to a wider audience.
- Dynamic-materiality relates to how sustainability topics can become increasingly financially material over time. So for investments or for company strategies with long time horizons, this view can strengthen the ability to anticipate future business performance.

This is important as there is a debate forming about what information is material under the public consultations that are active at the time of writing by the major global accounting bodies.[21,22]

In overly-simplistic terms, at the global governance level, the International Sustainability Standards Board (ISSB) and the SEC propose a single financial materiality lens, whereas the European Financial Reporting Advisory Group (EFRAG) proposes a double-materiality lens.

At a standard setting level, those advocating for greater corporate transparency, such as the Global Reporting Initiative (GRI), suggest that now is the time for the ISSB to adopt double-materiality. While other standard setters that cater more for investors, such as the Sustainability Accounting Standards Board (SASB) and the Climate Disclosure Standards Board (CDSB), are more aligned with single financial materiality. Figure 2 helps to describe the nuanced differences between single and double materiality visually.

Figure 2: The difference between single financial materiality and double materiality



21 Adams, C,. May 2022, Responses to the IFRS Foundation and ISSB's first Exposure Draft

22 Lubber, M,. Ceres, June 2022, Ceres comments to the SEC

Part Two - Opportunities for businesses in relation to the S in ESG

In Part Two, we start by describing why businesses should care about their social impact. We then describe how the EU's Social Taxonomy categorisation of social impacts is helpful when approaching the topic of social impact. We then use these categories and suggest existing approaches and tools that businesses can use in order to strengthen their monitoring, evaluation and management of social impacts. Finally, we look at what other actors in the ecosystem could do to encourage and support more businesses to focus on their social impacts. These range from supporting existing transparency initiatives to learning from how climate change disclosures have become more mainstream.

Why business should care about social impact

In very simplistic terms, there are four main reasons an organisation might care about its social impact - 1) social disclosures are soon to be mandatory via regulation, 2) increased transparency can be good for business, 3) there is a moral argument for social disclosures, and 4) external parties like civil society are calling for business transparency.

SOCIAL DISCLOSURES ARE SOON TO BE MANDATORY VIA REGULATION

After it has completed its current public consultation, the IFRS foundation's new sustainability governance body, the ISSB, will be publishing guidelines on the minimum standards relating to the reporting of sustainability information. In a webinar update on the progress that the IFRS is making with the ISSB, a spokesperson from the Financial Reporting Council (FRC) in the UK said that following the ISSB publication, the guidelines will be adapted to fit into UK regulation.[23] There will be a choice for the UK Endorsement Board, as there is for all of the countries and jurisdictions that require the use of IFRS, how to adapt to local laws, but if precedent is anything to go by it is likely to be adopted. Furthermore, UK businesses trading outside the UK will likely need to adhere to it regardless. This means that awareness of social responsibility is soon to become a regulated requirement, particularly for large enterprises.

Some policy-makers might be concerned about adding additional reporting requirements to businesses, however there are signs that they could be met positively. According to a survey in 2020 by McKinsey, it showed that both investors and executives were in favour of issuing sustainability reports by law, 82% and 66% respectively.[24] In addition, this should not come as a shock to large businesses as many already report using either SASB, GRI or both metrics. Companies that are currently reporting will most likely be doing so as a requirement to attract capital inflows. According to a 2020 KPMG survey on sustainability, 96% of the world's largest 250 companies already report on their sustainability performance and 73% of those use the GRI Standards to do so, and more respondents were using both the SASB and GRI standards together rather than separately.[25]

23 FRC, 2022 May, Webinar: An update on the ISSB and international sustainability standards – Accessed May 2022

24 McKinsey, 2020 05, Why ESG is here to stay (podcast transcript)

25 GRI and SASB, 2021, A Practical Guide to Sustainability Reporting, Using GRI and SASB Standards

However, the ISSB proposals are not without its critics. Although the following does not reduce the chance of the ISSB introducing new standards, instead, many critics are concerned that they don't go far enough. Those that are pushing for greater transparency believe that right now represents a point in time to adopt a double-materiality lens for reporting, and for the core standards to be based upon the GRI standards. Currently, the ISSB's proposals relate to a single financially material lens, and the core standards are to be based upon the existing SASB standards. GRI standards are regarded to be more in-depth than SASB, particularly in relation to a company's impacts on society. The ISSB's counter to this critique is that by taking the TCFD and SASB standards as the initial requirements, they have stated that this allows a "building block" concept, that could enable potential scope expansion in the future, such as a double-materiality lens or the inclusion of the GRI standards.

The EU is attempting to address sustainability disclosures with its own comprehensive set of reporting requirements. However, the current proposals being made by the European Commission may be watered down for adoption by all member states.[26] Regardless how the final disclosures are defined, those with future exporting ambitions should keep an eye on the proposals.

> "The EU is working on a Social Taxonomy, but this is still at an early stage. The current proposal has been put on hold, and the Commission is still ironing out the details of the Green Taxonomy. On the reporting side, the EU has proposed a new Corporate Sustainability Reporting Directive. This will include social issues, with a double-materiality lens. The progress on corporate reporting in the EU may well set the tone for others to follow. There are also ISSB and SEC proposals out. So, all in all, there is significant activity on the regulatory front."

Ida Levine, Impact Investing Institute

Investment-led disclosures can provide greater standardisation of metrics. More consistent and better quality data should enable investors to make increasingly better decisions based on the risks and opportunities of the companies. However, this raises another challenge, aside from materiality, another area where the financial services are divided is around the balancing core concept of fiduciary duty in relation to other potential impacts.

One interview participant said, "We struggle with the way the concept of fiduciary duty is defined. In principle you'd want to continue to have sufficient returns to pay members when benefits fall through. What happens when you need to take a hit on this and sacrifice returns? Some investors are comfortable with that. Some are not."

While there are questions as to the final scope of the forthcoming ISSB standards, the pace that actions are happening is noteworthy. Many standards setters recognise the problem of comparability and are starting to bring their standards closer together.[27]

The external, top-down requirement to measure and report can come from investors either directly or via regulation, but it can also come from procurement where companies need to provide transparency in order to win contract tenders. Notably, the UK Government puts emphasis on the social value of its projects valued at £357bn in 2020-2021 and uses social value forecasting and reporting as an important tool to raise the quantity and quality of disclosures.[28]

26 Prior to the publication of this report it was reported that a taxonomy focused on social questions had been shelved indefinitely by the European Commission. It is still not certain what the implications about this will be. (See Ainger, J. and Arons, S., Bloomberg UK, 2022 August, EU Puts Key Plank of ESG Rulebook on Hold Amid Infighting)

27 In 2020 the leading global standard setters shared public statements of intent to work together to improve compatibility among them. Not long afterwards, the formation of the Value Reporting Foundation (VRF) was announced, which represented a merger between SASB and the International Integrated Reporting Council (IIRC) and consolidation of the CDSB. As recently as a few weeks prior to the printing of this paper, just over a year after the VRF was formed, the VRF was rolled into the ISSB.

28 Booth, L., House of Commons, October 2021, Procurement statistics: a short guide

INCREASED TRANSPARENCY CAN BE GOOD FOR BUSINESS

From a broader sustainability, transparency and accountability perspective, there are several arguments as to why businesses should care about their social impact. There is a growing trend in which customers and employees prefer businesses that care about social and environmental issues.[29] The Deloitte Global 2022 Gen Z and Millennial Survey shows that those generations are more likely to turn down jobs and assignments that don't align with their values, and that societal and environmental impact, along with a diverse and inclusive culture, are important for attracting and retaining staff.[30] It appears that businesses increasingly need to demonstrate their impact in order to maintain a social licence to operate.

> "....and it's not just the new grads that are talking about this now. My peers are asking me all the time what we're doing on sustainability and how we're making a difference."
>
> **Carmel McQuaid, Marks & Spencer**

The demands for a social licence to operate has coincided with increased knowledge and visibility of business impact on society. Historically, growth has been powered through use of social, human and natural capital, often with minimal consideration on the impact on those resources. They were frequently overlooked as immeasurable externalities, which led to a flawed system of accounting being built into our economic systems by design. It is only more recently that improvements in the physical and social sciences have enabled many of these impacts to be measured well, and therefore accounted for. Despite these advances, "business as usual" has still not fully begun to incorporate these impacts into strategic planning and systems thinking.

> "Reporting should be a combination of qualitative and qualitative. Alongside metrics you need to be able to demonstrate how you've changed peoples lives."
>
> **Samantha Reyes Ronso, Charities Aid Foundation**

A MORAL ARGUMENT FOR SOCIAL DISCLOSURES

Businesses do not operate in a vacuum and as such, investors also have huge power to affect business behaviour. Although social issues have been present for a long time, they have been a growing concern of late. For example, there has been increased attention on levelling up and the cost of living, inclusion and diversity, and growing polarisation. There is therefore a moral argument why investment could use its influence to help unlock the power of business to play its full role in tackling these issues.

It is worth noting that companies that take a more proactive role in the stewardship of its social impact are not a new concept. The Quaker businesses like Cadbury, Rowntree, and others are famous for the care that they gave to the workforce to address the conditions for the working class in Britain at the time. This sometimes extended to building entire towns to provide homes, baths and recreational facilities to workers.

Nor is it new to investors. Relating to investment as a lever to influence businesses, the origins of ethics-driven investing pre-date ESG. In the 1960's and 70's, as a response to the Aparteid in South Africa, some investors joined the boycott movement and avoided investing in the region. This led to an increase in responsible investing strategies, such as removing 'sin' stocks from portfolios like tobacco, certain firearms etc.[31,32] Modern ESG can be seen as an evolution from this, with more structured frameworks for assessing companies' impacts. Its rise in popularity and maturity mean that it is now predicted that ESG funds in Europe are likely to outnumber 'traditional' funds by 2025.[33]

29 Re-Generate, 2020 July, The case for purpose-driven business

30 Deloitte, 2022, The Deloitte global 2022 Gen Z & Millennial survey, Striving for balance, advocating for change - Accessed July 2022

31 Naqvi, M., S&P Dow Jones Indices, July 2019, Sustainability in South Africa: The Swing from SRI to ESG

32 MSCI, The Evolution of ESG Investing

33 Riding, S., Financial Times, October 2020, ESG funds forecast to outnumber conventional funds by 2025

Impact investing is another relatively new investment strategy, where investors set out to provide capital investments to companies that are profitably creating positive impacts relating to investors' impact goals. During the Global Steering Group's (GSG) annual Global Impact Summit, one panellist predicted that within ten years, due to the severity of the present risks associated with social, human and natural capital degradation, all investing will be impact investing, "If you're not thinking about impact you will be living in the past. In 10 years you won't be thinking about impact investing. It will be just investing."[34]

EXTERNAL PARTIES LIKE CIVIL SOCIETY ARE CALLING FOR BUSINESS TRANSPARENCY

As businesses have grown in power and size, their decisions can have an increasingly bigger impact on our lives than the decisions of governments. If you compare government income to corporate revenues, sixty-nine of the hundred richest entities are corporations, not nations (see Annex 2).[35] Where previously governments and national institutions could be held to account through democratic processes and transparency initiatives (albeit not universally), the same transparency mechanisms have not to date been institutionalised for business. Since we are more equipped to account for externalities like the degradation or regeneration of social, human and natural capital, the case for corporate transparency and accountability is ever more crucial.

> "Governments have advanced systems in place, from legislation, separation of powers, rule of law etc, that took thousands of years to develop. Meanwhile, corporations have only "ruled" for fifty years or so and are therefore quite immature. We could ask ourselves - what will boards look like in 2050? Will they include the education minister or the international trade minister? What will happen if the dominant political unit is not the nation state but the corporation. If that becomes the case then we should ask what we need to know about these corporations. Can we compare what we know about Switzerland to Walmart or Amazon? On a money basis, they are the same. So It's all about coming up with better forms of governance."

Paul Dickinson, CDP

Breaking social impacts into categories

For the remainder of this chapter we apply the proposed EU Social Taxonomy to break down the umbrella term of 'Social' into three distinct categories, to show where businesses can have social impact and a way of thinking about them.[36] The categories are sufficiently distinct that they provide a helpful lens through which organisations can more easily identify social issues that they can take action upon. The taxonomy describes business impact in terms of:

1. The workforce and supply chain,
2. The impact of products and services on consumers and end users, and
3. Affected communities.

Figure 3 visualises these categories against two criteria, 1) The existence and prevalence of governance mechanisms, such as legislation, policy and how evolved monitoring and evaluation is, versus 2) the degree that a company can influence and control their impacts.

34 GSG, June 2022, The GSG annual Global Impact Summit– Accessed June 2022

35 Global Justice Network, October 2018, 69 of the richest 100 entities on the planet are corporations, not governments, figures show

36 EU, February 2022, Final Report on Social Taxonomy

For example, many workforce-related issues are within the discretion of the firm and can be solved by them; a firm can decide if they want to close the gender or ethnicity pay gap and take action accordingly. There are also existing governance mechanisms for many workforce-related issues. For instance, in the UK, there is legislation that covers a lot of issues relating to the workforce, such as the Equality Act, the Modern Slavery Act etc, and all of the major standard setters provide some metric definitions to report against.

Despite the existing governance mechanisms, there is clearly more to be done. For example, let us explore pay gaps in firms. In the 2021 Workforce Disclosure Initiative (WDI) reporting cycle, the majority of companies (80%) were able to explain their actions to reduce pay ratios and pay gaps. However, significantly fewer companies could provide actual data on pay gaps and pay ratios - 67% of companies provided the CEO to median worker pay ratio, 59% of companies provided their gender pay gap, and only 14% of companies provided data on the ethnicity pay gap.[37] It becomes more difficult when influencing suppliers, particularly in different countries with different labour laws.[38]

Further outside of the “physical” boundaries of a company, to their consumers and communities, generally the influence and control a company has is lower. The governance mechanisms, such as specific laws and metrics are also fewer, and there are fewer consensus-driven defined metrics, which increases the challenge of business monitoring and reporting.

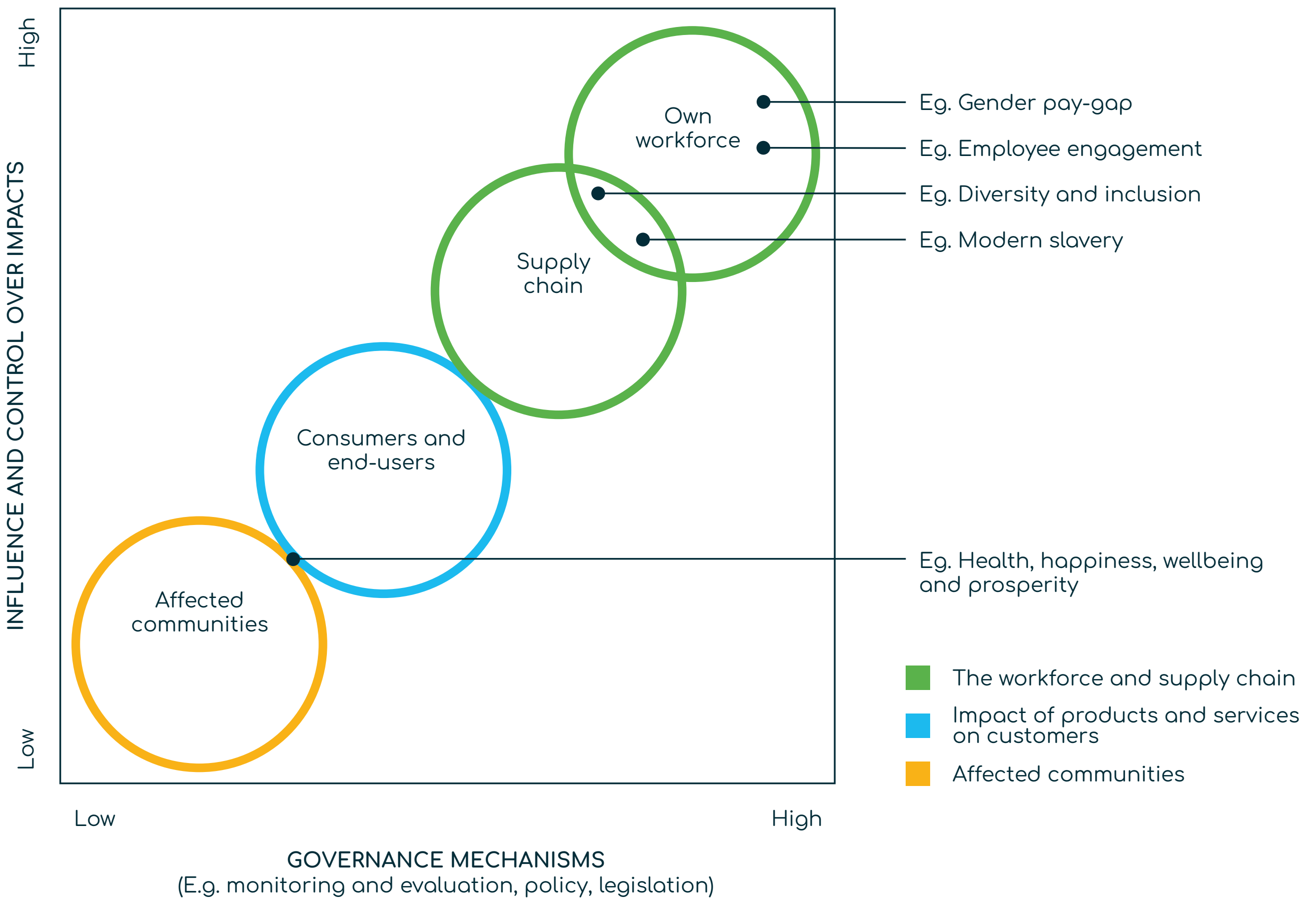
> “The breadth of social issues and solutions around the world is so vast, but expanding frameworks to ensure companies have a clear way to monitor their social impact and enable benchmarking in this area could be useful in driving attention and support of critical social issues globally. At IHG, operating responsibly and sustainably is at the core of our business and culture. Guided by our purpose of providing True Hospitality for Good, it’s important to us all at IHG that we give back to the communities and so we have made a commitment to improve the lives of 30 million people around the world and we are using the B4SI framework and Sustainable Development goals to help us measure and report the social impact we are making.”

Kate Willoughby, Intercontinental Hotel Group

37 Williams, G., WDI, Feb 2022, Company guidance: Wage Levels and Pay Gaps

38 WDI, Nov 2020, Company Guidance: Supply Chain Working Conditions

Figure 3: The reporting maturity, influence and control of social impact categories



It is also important to recognise that solving for social issues fundamentally differs from climate change and therefore necessitates a different approach. Climate change is a global systems issue that represents a systemic risk to people or investment and businesses operations. Whereas with other ESG issues, while they may also be systemic risks, they can also be seen as more localised. An implication is that tackling either or both social and environmental problems at a local level, could have positive community-related impacts.

> "With the climate we identified a chemical problem in the sky which led to the 1992 convention, which led to IPCC, which led to action and so on. There's nothing like that on the social side that has that convening factor. Social impact is regional, case by case and as such, global action is challenging."
>
> **Paul Dickinson, CDP**

How businesses could improve the way they measure and report social issues

In this section, we describe existing tools and frameworks that businesses could use for the monitoring, evaluation and management of social impact. This is aimed towards people in business that are tasked with this challenge. Being able to use existing measurement frameworks instead of developing proprietary systems means that it can be easier to make like-for-like comparisons between businesses and enable benchmarking.

We break the frameworks down using the EU Social Taxonomy categories and aim to provide a core and more advanced approach. We also describe how a purpose-driven approach might take these ideas further. This is an initial attempt to put these frameworks into one place , the suggestions are based on the shared experiences of the people we interviewed as well as reviewing the scope of the frameworks. We appreciate that this is not a one size fits all solution and therefore would appreciate feedback. In the section "Why businesses should care about social impact" we described that businesses might be required to do so by external actors such as regulators, investors or for procurement purposes. In such cases the businesses would not have the liberty of choice. Therefore the following suggestions are outlined for businesses that want to learn more about what tools exist, and determine what would be "right-sized" if they were to engage with social impact monitoring on a voluntary basis. Therefore, in some cases, businesses might be able to use their discretion to determine which metrics are most appropriate. Figure 4, provides a summary.

With a financial ESG lens, the frameworks we describe below could be seen as a means to increase visibility of the positive impacts of a company on society, so they can be more clearly signposted and incorporated into ESG ratings and therefore into investment decisions.

Figure 4: A summary of frameworks for businesses to use for social impact management

	Core	Advanced	Purpose-driven
Own workforce Supply chain	• **STANDARDS:** SASB (incoming regulation in the future) • **EXAMPLE LEGISLATION:** E.g. Gender pay, Modern slavery, Equality, Health and safety	• **STANDARDS:** GRI & EFRAG (metrics) • **TOOLS:** TOMs (social value)	• **FRAMEWORKS:** Integrated reporting • **REPORTING:** Voluntarily submit to central databases (E.g. WDI)
Customers and end-users	• **FRAMEWORKS:** Agile development if none are available	• **STANDARDS:** GRI & EFRAG (metrics) • **ACTIONS:** Coalitions with sector to determine create shared goals and tools	• **FRAMEWORKS:** Outcomes focused E.g. Theory of change
Affected communities	• **FRAMEWORKS:** SDGs • **EXAMPLE LEGISLATION:** E.g. Human rights, ILO	• **TOOLS:** TOMs (social value), B4SI • **PARTNERSHIPS:** Civil society	• **APPROACH:** Active listening with communities • **FRAMEWORKS:** Outcomes focused E.g. Theory of change
	Financial materiality	Double materiality	
ALL	• **GUIDANCE:** Impact Management Platform	• **REPORTING:** Digital first	• **GUIDANCE:** BSI PAS 808

WORKFORCE AND SUPPLY CHAIN

There is lots of supportive legislation for the workforce and supply chain category, including the Modern Slavery Act, the Equalites Act, as well as laws covering general employee rights. Many have disclosure requirements defined or suggested in their policies. From an impact monitoring and evaluation perspective, there are established metrics set by the major standard setters that address key issues to varying degrees. This pillar is also well supported by movements such as The Living Wage Campaign and the Good Business Charter that are targeted towards businesses, and the likes of Make My Money Matter, ShareAction and the Workforce Disclosure Initiative that are focused towards investors.

It should be noted that monitoring and disclosing metrics from within a single firm could be a relatively simple process. However, it becomes harder when supply chains have to be taken into consideration, especially when they span countries with different labour laws. Interestingly, in Germany, they recently passed the Supply Chain Due Diligence Act (SCDDA) that holds companies accountable for these measures along their supply chain, and gives trade-unions and non-governmental organisations the authority to conduct litigation on behalf of whomever is affected. Fines can be issued as well as exclusion from public tenders. It will come into force in January 2023. This signals that the German government is taking social impact increasingly seriously and is also prepared to act on failure to comply.

The following are actions that businesses could take in order to move forward with this category:

CORE: Businesses could consider integrating the SASB standards into their regular reporting and performance dashboards. SASB have determined the key metrics that are deemed to be financially material to a business for all of the major industries, and they are highly likely to be part of future regulatory requirements set out by the ISSB.[39]

ADVANCED: From a transparency perspective, the GRI standards go further than SASB disclosures and they take a double-materiality approach, although they are industry agnostic. In response to the ISSB consultation, there have been many calls for the ISSB to extend their initial requirements to include the existing GRI standards, however this is not guaranteed. Positively, the ISSB and GRI have signed a memorandum of understanding to work towards greater harmonisation.[40]

The recommendations made in the EFRAG consultation have not yet been adopted into EU law. The consultation to consider them is ongoing. The metrics they have proposed are comprehensive and cover the workforce and value chain, they are also intentionally closely aligned with GRI standards.[41,42,43] If the policy gets voted in by EU member states then this will create a potentially huge reporting requirement for large businesses that trade significantly with the EU, where they take a comply or explain approach. Even for those that do not trade with the EU, the recommendations are noteworthy, because they could have the freedom to use the proposals as a comprehensive library of metrics, from which they can select which to use to voluntarily monitor social impact.

Despite being distinct from impact measurement for ESG purposes, other tools have been developed that aim to value social impacts with a monetary figure. The Themes Outcomes and Measures framework (TOMs) was established to support the Social Value Act, to encourage businesses to think beyond just making money and to think about creating and valuing social value.[44] Local authorities should assign a minimum 10% of consideration to the social value in their procurement score and, in some cases, this has been as high as 30%. Businesses are able to use the TOMs framework as both a planning and an evaluation tool. In 2021, within its Green Book, the Treasury introduced guidance on how to value wellbeing (the WELLBY framework), again to be used for government procurement.[45,46,47]

39 SASB Standards, (Now IFRS), Exploring materiality
40 GRI, June 2022, GRI and ISSB provide update on ongoing collaboration
41 EFRAG, ESRS S1 Own workforce
42 EFRAG, ESRS S2 Workers in the value chain
43 GRI, June 2022, Encouraging progress on EU standards – with deeper alignment the next step
44 Social Value Portal, National TOMs 2022 Updates
45 HM Treasury, 2022, The green book: Central Government guidance on appraisal and evaluation
46 HM Treasury, March 2020, Magenta Book: March 2020, Central Government guidance on evaluation
47 HM Treasury, July 2021, Wellbeing Guidance for Appraisal: Supplementary Green Book Guidance

A PURPOSE-DRIVEN APPROACH: Purpose-driven companies, whose financial success is based upon the positive impact they can have on the world, should assess their social and environmental impact as part of their DNA. This is not just because they intend to have a positive impact on the world, but also because they will have integrated their impact within their economic model, making it financially material to them. Whether or not a company measures their impact is a sign of whether they are taking it seriously.

It is useful to measure social impact, to demonstrate to the outside world the impact they are having, and, importantly, to provide vital feedback loops internally, that show them how they are progressing against their own targets. Being transparent with results shows that they welcome external scrutiny on whether or not they are successfully living out their purpose.

The WDI platform already exists for this reason and it is within a business' grace to voluntarily share this information, and many already do. Within the WDI guidance they segment metrics into those that are easier to collect information and report on, and those that are harder. This enables a helpful entry point for those at the start of their journey.

The International Integrated Reporting Council (IIRC) (now merged the ISSB via the Value Reporting Foundation) has created a toolkit that helps to explain to financial capital providers how an organisation creates value over time.[48] As part of their integrated report, they provide examples of the quantitative and qualitative information that relate to six capitals - financial capital, manufactured capital, human capital, natural capital, intellectual capital, and social / relationship capital. Reviewing the applicability of the six capitals model to business decision-making could be a worthwhile endeavour for attracting investment.

THE IMPACT OF PRODUCTS AND SERVICES ON CONSUMERS AND SOCIETY

This category has less well-defined metrics than the workforce category and is less well supported by policy instruments. This may be intentional as it is the market-based approach to the economy that enables the entrepreneurial spirit to identify and create products and services that people, businesses and society need. From a measurement perspective, the most comprehensive guidance and metrics library has come from the EU. The poor consistency of reported metrics from businesses makes it hard to compare like-for-like, and ESG aggregators often resort to other publicly available information such as brand metrics and news stories.

The following are actions that businesses could take in order to move forward with this category:

CORE: When starting a new project or product that has the intention of positive social impact, if there is no appropriate or reliable national framework to report against then one approach is to plan to develop a monitoring mechanism as part of the project plan, and to not let perfect planning be a blocker for good.

This is often the method with agile businesses.[49] Agile is underpinned by the practice of validated learning cycles, where test, learn and develop cycles are iterated rapidly. In the context of developing a social impact indicator, performance metrics could be prototyped and if it transpires that what was originally deemed to be important turns out to be less important, the metrics will be improved or discarded. Spending too much time perfecting a measurement plan can delay action unnecessarily, increasing the time to market for a product and creating a risk to business.

That is not to say agile businesses don't measure impact at all, indeed it is the opposite, but they might not know what is important to measure at the start or have developed the tools to measure it. When there are good governance structures in place for risk mitigation, companies can and do start initiatives without perfect knowledge or measurement plans.

48 IIRC (now IFRS), Integrated Reporting Framework

49 In a business context, "agile" exists in an organisation's culture, leadership, strategy, and governance, enabling them to thrive in uncertain and complex environments. It is the ability to adapt quickly to market changes.

> "A pragmatic approach is needed. We put a rigorous evaluation framework around anything that can sensibly be measured but it is sometimes neither feasible nor meaningful to measure impact in a mathematical way. Through our own activity with employers and young people, we have found that value and impact is often found in the stories that are generated and the way in which activity changes lives. These stories are told by people, not statistics. Over time we get to know what is working because we can see and feel it. We don't always need a piece of statistical analysis to tell us that we are on the right track."
>
> **Stephanie Burras CBE, Ahead Partnership**

ADVANCED: If a business is struggling to find an applicable framework to understand their social impact on end-users, they can again refer to the EFRAG recommendations on end-users to help set goals relevant to their business.[50]

Businesses could also form industry-specific coalitions along with governing bodies, which can help to establish goals and measurement frameworks that all organisations agree upon. This can be particularly effective where there is a recognised industry-level problem, where if one company tried to solve alone they might suffer from being a first-mover allowing others to be free-riders. A recent example of collective effort was between GSMA (who represents the mobile ecosystem), EY, and a range of telecoms companies and external experts to create social-related KPIs and ESG metrics for their industry.[51]

A PURPOSE-DRIVEN APPROACH: A purpose-driven approach should start with a clear signalling of the intent of the positive impact that a business intends to have on society, and how this drives their economic success.[52] There are many planning frameworks available that can help to uncover the best indicators of success and how to monitor if a business is creating intended or unintended outcomes. The Theory of Change is one such framework. It starts with a well-defined outcome statement, or the signalled intent that a company wished to have, and then works backwards to reveal to the outputs and activities that are required in order to be successful. The process of articulating the assumptions that link the activities to the outputs and outcome can be very revealing and can highlight what the important metrics are to monitor for intended and unintended outcomes. One participant shared, "Organisations need to move beyond input and output metrics toward outcome metrics, especially in relation to social impact, in order to more clearly demonstrate the impact of their activities. In terms of relevant frameworks or approaches, some businesses are starting to think about Social Value or Social Return on Investment. Very few businesses currently use a Theory of Change approach. It needs some adaptation for it to resonate with businesses, but is a useful tool to go through with stakeholders in order to clearly articulate their intended impact on society, and to get some shared thinking."

IMPACT ON AFFECTED COMMUNITIES

This category has less well-defined metrics than the workforce category, and is not consistently supported by policy instruments globally. A reason why there is inconsistency is the same for both the Social and Governance ESG categories. Both Social and Governance issues are highly values-led (i.e. by cultures, and beliefs) and can therefore be subjective. This creates a challenge when creating universal (or widely) accepted targets, and therefore indicators, for progress on social issues. In designing the social taxonomy, which is still in draft, the European Commission recognises this and therefore uses the widely (but not universally) accepted minimum standards such as the UN guiding principles on Human Rights and the SDGs.

The following are actions that businesses could take in order to move forward with this category:

CORE: The SDG framework provides one of the most widely recognised set of goals and targets that actors, whether nation states or businesses, can work towards. The 17 core goals are broken down into 169 sub-targets with 248 measurement indicators. This granularity can provide inspiration to businesses for target-setting and measurement plans, as well as a language to describe those goals. Business leaders could also refer to the EFRAG recommendations on affected communities to help set goals relevant to their business.[53]

50 EFRAG, ESRS S4 Consumers and end-users

51 GSMA and EY, June 2022, ESG Metrics for Mobile: Realising value for society through common industry KPIs

52 ReGenerate, 2020 June, What is a purpose-driven business?

53 EFRAG, ESRS S3 Affected communities

> "We've been financially supporting charities and causes for a while now, alongside employee fundraising and volunteering, but we now want to take the next step up by improving our impact reporting and thinking about engaging differently with our local community. We're starting at the beginning by looking at the United Nation's Sustainable Development Goals and trying to connect with our communities in different ways so we can have a better understanding of where we can make a difference."
>
> **Jacob Ayre, Wesleyan**

ADVANCED: There are several frameworks that enable businesses to assess the social value that they have on communities and express it as a numerical or financial figure. For example, via the TOMs framework, businesses can use proxy measures to assess the value of certain community-based activities both for an individual and for the community. For example, if there is an objective to reduce re-offending, the proxy value includes the average economic value of the individual entering the labour market (annualised increase in lifetime earnings), as well as the fiscal value to the NHS resulting from average reduction in health care costs associated with being out of work and the economic, and the fiscal and wellbeing value to society from a reduction in reoffending.[54]

> "Early in the Legacy programme we used social return on investment to understand the value we were creating. We have learnt a lot of lessons through the social value approach that we hope will help future infrastructure projects."
>
> **Samantha Freelove, Tideway**

While businesses can have positive social impact through creating jobs and wealth, driving innovation, paying taxes and providing goods and services that people are happy to pay for, they can go further. They can work to ensure that their core activities are socially responsible, not only limiting or eradicating harm to communities and the environment, but also benefiting them. When addressing specific community-based issues they could look to partner with community-based organisations such as charities, NGOs, etc, whether financially or through more in depth partnerships. This is explored in detail in Part Three. Organisations such as charities, NGOs and local governments often hold useful knowledge or are able to deliver services in a way that a business cannot. If a business engages in this sort of partnership they may be able to align or co-develop reporting frameworks to assess the success of the partnerships. This structure is more of a business-style relationship around giving and transparency of impact would ensure that the investment, grant or partnership is actively managed and funds are directed appropriately.

In addition, some businesses and investors are also now interested in investing in the mechanics of charities in order that they are more effective. The Business for Societal Impact (B4SI) framework enables organisations to measure and value their corporate investment into community-based organisations.[55] The B4SI framework currently underpins the Community & Philanthropy question in the Dow Jones Sustainability Indices questionnaire, is reflected in the GRI standard and is recognised by the UN Global Compact as evidence for a company's social impact narrative to stakeholders.

> "We have seen an increase in donors wanting to improve the way charities work so that they can be more effective. In this sense, they provide unrestricted funding so the organisations can invest in their capacity building towards a more sustainable operating model. These investments could range from training to technology either to improved staff's skills or to reach out to more people, just to mention a few examples."
>
> **Samantha Reyes Ronso, Charities Aid Foundation**

54 National Social Value Task force, 2019, National TOMs Framework 2019 for social value measurement guidance

55 Business for Societal Impact, Corporate Citizenship, 2020, Business for Societal Impact Guidance Manual, Corporate Community Investment

A PURPOSE-DRIVEN APPROACH: Companies could have programmes of active listening with the communities around their offices, shops, factories and where their supply chains operate, to better understand the community's needs. The participatory approach can help to identify what in their organisation can fulfil the communities' needs. This act can also help to bring clarity to the purpose of a business, enabling them to think about the positive impacts they want to have on society. This approach to problem-solving can be more effective than outsiders arriving with a number of solutions without truly knowing the problems. It requires an organisation to have an open, learning mindset, curiosity, and a focus on problem definition ahead of problem-solving.

ADDITIONAL ACTIONS

There are a number of additional actions that businesses can take that span across the three social impact pillars described above.

THE IMPACT MANAGEMENT PLATFORM: A helpful starting point is the Impact Management Platform (IMP), which provides a central directory of the major standards as well as a lot of supporting material tailored to both businesses and investors on how to approach impact management.

THE BSI STANDARD ON PURPOSE: British Standards Institution (BSI) produces technical standards for businesses that can act as a tool to help businesses operate more efficiently and sustainably. Through incorporating BSI standards, businesses can demonstrate to different stakeholders how they have embedded best practice. The BSI has recently released the PAS 808:2022 standard for purpose-driven organisations that defines, among many things, what separates purpose-washing from true purpose-driven organisations and clarifies what 'good' looks like.[56] It will be an invaluable resource for organisations embracing a purpose-driven agenda.

DIGITAL FIRST: The future of corporate reporting is digital. Many companies will already be digitising their financial statements using the eXtensible Business Reporting Language (XBRL) and this is and will increasingly be regulated and audited. XBRL greatly improves the machine readability of corporate reporting by encoding variables and values within the report, whereas previously the information might have been formatted as a plain PDF. Extracting structured information out of a PDF is highly error-prone and inefficient, whereas XBRL is now extensively used across the world.[57] Organisations that are not currently using XBRL could begin to embrace it by adapting their reporting processes, providing staff training and adapting any reporting technology.

Alongside how information is presented digitally, companies could look to business intelligence tools to better incorporate impact information into their regular business reporting processes. Without monitoring and feedback loops being designed in, it is impossible to manage impacts effectively. Using a common tool throughout an organisation, instead of different tools used by different departments, could help to centralise and coordinate information flows.

56 British Standards Institution, 2021, PAS 808:2022 Purpose-driven organizations. Worldviews, principles and behaviours for delivering sustainability. Guide

57 XBRL, An introduction to XBRL

What can other actors do to support and encourage business

Businesses don't operate in a vacuum. The ESG investment strategy itself is an example of how a powerful external lever can influence business behaviour. In this section, we bring light to a number of ideas that surfaced during our interviews that represent how the ecosystem around business can be strengthened, in relation to improving the transparency of business impact and performance on social issues in order to harness the power of the investment community.

> "People make up organisations. These are the people that must recognise their power to measure, disclose and improve their impacts on people and the natural environment. The tools to do this are out there, but we cannot underestimate the importance of human buy-in to make impact management a widespread practice."

Jo Fackler, Impact Management Platform

STRENGTHEN AND SUPPORT EXISTING TRANSPARENCY INITIATIVES

When an investor or external party requests information from a company, if they have enough leverage they can also dictate in what format that data can be presented in. This often means that a business will have to prepare multiple similar but different data sets for a wide range of stakeholders, which can be resource-intensive and time-consuming.

Prior to the Impact Management Project sunsetting its activities and transitioning into the Impact Management Platform (IMP), a core goal was to find a way to bring together a range of different organisations to build global consensus on how to measure, assess and report impacts on people and the environment. Through their Structured Network they were able to bring together the leading standard setters, and help to coordinate efforts that will create more consistency, compatibility and interoperability between them. Comparability is a critical component for information management in any discipline and impact management is no exception. Increasing consistency would benefit both the organisations that have to prepare the information, as well as the downstream organisations that receive and process it. The IMP continues its consensus building activities.

> "There is a lot of buy-in for transparency on the whole. However, there is a caution around using certain terms as either they are quite technical, or a term could have multiple definitions under different standards, or the general reader may misunderstand them. The lack of consensus on the definitions of certain metrics is particularly prevalent around social issues, compared to, say, definitions that relate to climate change."

Madeleine Cobb, Schroders

Other examples of actors centralising sustainability information are CDP (see Box 1), WDI, Tortoise and the World Benchmarking Alliance. CDP has acted like a supernode for GHG emissions data and more recently water use and deforestation data. Over twenty years ago they began to rally the power of investors to influence businesses to disclose their greenhouse gas emissions, creating the world's largest and most consistent source of corporate emissions. They currently hold information from over 13,000 companies providing information to investors that hold over $130 trillion assets.[58]

The WDI was set up with a similar approach, with the goal of centralising data relating to the workforce and supply chains. The metrics gathered were designed in collaboration with a wide range of stakeholders including trade unions and are intended to be interoperable with existing standards such as SASB and the UN Global Compact. The current reach is far smaller than CDP's, and they currently hold information from 173 companies, totalling 13 million direct employees and they provide information to investors that hold $10.5 trillion assets.[59] We were told by one ESG aggregator that while the coverage of the CDP data was usable, the WDI currently needs to scale its coverage before it can become a significant data provider.

58 CDP, How companies can take action
59 ShareAction, Workforce Disclosure Initiative

> “The number of companies reporting has grown by 20% every year and the investor appetite for this information is very strong. They prioritise companies’ impact on workers and see the Workforce Disclosure Initiative as the benchmark for assessing impact on their people. With the right support, our ambition is to scale WDI to ten times the size it is today.”
>
> **Simon Rawson, Shareaction / Workforce Disclosure Initiative**

Both CDP and the WDI examples of platforms that were created to harness the power of investors towards companies, by using disclosures and transparency as the mechanic. If climate change and workforce-related issues are a risk to investments, then investors can use the platform to encourage corporations to disclose. This centralised information can then be accessed by a wide variety of stakeholders such as academics, civil society and policy makers, not just investors. They are both examples of market-driven approaches to centralising information on a topic. In the future, we might begin to see more issue-specific hubs and they could play a vital role in simplifying the complex data market. The leverage of investors should not be underestimated, one interviewee said, “On the engagement side, we join investor group coalitions, like the Living wage foundation and other good work coalitions. Because of where we work, we have businesses that are more Asia or global focused and are able to ask how they manage their workforce. We are able to get leaders in Asia to start contributing to the Workforce Disclosure Initiative.”

With the ESG data ecosystem in mind, there is a highly fragmented data market. ESG aggregators become hubs of information, however because there has been a huge proliferation of aggregators and the aforementioned inconsistency in their ratings, they have added noise. It is still an immature data market and perhaps over time there will be mergers and acquisitions that reduce the marketplace to a few key players.

Box 1: The power of disclosure

The TCFD and CDP have something in common, neither forces an organisation to take any action about reducing emissions. Accountability is not built into their frameworks. Instead they just require businesses to measure and disclose their greenhouse gas emissions. What then happens as a result of the increased transparency, is that both customers and investors are then able to make a choice. This chain of events indirectly generates action, where organisations aim to improve their performance in order to be more attractive, thereby creating a race to the top.

CDP was the first to realise the power of the investment sector. They managed to influence the boards of investment firms that climate change might be a systemic risk, and therefore in order for investors to be able to make informed decisions, CDP provided the infrastructure for companies to disclose the relevant information. Businesses were obliged to report this information if they wanted to attract the kinds of investors who acknowledged the potential risks of climate change.

The TCFD was set up to solve the problem of the lack of consistent disclosures and reliable data for assessing and tracking progress towards emission reduction. The lack of consistency was the biggest barrier to disclosure and hampered efforts for integration into ESG decisions. The TCFD provided governance, metrics and targets to facilitate the articulation of strategy and risk management. Importantly, it has been instrumental in creating consensus on standardised disclosures globally. The UK is set to become the first country to make climate-related financial disclosures mandatory by 2025, with a number of requirements in place by 2023.[60]

> *“Today’s announcement brings into force the government’s commitment, announced by the Chancellor of the Exchequer in November 2020, that the UK will become the first country in the world to make Task Force on Climate-related Financial Disclosures (TCFD) aligned disclosures fully mandatory across the economy by 2025, going beyond the ‘comply or explain’ approach. The Chancellor set out a roadmap showing how the government would achieve this by 2025, with most of the measures in place by 2023.”*
>
> **UK Government press release.**[61]

60 HM Treasury, 2020, A Roadmap towards mandatory climate related disclosures

61 Gov.uk, 2021 Oct, UK to enshrine mandatory climate disclosures for largest companies in law

DRIVING CONSENSUS ON A SYSTEMIC SOCIAL ISSUE, TO FOCUS EFFORTS AND BUILD MOMENTUM IN FINANCIAL MARKETS

There are lessons to be learned from how climate change has become the dominant target for many government and investor actions in recent years. While many of the social issues facing society have existed in one form or another for millenia, from poverty, inclusion, gender, economic inequality, racial discrimination and many more, yet it is only within the last ten years or so that climate change has been placed firmly on the radar as one of humanity's greatest existential threats.

To the layperson, the climate change agenda might seem new, but in reality there has been immense effort over decades to create a global consensus around the issue. From the early 1900's, scientists identified humans' impact on the climate. Since then, our ability to understand the scale of our impacts and to forecast future effects has been improving with increasing confidence over time. International systems such as the United Nations Framework Convention on Climate Change (UNFCCC), created in 1992, were set up and designed to prompt action at a global scale. More recently, groups such as the TCFD (See Box 1) and the Glasgow Financial Alliance for Net Zero (GFANZ), are now mobilising trillions of dollars worth of assets towards net zero goals. They are only now able to start demonstrating the power of the financial sector, including through ESG. As a result, a popular trope has emerged, "Can there be a TCFD for 'S'?", in order to focus investors on social issues too.

As we have previously discussed, there is no single thing called Social, it is a composition of multiple social issues, all under the social category. Similarly, climate change is one environmental-related issue, hence it is called the TCFD not the "TEFD". Following the same principle, instead of trying to create a "TSFD", there could instead be a "T [insert social issue here] FD". For instance, a TPFD could be the Task force on Poverty-related Financial Disclosures, or a TWFD could be the Task force on Wellbeing-related Financial Disclosures.

For the investment industry to engage with it, the issue should pose a systemic risk to the predictability and stability of their portfolios. Interestingly, in 2020, two new task forces were indeed created that drew inspiration from the TCFD. The first is environmentally focused, the Task force on Nature-related Financial Disclosures (TNFD).[62] The second is more socially aligned. Inequality has been identified as a systemic risk to investors, and therefore the Task force on Inequality-related Financial Disclosures (TIFD) was created.[63] Economic inequality is a primary focus but the future scope could also include inequalities of other kinds. It is still a new movement but the coalition of supporting organisations from the Global North and South is growing.[64]

Since the nature of climate change is very different to social issues like inequality, it is unlikely that the same approach can simply be copied and transposed to a social issue. However, there may be some qualities that could be adapted. The following serves as high-level practical suggestions for a social issue to hove in order for it to become successful, we have included examples that relate to climate change as an illustration:

- **Align global consensus-driving apparatus:** The combined effect of the various climate-related UN organisations, the various national bodies and NGOs, as well as financial movements like the TCFD, all contributed to creating consensus on climate change. Consensus has led to the majority of the world's countries striving towards the same goal, which is critical for coordinated collective action.
- **Establish time bound measurable targets:** Being able to point to a measurable target (e.g. 1.5°C warming from pre-industrial levels) and the related impacts on humanity is a powerful tool. Through frameworks like the Intergovernmental Panel on Climate Change (IPCC), climate scientists are able to regularly model and articulate the impacts of different warming scenarios on the planet and forecast what global average temperatures might be at different intervals this century.

62 TNFD, Home page

63 Cort, T., Park, S., Nascimento, D., Columbia Law School, 2022 April, Business Risks Stemming from Socio-Economic Inequality

64 TIFD, TIFD Allies

> "Holding organisations to account on what they promise is an undeniable challenge. The key is to ensure those promises are quantified and measurable. UK Government procurement bids, for example, require you to articulate in monetary terms what you are committing to and this gets audited to ensure accountability at a financial level. We not only support this kind of approach but also consider it an essential part of driving the company-wide focus and commitment we need in order to achieve best outcomes."

Charlotte Hesp, Cityfibre

- **Harness the power of financial markets:** Financial markets don't like instability. Having the power of finance targeted to an agenda in order to de-risk their investment portfolios and to deliver their fiduciary duty is a powerful lever to activate.
- **Utilise the role of disclosure:** To empower the financial markets, disclosure is essential. Regulation can ensure the minimum disclosure is produced, but companies and investors can go further.
- **Put transparency to work:** Transparency differs from disclosure, as disclosure can be pointed to a specific audience, whereas transparency is, by nature, much broader. The purpose of transparency to a wide range of actors, including civil society and the media, is to enable poor practice to be seen and called out. Without transparency, companies can say what they like. However, with transparency, if it's found to be false then reputationally their value can be impacted, in the short term at least.

> "We have to be careful to accurately measure and validate the impact that we're generating. While there is greenwashing today, we believe in the future, social washing will also be a phenomenon."

Jay Mukhey, Finastra

As a closing thought, a decade ago, few investors asked about a company's plan to go net zero, or even what their level of gender or racial diversity was. When looking at the metrics used in the TOMs and EFRAG frameworks, it is conceivable that in the future, investors could start to ask questions like "What proportion of your workforce come from disadvantaged backgrounds?", and "Are there any full-time employees that are considered to be in poverty?" Defined metrics to capture this information already exist, the opportunity is how to make them more widely reported and available. Being able to galvanise investors onto core social issues could be profound. Moreover, there is a strong and growing argument that this would not only benefit society but would be good for business too, i.e. it is financially material.

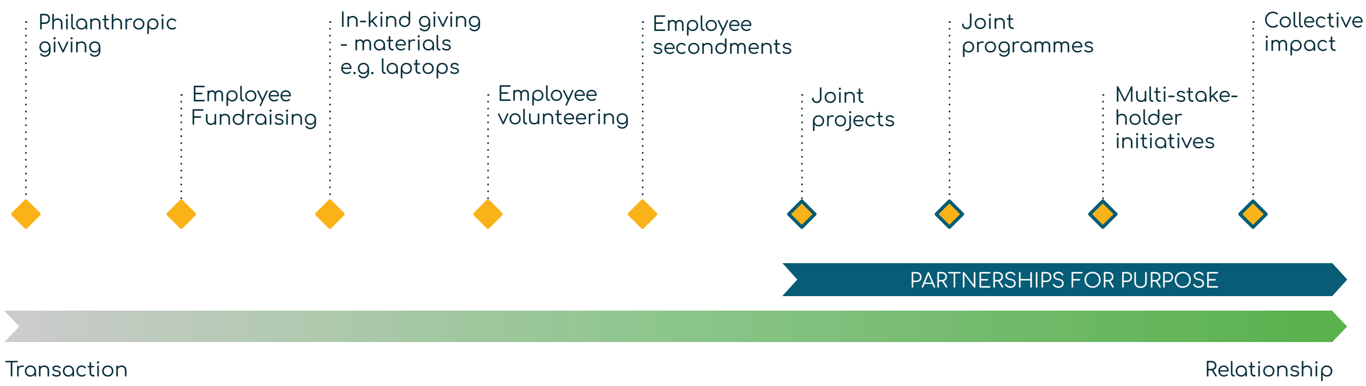
Part Three - The role of civil society partnerships with business

In Part Three, we will look at how partnerships with civil society can strengthen and support businesses' impact on society and help businesses operate in a purpose-driven way. This ties into the S in ESG discussion as businesses can partner with civil society to strengthen and improve their social impact. We will first look at what role civil society partnerships can play alongside a business and how they can advance their social agenda, and finally we will discuss what changes might help to create more partnerships or strengthen existing ones.

The role of civil society partnerships and corporate social impact

Interactions between business and civil society are common and can be mutually beneficial for both parties. The most frequent ways that businesses support civil society are financially through philanthropy, in-kind support such as donations, employee engagement and volunteering, pro-bono support such as offering advice, skills and services, and multi-organisational partnerships to solve systemic challenges.[65] Figure 5 demonstrates how the type of partnership changes from one that is more transactional, to one that is more relational.

Figure 5: The spectrum of business and civil society partnerships



Below, we describe the key types of partnerships between business and civil society, highlighting the benefits to both types of actor as well as common challenges with that type of partnership. It could be worth bearing in mind that the relative size of the 'giving' and 'receiving' organisations may also influence the type of partnership that is possible. For example, in a relationship, the business and civil society organisation may both be large, or both be small, or one large and one small. The relative size to one another could have bearing on the capacity of a civil society organisation so to, for example, create opportunities for secondments.

PHILANTHROPY / EMPLOYEE FUNDRAISING

Where a company gives financial donations either directed to a specific project or as unrestricted funds that can be used at the discretion of the receiver.

65 Sykes, N., August 2021, Pro Bono Economics, Purpose: On parallel Tracks

BENEFIT TO CIVIL SOCIETY ENTITY: Millions of pounds are awarded each year to charities and provide the essential lifeblood to keep those organisations running. It is easy to quantify and has measurable value to the recipients.

BENEFIT TO BUSINESS: There are financial benefits to businesses who can claim tax relief and benefit from good PR from their donations. This can help them recruit and retain employees and customers. When companies are purpose-driven, and their giving is aligned to their purpose, it can also help them achieve their goals. This is because the giving is strategic and takes advantage of charities' ability to deliver on their purpose better than the business.

CHALLENGES: This kind of giving, especially where it is not integrated within a company's purpose, is increasingly looked at as corporate social responsibility (CSR) activity, which is highly valuable to charities but criticised by some who argue that this does not cut deep to the core of the business and can be superficial.

IN-KIND GIVING

Where a company donates anything other than money. E.g. IT equipment to office space.

BENEFIT TO CIVIL SOCIETY ENTITY: The recipients receive items that are much needed without having to pay for them, thereby increasing their cash flow.

BENEFIT TO BUSINESS: Businesses can claim tax relief. Similar to philanthropy, they can benefit from the PR benefits of doing so, with knock-on effects on employee and customer relations.

CHALLENGES: Companies can account for the value for the donated items in inconsistent ways, making it hard to estimate the true value to civil society.

PRO-BONO SUPPORT / EMPLOYEE SECONDMENTS

Where a company offers practical support in the form of its core services or the technical expertise of its staff to achieve a goal for the recipient, sometimes through formal secondee agreements.

BENEFIT TO CIVIL SOCIETY ENTITY: The projects can add significant value to the recipient organisations that might otherwise be unaffordable due to lack of in-house expertise. It can result in an exchange of skills.

BENEFIT TO BUSINESS: Businesses can claim tax relief and benefit from PR. Such partnerships can provide employees with a deep sense of purpose in their roles that might have otherwise been lacking. This can raise employment satisfaction, well-being, can improve performance and support recruitment and retention. If the work is aligned with the company's purpose, then it can help to give them a deeper understanding of this.

CHALLENGES: Employee volunteering needs careful management to meet the needs of the recipient community as well as fitting around what works for companies.

PARTNERSHIPS

Where a company outsources to or partners with a civil society organisation to help deliver on a goal where the business lacks the knowledge or expertise.

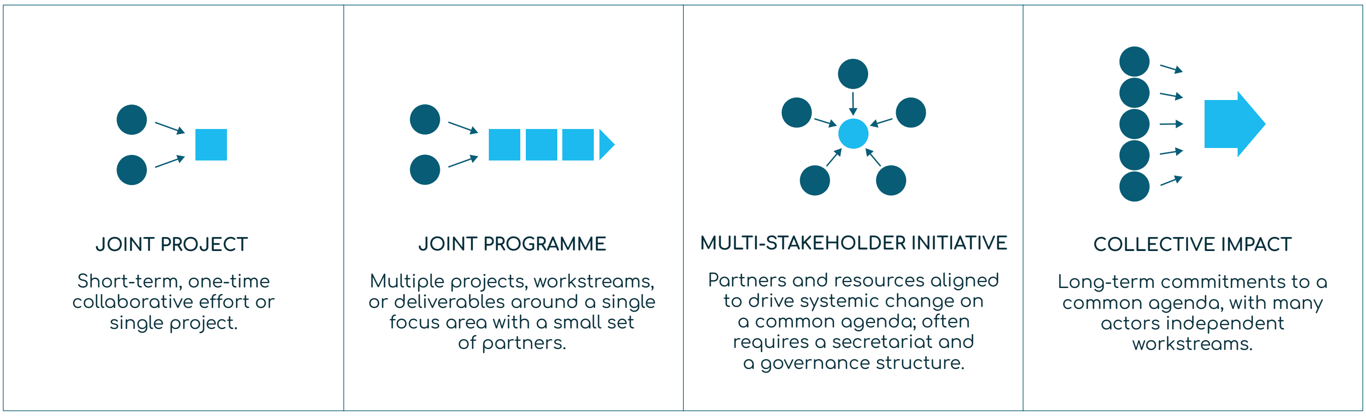
BENEFIT TO CIVIL SOCIETY ENTITY: The civil society organisation is paid for its work and is able to grow the reach of its impact. They combine the assets and insights of each organisation, with a view to create an impact beyond the sum of their parts. In the book Partner with Purpose, Steve Schmida describes four prime models of partnership that range from single initiatives to more longer-term, impact-driven partnerships that require the coordinated action of business, civil society and the local or national government.[66] These are described in Figure 6.

66 Schmida, S., June 2020, Partner with Purpose: Solving 21st Century Business Problems Through Cross-Sector Collaboration

BENEFIT TO BUSINESS: Businesses are able to achieve goals aligned with their purpose that they might not have otherwise been able to due to lack of experience, knowledge or skills. It can result in an exchange of skills.

CHALLENGES: Many civil society organisations are not set up for this type of partnership delivery. Sometimes it can be hard for businesses to navigate the breadth of potential organisations to partner with.

Figure 6: Cross-sector partnership models (adapted from Partner with Purpose by Steve Schmida)



Why do businesses partner with Civil Society?

From a business perspective, the benefits gained from collaborating with civil society range from helping further its purpose, helping to strengthen integration of a business into a community, garnering greater staff satisfaction or to access financial incentives such as tax relief. All can be powerful motivators for a business to partner with civil society organisations. The following themes were highlighted from our interviews and are described in more detail below.

FURTHERING PURPOSE: Perhaps the most mutually rewarding benefit for business and civil society is when partnerships between the organisations are aligned with each other's purpose. In such cases, a business might outsource to receive a service where they don't have capabilities or knowledge, such as working with a homeless charity to fulfil recruitment needs.

> "We frequently partner with companies on projects that align with our mission and their core business. It depends which organisation we're working with as to how to leverage their expertise. For instance, with Unilever, we run a Hygiene Behaviour Change Coalition programme where we help with the COVID-19 messaging and vaccine uptake. Our partnership with GSK has been transformative. They second their staff to come and support us, especially in Supply Chain and Logistics, support research and initiatives that improve children's access to essential medicines. We work with several companies about children's rights, making sure that children are not impacted negatively along the supply chain e.g., the Vanilla for Change programme in partnership with Unilever in Madagascar. A number of large corporations are funding us to implement programmes in line with their ESG strategy in the Philippines and other areas that are quite prone to climate related disasters."

Sostine Makunja, Save the Children

COMMUNITY ENGAGEMENT AND A LICENCE TO OPERATE: A company becomes part of the community where its offices and shops are located and where its employees and customers live. In 2020, we conducted polling with B-Lab UK showed that there is demand, especially from older generations, for businesses to have a role to play in improving the communities in which they are based.[67] Businesses often partner with civil society groups to help to bring them closer together. This has the potential to foster trust and in some cases to grant a business the social licence to operate. The role of civil society is often to help with listening and engagement.

> "You need to be an important player to the local community. You need to engage with them. You have to ask people what they need rather than giving what you think they need. Listening is so important. We don't need to be shouting from the rooftops, but we do need the key stakeholders to know that we're taking it seriously and respecting our role. We see it as our licence to operate."

Lucy Chadwick, Global Infrastructure Partners

> "It's about really engaging with what local people want and need. When we're involved in these big infrastructure programmes, we are creating something for – and in – communities, and it's really important that they support what we're doing. We need to help our teams understand that these big picture challenges, like local attainment, are core to the whole project. If you look at the UK context, then there's massive issues with social inequality. Putting social impact goals in our projects is not just a nice to have: about providing life changing opportunities for local communities through the capital investments we work on."

Sarah Rial, East West Rail

Sometimes it is this active engagement with communities - the act of bringing together different groups of people - that drives the most powerful behavioural changes within business.

> "Our work brings together very senior professionals, from the highest levels of leadership within Global and FTSE 100 organisations, with the totally deprived members of our society, particularly young people. For the business professionals, it is an enlightening experience that provides another world-view. For the non-privileged it can enrich their own perspective by giving them access to people that they would not normally have and helps to overcome barriers. When CEOs see first-hand the value that cognitive diversity brings and how it translates to the bottom line, it's a no-brainer. For them and for us, it's not only about doing good, but also about being successful."

Nilesh B. Dosa, icanyoucantoo

EMPLOYEE SATISFACTION: Employees place a high value on volunteering and pro-bono secondments, which can positively affect staff satisfaction, reduce absenteeism, increase productivity, improve employee wellbeing and positively affect attraction and retention.

> "While the partnership with [company name] related to part of their strategy about social mobility and wanting to have a tangible impact, it was also about motivating and engaging staff. Following the success of the project, they still provide pro-bono support to us. Being able to show the impact and tell the story is important for them and their staff. They had feedback that "this is the best thing I've ever done at [company name], it gave me a reason to get up in the morning." So, while there is a cost to the business as taking staff out of the working day, there are tangible benefits in terms of staff satisfaction and retention."

Kirsty Lawson, NSPCC

67 ReGenerate, 2020 July, The case for purpose-driven business

> “In terms of employee engagement, volunteering can be hugely powerful with benefits for so many people. Our people volunteer year round, but we also run specific campaigns for employees to give back - what people did and the way it captured their imagination was phenomenal. The love that you felt from our people doing things to help was amazing. Teams could volunteer together in shelters and food banks. Yes, they did good for others but they also did good for themselves and their teams. The coming together was incredible.”

Anna Russell, BUPA

Volunteering and pro-bono work with organisations that have a higher social mission has the ability to increase employee satisfaction and can help embed passion and loyalty into an organisation, through engagement with organisations. This is similar to how purpose-driven companies can benefit from the power unlocked by an engaged workforce who understand not only the mission of the company but also their individual contribution to the bigger picture.

> “Staff engagement is a great indicator of whether you are focused on the right social impact priorities. As such, if you want it to be purposeful and you want people to feel passionate, then this is what you look at. And that becomes even more important in times of crisis e.g. Covid-19.”

Lucy Chadwick, Global Instrastructure Partners

FINANCIAL INCENTIVES: When a company files tax returns to HMRC, they are able to claim tax relief for charitable giving if they choose.[68]

Investors too can create financial incentives. Innovative investment structures have emerged such as Social Bonds, where conditions are tied to certain social impacts being met. Due to their longevity, such mechanisms have the ability to focus the entire company and the board to achieve the goals. Other examples include where a bond issuer pays a penalty if they don’t hit a social target, or an investor might offer preferential interest rates if certain social benefits are achieved. An investor aiming to reduce deforestation in a region, for example, could attach social goals to the investment at the same time. A base interest rate is agreed on the deforestation goal, with benefits attached to the social goal.

MARKETING AND PR: Businesses can benefit from the brand association with charities and this can be a selling point for forming partnerships with civil society.

> “We also measure brand metrics for our partners and being associated with a well known charity brand is always helpful for a company. When our partners add the association to our charity, they have found there is greater pick up. And then, the staff like to see the work in action so we produce a lot of videos with volunteers and service users as well as case studies.”

Kirsty Lawson, NSPCC

Despite the potential positive co-benefits to the business and civil society recipient, marketing and PR is an increasingly challenging area as it underpins the risks of green- and social- washing. Positive marketing about a company’s impact in one area can be used to divert attention or misinform customers and investors about potentially negative impacts elsewhere. Recent examples of the risks of green-washing were highlighted recently by the Chair of the Environment Agency, Emma Howard Boyd in relation to false claims over climate action, “If we fail to identify and address green-washing, we allow ourselves false confidence that we are already addressing the causes and treating the symptoms of the climate crisis.”[69]

68 GOV.UK, Tax when your limited company gives to charity

69 GOV.UK, July 2022, Emma Howard Boyd speech on finance, resilience, net zero and nature

Civil society adapting to corporate partnerships for the win-win

Corporate philanthropy and other types of partnerships with civil society organisations are not new, however more businesses are wanting to partner with civil society organisations beyond a purely grant giving way.

> "We have seen an increase in demand for skills-based volunteering. Businesses want to engage charities in a meaningful way beyond just giving money. Historically, they didn't always track the impact of the money they donate, whereas now they want to be actively involved in the charities they are funding."

Samantha Reyes Ronso, Charities Aid Foundaation

As such, civil society actors are increasingly finding that they need to adapt themselves in order to receive non-financial benefits. This can manifest itself in how they structure their organisation or through how they conduct their accounting. The benefits of adapting could be profound for a smaller organisation, where, for example, through pro-bono work they would access skills, expertise, knowledge and tools that they would not normally be able to afford. This exposure can also lead to a cross-pollination of knowledge and mindsets. Even large, established, national charities are still evolving and adapting to the growing demand for non-financial partnerships.

> "When we found that companies wanted to give something other than money, that they wanted to volunteer and partner with us, it took a couple of years to transform to be able to accept this sort of help."

Kirsty Lawson, NSPCC

> "Examples of partnerships can include giving skills. Like skills-based volunteering or capacity building. You need to be able to find a partner that can receive the resources and then enter into a meaningful partnership where they can transfer skills."

Samantha Reyes Ronso, Charities Aid Foundation

Civil society organisations that are increasingly tapping into corporate relationships are getting better at valuing the partnerships and the contributions to the bottom line can be significant. One interviewee from a major national UK charity shared "We are now trying to value the pro-bono support so that we can put it in our reports, for example, calculating the value that was saved for the organisation. We have an evaluation and impact team that sifts through this information. So far we estimate that corporate partnerships is about 10% of income and pro-bono work is about 5% and growing."

However, valuing the partnerships goes further than adding a prorated day rate to the time spent in pro-bono roles, to understanding the value derived from the outputs. The benefits of adapting the organisation to enable business partnerships can be significant, enabling the civil society organisation to achieve things it might not have been able to afford to do otherwise.

> "In terms of corporate partnerships, we have developed a new team that looks at the impact of the partnerships and how we can report that back combined with the long term legacy of that work. For example, in 2016, one major corporate partner invited charities to bid on strategy work. We worked on a project that brought together all agencies when when a child has disclosed sexual abuse. It used to take nine months to get around all of the agencies, now a referral is just five days from disclosure."

Kirsty Lawson, NSPCC

Partnerships for purpose

As the trend of starting purpose-driven businesses, or transitioning existing businesses to operate in a more purposeful way continues to grow, civil society organisations can have a powerful role to play to support and help them with their mission. In very simplistic terms, one of the reasons that there are not more purpose-driven companies, those that make a profit while intentionally solving society's biggest problems, is simply that it is hard. Our paper 'What is holding purpose-driven business back?' explores this in detail.[70] When a company's purpose overlaps with the expertise of the charities, there is a chance for a significant and mutually-beneficial partnership.

Embedding purpose into an organisation and delivering upon it can be a challenge. The act of embedding purpose within the company is one of the factors that can help such companies to be successful businesses. Purpose not only motivates staff to pull around a common goal - a North Star - but it can also help to attract and retain staff. We have found that it can be hard to truly instil purpose into the culture throughout a company, particularly for large companies with multiple departments, all with their own independent profit and loss targets. This means that how a business adopts purpose and begins to adapt to integrate it needs constant refining.

> "Purpose is a good thing to have as a trend and everyone is trying to do it. Almost all of my clients believe purpose needs to be embedded in their business. But it's hard to achieve when it's trickle-down. The benefit comes when it is part of their DNA. While it needs to be strategic for the business and driven from the top, every department needs to translate that purpose and vision into what it means to them."

Samantha Reyes Ronso, Charities Aid Foundation

> "We have a clear purpose and strategy but my job is to bring this siloed work together and get some cohesion. If there is a lack of alignment through policy and governance it is easy for everyone to operate independently not see the bigger picture, and us not achieve our aims"

Tom Harding, Aldermore Bank

Civil society organisations have long seen the value of purpose in relation to staff attraction and retention. The advantage of civil society organisations is that positive social impact is their reason for being.

> "The purpose-driven element is crucial for staff. Charities can't always afford market-busting pay checks but being able to demonstrate success is a powerful motivator."

Magid El-Amin, Catch 22

Civil society organisations are often formed where there is a human, social or environmental need that the public sector or businesses have not been able to address. They develop specialised knowledge on what it takes to tackle various social issues, from modern slavery through to poverty.[71] It is for that reason that they can be the perfect partners to businesses that are transitioning into becoming purpose-driven. Through partnerships, companies can better understand what it can take to make their purpose-driven approach more successful and the civil society organisations can benefit from the capacity and power of a company tackling the social issues they care about.

As highlighted in the cross-sector partnership models (Figure 6, above), partnering with mission-aligned businesses can benefit civil society organisations too as the nature of the partnerships could be deeper, more integrated and longer-lasting than corporate partnerships based on single projects.

70 ReGenerate, June 2021, What is holding purpose-driven business back?

71 Sykes, N., Pro Bono Economics, May 2022, Understanding the ecosystem: charities and public services

Considering the benefits to business gained from partnerships, if a business is simply aiming to enhance their marketing or PR, then they are unlikely to invest in the partnership in a way that will lead to significant transformational change. However, if it is central to their purpose and their financial success, and for a purpose-driven company the two are intrinsically linked, then it is likely that such a partnership will be central to the business and that they will invest more in it. It is here that partnerships aligned with achieving corporate objectives will more likely benefit ESG ratings. It is for this reason that we believe it would be valuable for companies to display their charitable partnerships more centrally in their annual reports.

> "In terms of hierarchy, purpose is the most important. If it's clear then the other things - CSR, sustainability, philanthropy, ESG, etc - will flow. Purpose is inclusive of the rest."
>
> **Samantha Reyes Ronso, Charities Aid Foundation**

> "Corporate responsibilities need to be recognised and need to progress towards real sustainability and purpose. If you decide to engage you need to be in it for the long term and commit. That is why utility companies are well placed to engage with the community, because we have experience of running long capital projects and utilities will be required forever."
>
> **Andy Brown, Anglian Water**

Encouraging more corporate engagement with civil society

Powerful market forces are incentivising company boards across the country to think about operating in a purpose-driven way, where their profit is increasingly derived from the benefit they provide to society. The World Economic forum lists sustainable purpose among the growing business trends.[72] Evidence is growing that this also makes business sense for three reasons:

- Customers prefer businesses that do good
- That employees want to work for them
- Increasingly investors are demanding it[73]

As we have seen above, partnerships between businesses and civil society can be mutually beneficial and yet this is a largely untapped opportunity. Here we explore opportunities to incentivise more corporate engagement with civil society.

The outcome that presents itself is that there is an opportunity to harness the power of business and civil society together, to have greater social impact and business success. Recognising that these partnerships are largely untapped, the output we are exploring is how to encourage more meaningful partnerships between business and civil society. Three core issues lie at the heart of the problem:

- Awareness of the opportunity
- Measuring and valuing the opportunity
- Behaviour change to make it happen

72 World Economic Forum, 2022 Feb, These 6 trends are shaping the businesses of the future
73 ReGenerate, 2020 July, The case for purpose-driven business

Below, we explore if the act of disclosing the civil society partnerships via corporate reports could help to encourage more and healthier partnerships to happen. As we have seen with CDP and the TCFD, the act of disclosure can lead to behaviour change, either as a means to attract investment or as a result of the peer-to-peer competition it creates. One potential result of such disclosures are league tables of organisations' that contribute to civil society (similar to those produced by the World Benchmarking Alliance or Just Capital). Such a league table could, for example, show charitable contributions as a percentage of profit. The information could be made publicly available, allowing transparency for other stakeholders such as civil society, the media and of course, ESG aggregators and investors.

OPTION 1: A MANDATED APPROACH THROUGH CORPORATE FINANCIAL REPORTS

One way to obtain disclosures is via regulation, requiring that a calculated monetary total of philanthropic giving, costed in-kind donations and prorated calculations of employee time given in volunteering or pro-bono work, is included in corporate financial reports. It would be relatively easy to quantify as the data might already be prepared for companies seeking tax relief from HMRC. Companies could be mandated to include this figure alongside their disclosures on political donations. A regulatory approach would have the advantage that the figures would be audited and there, and therefore, as far as possible, be correct and consistent, allowing like for like comparisons.

> "The metrics need more development to be made accountable. For example, with GRI there's no charitable giving metric, which makes it difficult to provide comparisons between companies. That doesn't prohibit a company from disclosing their charitable giving but it allows for a lot of variation in reporting."
>
> **Andrew Ciafardini, FIS Global**

CONSIDERATIONS:

- This is not the same as measuring the overall impact of a company on the world, or indeed the sum benefit of a partnership between businesses and charities (which includes many things that are difficult to measure), but it could be a useful subset of data that might be usable as a proxy, however this assumption will need to be tested.
- Charitable giving used to be included in the FRC regulation where donations to charitable organisations valued at over £2,000 had to be declared.[74,75] This requirement from the 2006 Companies Act was removed in 2013, while disclosures of political donations remained.[76] At the time, Viscount Younger of Leckie said, "While we encourage companies to engage in philanthropy, we have no evidence that this disclosure affects charitable giving while the disclosure itself has become burdensome to business." It is therefore likely that the FRC would need a strong argument to be made to reinclude charitable giving in its reporting taxonomy.
- From an investment ESG perspective the philanthropic disclosures alone might not unlock previously untapped potential ESG investment. For the reported value to have an impact on ESG ratings, the activities should be aligned with the core mission of the business and have a proven impact on financial materiality. In our interviews, we were told that even then the uplift to an ESG rating might only be marginal.

74 FRC, June 2022, Guidance on the Strategic Report

75 HMRC, Guidance Taxonomies accepted by HMRC

76 Ribeiro, C., Civil Society News, July 2013, Government changes mean companies won't have to report on charitable giving

> "EcoVadis does not consider philanthropy as such in the sustainability rating. As a supply chain sustainability rating, our assessment methodology analyses evidence-based actions of the assessed entity in relation to core business activities. Specific forms of collaboration, such as pro bono work or nonprofit partnerships, may be considered if they relate to core activities. The rating methodology looks at an entity's entire sustainability management system across policies, actions, and reporting, so if positive actions are identified and verifiable, the way they are reflected in the final rating results depends on a variety of other factors."

Hannah Roberts, Ecovadis

- It would be important to watch for potential unintended consequences, of which there could be a few if a company were to disclose charitable contributions as a percentage of profit without a narrative report on the impact of the contributions. Examples include activist shareholders questioning the amounts given, leading to pressure on business leaders to redirect such funds to other areas such as research and development or dividend buybacks.
- Organisations might need to manage the risks associated with purpose-washing, particularly if a company is seen to be contributing significantly to civil society while not being congruent with the wider company practice, for example treating employees badly or degrading the environment. Based on this, disclosures could be a double-edged sword, and while it may encourage some to act, it may deter others.

OPTION 2: A VOLUNTARY MARKET-BASED APPROACH

With the growing demand for more consistent, better quality information to inform ESG-based decision-making, and based on how CDP pioneered the investor-targeted disclosure strategy to tap into the power of financial markets, a similar strategy could be tested for corporate and civil society partnerships.

As described in Part Two, centralised thematic databases could potentially play an important role in the future of corporate reporting. An advantage of centralised databases is that data is structured consistently, making it easily accessible to external stakeholders like investors, ESG aggregators, the media and civil society groups.

The B4SI standard and database began in the 1990's as a means to help businesses capture and report their charitable giving and the broader societal impact. The information it collects extends beyond the value of donations and also includes Inputs (what was contributed), Outputs (what happened) and Impacts (what changed) and so can provide data users with a complete picture of the activities. It collects both qualitative and quantitative data since the combination of narratives and metrics is often more powerful than either alone. When referring to social impacts, information displayed as values and metrics don't often change hearts and minds. Inspiration usually happens with stories, however narrative reporting alone can be selective and therefore open to being seen as social-washing.

> "Numbers alone are not always attractive to boards. They need stories to bring them to life. For example, dedicated programmes that provide paid routes into employment for people with learning disabilities can be life changing - providing some people with their first opportunity to earn their own money and the sense of identity and independence that goes with that. When reporting back to the board, saying we have employed X people may not feel very impressive. But being able to say that this person was able to take their mum out for dinner for the first time with their very own paycheque is what can change hearts and minds."

Diane Lightfoot, Business Disability Forum

It now has a network of over 150 organisations reporting to it. Example statistics from their latest report show that, on average, their members contributed $22.1 million to charities, 101,697 community organisations received donations reaching 74 million beneficiaries, over 200,000 employees volunteered over 4 million hours of time.[77] The report said that 29% of beneficiaries experienced improvements and 6% of beneficiaries experienced transformation. Community organisations are reaching 29% more clients, and 15% reported improved management processes. Finally, 78% of volunteers said that the partnerships had changed their behaviour and outlook. If the B4SI is able to expand its member network and find ways to make the data more available to investors or ESG aggregators, then this would fit the criteria of a centralised thematic database that could help to provide a structured datasource to investors.

Investor-led voluntary disclosures incentivises organisations to disclose because they have something to gain. Investors are able to set the high bar of the depth of information disclosed. Over time, as more companies begin to disclose, regulation could be introduced to raise the low bar to ensure that all businesses provide the most essential information - such as the value of partnerships within civil society.

> "We don't need regulation to force us to comply, but we do need to agree on a more standardised way of reporting. If we put in regulation instead of allowing the markets to figure it out for themselves then there could be unintended consequences."

Andy Brown, Anglian Water

> "Regulation only raises the floor on issues, it doesn't set the ceiling"

Paul Simpson, CDP[78]

CONSIDERATIONS:

- Obtaining a critical mass of information is hard and can take a long time. For example, following the success of CDP, the WDI was designed in the same format of creating a centralised database to store disclosures on indicators relating to the workforce. To provide an example of the scale that is needed for such a platform to be a success, CDP has been active since the year 2000 and now has over 13,000 companies contributing, and over 680 investors with over $130 trillion in assets.[79] In contrast, the WDI has been active since 2016 and has over 173 companies representing $13 trillion in combined market capitalisation and so has a long way to grow before a critical mass is achieved to be truly useful to ESG aggregators, thereby affecting investor behaviour at scale.[80]

> "ShareAction's vision is of a world where our investment system supports our planet and its people. For investors to hold companies to account for their impact, they need access to information and yet they lacked structured data about workers. Following the CDP model we developed a framework and disclosure system of high quality data to enable decision making. We currently have a coalition of 67 big investors with over $10.5trn of assets under management. Although the primary audience is Investors, the information is available to all on our website."

Simon Rawson, Shareaction / Workforce Disclosure Initiative

- An option to incentivise more contributions to a database like B4SI could come from the UK government. HMRC currently provides tax relief for charitable donations, where businesses report to them in their accounts. There could be a way to make that information more transparent, for example by saying that if you wish to receive the tax relief then the charitable giving information will be made public. Clearly this is a trade-off, but it exists to inspire more transparency of corporate giving and for the UK to be a world-leader.

77 B4SI, Creating an environment for social impact: Global Annual Review 2021
78 Simpson, P., Outrage & Optimism, June 2022, The Power of Disclosure with CDP's Paul Simpson
79 CDP, How companies can take action
80 ShareAction, Workforce Disclosure Initiative

Conclusion

This briefing paper has provided a snapshot of how businesses are, or can approach the S in ESG, and how partnerships with civil society can help business goals for more positive social impact.

In Part One, we described how ESG means different things to different people, i.e. to investors and the layperson and why appreciating how a technical term that has taken on a more general meaning in common language can have implications depending on what is being communicated to whom. On the one hand ESG is a tool that investors can use for risk management, on the other hand many people substitute the word "sustainability" with "ESG". We created a balance between the two contrasting perspectives, and tried to honour both, particularly with regards to the concept of materiality.

We described the complex ecosystem of actors in order to help people understand the 'acronym soup' of organisations working in this space, this included describing what actors perform what kind of role. We note that we are on a time continuum and that many observations relating to the current status quo, made halfway through 2022, may well be out of date by the end of the year, such is the pace of change in ESG and corporate reporting ecosystem.

An important finding that, again, relates to communication and common language issues, is the applied use of terminology, including by investors, the media and the layperson. The term climate change is commonly interchangeably used in place of the letter E, and the letter S is commonly used as if it were a single thing. Climate change is an issue under the category of E, and S is a category under which there are many sub-issues. The implication is that when people point to the progress made in addressing climate change and ask how this can be replicated for S, it is not helpful. The language we collectively use should be more aligned with how lessons can be learned from climate change and applied to social issues like systemic inequalities, or poverty, or wellbeing etc.

Throughout the research we were struck by the number of people, from large and small businesses, simply wanting to learn more about "the S" in layman's terms, and to know where to start. In Part Two, we focused more on the Social element in ESG and took a practical approach to describe why an organisation should care about their social impact, and then listed ways in which they can actively engage with social impact using existing tools and frameworks. We have provided a 'cheat sheet' of recommendations specifically for businesses in Annex 3.

In Part Three, we described how business partnerships with civil society organisations can create win-win-win opportunities for businesses, civil society organisations and for society itself. We heard from several interviewees from charities that they had needed to adapt their organisations to receive more relationship-oriented partnerships from the more traditional transactional kind, but it was worth the effort. Some of the strongest opportunities that relate to creating better outcomes for society are civil society-led initiatives that target businesses. They help to drive a dual outcome of 1) more partnerships between businesses and civil society, which would benefit both, and 2) more businesses intentionally focusing on social issues.

There are significant opportunities for the growing momentum behind the ESG agenda to drive up business engagement with civil society organisations, along the whole spectrum of approaches from philanthropic giving to deep partnerships. In order to realise this potential, we find that there are three areas where civil society could co-ordinate to drive change.

Firstly, That civil society could coordinate and coalesce, to drive progress on one or more systemic social issues. They can take inspiration from the the climate change agenda, such as the need for: consensus building, measurable and time bound targets, utilising the power of financial markets, disclosures and transparency. Example systemic issues that could be coalesced around could the eradication of poverty, the improvement of wellbeing, or addressing inequalities. Progress is already being made with the Task force for Inequality-related Financial Disclosures.

Second, that existing voluntary reporting standards and disclosure platforms, such as the Workforce Disclosure Initiative and the Business for Societal Impact, are amplified. This could be achieved with an adoption campaign that is executed in coordination with investors.

Finally, that civil society actors seeking partnerships with business begin to adapt so that they can increasingly partner with organisations on a more relationship-oriented basis. Examples include, being able to accept pro-bono support and secondees or other embracing purposeful partnerships with business based on achieving shared outcomes with business.

Annex 1: Differences between two leading ESG aggregators

The following tables show the main, headline issues taken into account when creating ESG scorecards between two of the largest and most used ESG aggregators.

The MSCI ESG research's key issue hierarchy (Source: MSCI, The Evolution of ESG Investing)

Environmental	Social	Governance
Climate change	**Human capital**	**Corporate governance**
• Carbon emissions	• Labour management	• Board diversity
• Product carbon footprint	• Human capital development	• Executive pay
• Financing environmental impact	• Health and safety	• Ownership and control
• Climate change vulnerability	• Supply chain and labour standards	• Accounting
Natural resources	**Product liability**	**Corporate behaviour**
• Water stress	• Product safety and quality	• Business ethics
• Biodiversity and land use	• Chemical safety	• Anti-competitive practices
• Raw material sourcing	• Financial product support	• Tax transparency
Pollution and waste	• Privacy and data security	• Corruption and instability
• Toxic emissions and waste	• Responsible investment	• Financial system instability
• Packaging materials and waste	• Health and demographic risk	
• Electronic waste	**Stakeholder opposition**	
Environmental opportunities	• Controversial sourcing	
• Opportunities in clean tech	**Social opportunities**	
• Opportunities in green building	• Access to communication	
• Opportunities in renewable energy	• Access to finance	
	• Access to healthcare	
	• Opportunities in health and nutrition	

The S&P Global ESG scores (Source: S&P Global, ESG Scores)

Environmental	Social	Governance
• Biodiversity • Building materials • Climate strategy • Co-processing • Electricity generation • Environmental policy and management systems • Environmental reporting • Fuel efficiency • Genetically modified organisms • Low carbon strategy • Mineral waste management • Operational eco-efficiency • Packaging • Product stewardship • Par material sourcing • Recycling strategy • Resource conservation and resource efficiency • Sustainable forestry practices • Transmission and distribution • Water operations • Water related risks	• Addressing cost burden • Asset closure management • Corporate citizenship and philanthropy • Financial inclusion • Health outcome contribution • Human capital contribution • Human rights • Labour practice indicators • Local impact of business operations • Occupational health and safety • Partnerships towards sustainable healthcare • Passenger safety • Responsibility of content • Social impacts on communities • Social integration and regeneration • Social reporting • Stakeholder engagement • Strategy to improve access to drugs or products • Talent attraction and retention	• Anti crime policy and measures • Brand management • Codes of business conduct • Compliant with applicable export control regimes • Corporate governance • Customer relationship management • Efficiency • Energy mix • Financial stability and systemic risk • Fleet managementSamantha • Health and nutrition • Information security / cybersecurity and system availability • Innovation management • Market opportunities • Marketing practices • Materiality • Network reliability • Policy influence • Principles for sustainable insurance • Privacy protection • Reliability • Risk and crisis management • Strategy for emerging markets • Supply chain management • Sustainable construction • Sustainable finance • Water related risks

Annex 2: The richest global entities in 2017

In 2017, 69 of the richest 100 entities on the planet are corporations, not governments

Rank	Name	Revenue ($ Bn)
1	United States	3,336
2	China	2,591
3	Japan	1,678
4	Germany	1,598
5	France	1,446
6	United Kingdom	984
7	Italy	884
8	Brazil	819
9	Canada	624
10	Walmart	500
11	Spain	492
12	Australia	461
13	State Grid	349
14	Netherlands	345
15	Sinopec Group	327
16	China National Petroleum	326
17	Korea, South	318
18	Royal Dutch Shell	312
19	Mexico	293
20	Sweden	275
21	Toyota Motor	265
22	Volkswagen	260
23	Russia	254
24	Belgium	250
25	BP	245
26	Exxon Mobil	244
27	Berkshire Hathaway	242
28	India	229
29	Apple	229
30	Switzerland	224
31	Norway	214
32	Samsung Electronics	212
33	McKesson	208
34	Glencore	205
35	UnitedHealth Group	201
36	Austria	195
37	Saudi Arabia	186
38	Daimler	185
39	CVS Health	185
40	Amazon.com	178
41	Turkey	174
42	Indonesia	174
43	Denmark	174
44	EXOR Group	162
45	AT&T	161
46	General Motors	157
47	Ford Motor	157
48	China State Construction Engineering	156
49	Hon Hai Precision Industry	155
50	AmerisourceBergen	153
51	Industrial & Commercial Bank of China	153
52	AXA	149
53	Total	149
54	Ping An Insurance	144
55	Honda Motor	139
56	China Construction Bank	139
57	Trafigura Group	136
58	Chevron	135
59	Cardinal Health	130
60	Costco	129
61	SAIC Motor	129
62	Verizon	126
63	Allianz	124
64	Argentina	123
65	Kroger	123
66	Agricultural Bank of China	122
67	General Electric	122
68	China Life Insurance	120
69	Walgreens Boots Alliance	118
70	BNP Paribas	117
71	Japan Post Holdings	117
72	Bank of China	115
73	JPMorgan Chase & Co.	114
74	Fannie Mae	112
75	Gazprom	112
76	Prudential	111
77	BMW Group	111
78	Alphabet	111
79	China Mobile Communications	110
80	Nissan Motor	108
81	Nippon Telegraph & Telephone	107
82	China Railway Engineering Group	103
83	Home Depot	101
84	China Railway Construction	101
85	Assicurazioni Generali	101
86	Bank of America Corp.	100
87	Express Scripts Holding	100
88	Wells Fargo	98
89	Greece	95
90	Lukoil	94
91	Boeing	93
92	Dongfeng Motor	93
93	Taiwan	93
94	Portugal	93
95	Israel	93
96	South Africa	92
97	Siemens	92
98	Phillips 66	92
99	Carrefour	91
100	Nestle	91

Source: Global Justice Network, Oct 2018, 69 of the richest 100 entities on the planet are corporations, not governments - Data comes from the CIA World Factbook (2017) and Fortune 500 (2017)

Annex 3: Recommendations for a business embracing social impact

To summarise the briefing paper for a business wanting to improve their social impact could take, we list a set of actionable recommendations. Here, we draw extensively from the community of people we interviewed and attempt to pool their collective wisdom.

KEEP AN EYE ON UPCOMING REGULATION, ACCOUNTING STANDARDS, AND BROADER TRENDS

Very soon through ISSB, there will be a minimum standard for reporting social impacts, which will flow down into UK regulation. To differing degrees this will also likely happen in Europe and the US following their respective consultations. Public procurement in the UK will further drive social value as will the investment community.

BEGIN AT THE END

Ask yourselves as an organisation, what is the change that you would like to see different in five to ten (or more) years' time. Then think about how the capabilities in your organisation might be able to help with that.

FORM PARTNERSHIPS WITH INTENT

Consider how long-term partnerships with civil society organisations can be mutually beneficial, where partners and resources are aligned to achieve common goals with long-term commitments.

LISTEN TO THE COMMUNITY

Don't come along with preconceived ideas of how you can help. Find community groups and listen to what they need. Over time, build this activity into what you do as a business, this way, you are symbiotically linked. A successful and healthy community supports a successful and healthy organisation.

THINK LOCAL, WITH THE BIG PICTURE IN MIND

It's easier to start and have an impact when focusing on the community right outside your front door rather than on nebulous global initiatives. But global frameworks like the SDGs can help to shape goals and targets.

ENGAGE YOUR WORKFORCE

Understand whether and how their passions match the community needs. Consider offering their time and passion to causes they believe in. It can be an effective way to develop employee satisfaction.

TAKE IT SERIOUSLY

Organisations that are successful in this space devote board-level time to setting strategy, reviewing progress, and understanding how their organisations can add further value. This used to be a CSR department's area but now it's on the board table. Boards can also require education and support, so start thinking about the variety of tools and techniques you can use to accomplish this.

START THINKING ABOUT DATA COLLECTION AND DIGITISATION FROM THE START

Currently, reporting can be very manual on this topic, which can create a barrier to disclosing activities and progress. Develop the skills and systems you need. Look at the standards that already exist instead of trying to reinvent.

ACKNOWLEDGEMENTS

The lead author for this report was Harry Brown at ReGenerate. We would like to extend our gratitude to Angela Fox, Head of Sustainability for Q5 for her invaluable support with stakeholder interviews, concept development, editing and overall energy through the project, and to Charles Ash at Schroders additional research support.

We would also like to thank all of the people who participated in our interviews, including:

Andrew Ciafardini (FIS), Andrew Young (MSCI), Andy Brown (Anglian Water), Anna Russell (Bupa), Barbara Weber (Amnesty International), Carmel McQuaid (Marks and Spencer), Charlotte Hesp (CityFibre), Christian Toennesen (Selfridges Group), Claire Butler (Deloitte), Diane Lightfoot & Angela Matthews (Business Disability Forum), Georgina Awoonor-Gordon (Vision Foundation), Hannah Roberts (EcoVadis), Ida Levine (Impact Investing Institute), Jacob Ayre (Wesleyan), Jay Mukhey (Finastra), Jo Fackler (Impact Management Platform), Kate Willoughby (Intercontinental Hotel Group), Kirsty Lawson (NSPCC), Louise Woodruff (Joseph Rowntree Foundation), Lucy Chadwick (Global Infrastructure Partners), Madeleine Cobb (Schroders), Magid El-Amin (Catch 22), Matthew Parr & Samantha Freelove (Tideway), Social Value Portal, Nilesh Dosa (icanyoucantoo), Paul Dickinson (CDP), Renata Kostrzewa (BP Pension Trustees Limited), Samantha Reyes Ronso (Charities Aid Foundation), Sarah Rial & Paul DiMambro (East West Rail), Simon Rawson (ShareAction / Workforce Disclosure Initiative), Sostine Makunja (Save the Children), Stephanie Burras CBE (Ahead Partnership), Tom Harding (Aldermore Bank), Dr. Victoria Hurth (Independent academic and consultant)

This report was commissioned and funded by the Law Family Commission on Civil Society, run by Pro Bono Economics.

REGENERATE