„CSR impact

Practitioners Handbook

From **CSR** to **CIAM**:
Corporate Impact Assessment and Management

An Illustrative Guide for Executives, Managers and Enterprise Stakeholders Seeking to Enhance the Positive Impacts of Responsible Business in Society

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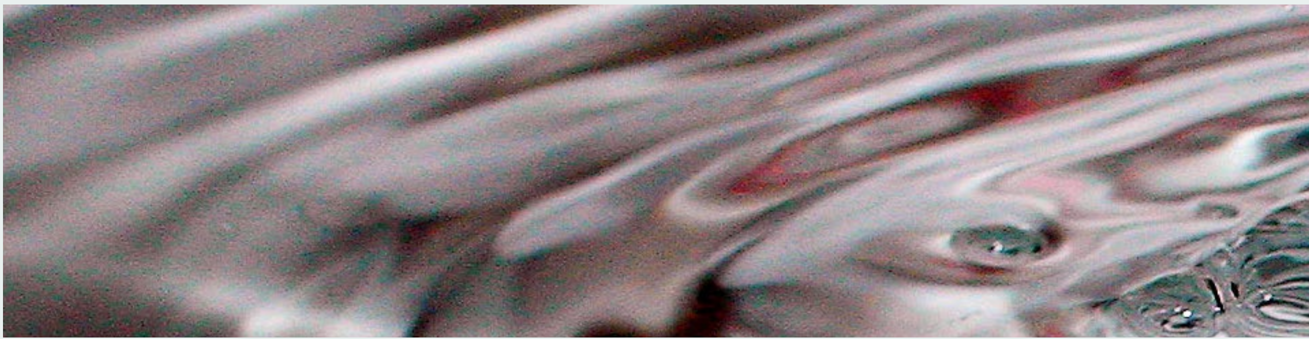


> If we – the company – commit to a certain course or set of decisions and actions, what effects on environment and society at large – positive and negative, intended and unintended – will they have and how can we improve them?

Phases

Phases

Conclusions

By Viscount Etienne Davignon Minister of State

Former Vice President, European Commission
Vice Chairman, GDF Suez-Tractebel
Chairman of the Supervisory Board, ABIS – The Academy of Business in Society

Foreword

I am pleased to contribute this foreword to the Managers Guidebook for the IMPACT Project, a key output from one of the more ambitious and challenging research initiatives which the European Commission has supported in recent years. Having encouraged the advancement of corporate responsibility in European industry, policy-making, research and education for almost two decades, I am persuaded that the insights generated by IMPACT can initiate a new debate on how companies manage their responsibilities, externalities and opportunities in the years to come.

I would first like to congratulate the IMPACT research consortium, led by the Oeko-Institut and supported by ABIS – The Academy of Business in Society, for having completed this ambitious project. The scale and scope of their inquiry have surpassed anything done before in the field of CSR research, and they have generated a wide range of insights and recommendations which merit the consideration of business leaders, policy makers and a wider community of enterprise stakeholders.

The first observation I would like to make is that it was a very good decision on the part of the European Commission to convene research which would try to rationalize what we know and what we do not know about CSR, its impact inside enterprises, and the impact that enterprises have on society at large.

One of the most interesting aspects of the IMPACT Project was that we did not really know at the start what the outcomes and conclusions would be. There are many studies which have been done whose value stems from their confirmation of a collective feeling or intuition about the state of the art in a specific field of practice or knowledge, and from the way in which they rationalize it and create an organized structure in which to present the evidence.

In the case of IMPACT, the central research topic was of a general nature, which made it far more difficult to assess accurately and in depth what is pertinent, and what is the impact of what is pertinent. Given that CSR is a domain which deals with society, the attitude of business towards society, and the reaction of the society towards business, we have by nature a moving target – and by extension something which changes constantly, as the development of the issues and fundamental research questions are also of a different type.

If we go back in time, CSR as a field of practice emerged because of the necessity to define better the position that business had towards larger interests – the interests of society – and how companies understood their role in society, beyond the strict framework of what its activities were and how they affected the business itself, its employees and clients, and other stakeholders. Hence, the IMPACT study is in my view very interesting and raises more questions than it gives answers. This in itself is not abnormal; the intrinsic value lies in the fact that its findings oblige us to think again about a topic of high material relevance in Europe and elsewhere today.

When I consider the evolution of CSR, alongside the evidence produced by IMPACT, three points stand out. The first is that it is clear that the concept of the responsibility of business beyond its own shareholders and employees has now become universally relevant. The “prise de conscience”, or realisation, of the necessity to deal with major societal issues is now, by and large, embedded in companies. One could then believe that this being the case, the major part of the work has been achieved. Nonetheless, while this may be true, there are still critical questions to be answered about how these issues shape and influence enterprise strategy. IMPACT has observed that the consciousness of the necessity to deal with such issues is in place, but it remains in my view unclear how much they affect the real strategic decisions of companies today.

In this sense, we have a paradox. On one side, there is important change which has occurred in recent years; on the other side, there is uncertainty about how much the element of preoccupation for society plays a role in the strategic development of the companies themselves and how this can be measured. The IMPACT research provides a great deal of substance to inform public debate around this – and in particular how to balance optimism, due to the change of mentality which has occurred, with a degree of pessimism, because we do not yet fully understand how important this consciousness inside businesses is really affecting strategic thinking and is being integrated into the most significant elements of management.

Formulating this question brings me to my second point – which is that the relevance of business in society has increased exponentially beyond traditional social impacts. It now incorporates considerations for the environment, as well as issues linked to growth of a fundamental nature. The CSR compass has become greater and deals with many more topics than it did in the past. The start of our preoccupation with CSR in Europe was to address social exclusion; the debate today is how mature and new enterprises position themselves vis-à-vis the great challenges facing our developed societies and economies.

The need to assess what has to be done, how it can be done better, and what societal value is created – both positive and negative – by business, is perhaps the main priority to emerge from the IMPACT research. It is always very complicated to measure impact, and this leads me to my third and final observation, which concerns the measurement of impact when it has to do with non-material elements. It is relatively easy to measure an impact if the analysis focuses on the consequences for a line of production, the volume of waste produced, and so forth. Managers have the factual elements and quantitative data which allow them to have a clear assessment of the situation, and the overall impact of their firm’s activities on environment and society.

However, when we are managing issues where human judgment is part of the assessment, the facts will not give us the precise answers that we are looking for, which leads us to ask what is the methodology to use to measure these non-quantifiable elements? These are all of the questions that we have to answer going forward, supported and informed by the work of the IMPACT consortium.

In conclusion, if we collectively believe that the global concept of the responsibility of businesses in society has ongoing relevance, it is logical that from time to time we revisit the fundamental issue to see if the priorities we have are right, and to ask whether the capacity to demonstrate that the priorities are right is in place. This will be a tough challenge for European industry, policy and research to confront together in the years to come. Be that as it may, the IMPACT study clearly underlines the importance of doing so, given the materiality of said issues to the future wellbeing of the European economy, society and environment.

Viscount Etienne Davignon

Introduction to the Practitioner Handbook

More than three years of high-level research in the IMPACT study has created an enormous amount of new data, insights and knowledge – official deliverable reports alone counted about thirty different documents. Ultimately, though, the objective of European Union research funding is to see evidence-backed research outputs be translated into action that aims at delivering positive change in the economy and in society at large, including environmental considerations.

As such, at the end of major research projects such as IMPACT, the crucial question always is: What does this now mean for practitioners? (NOTE: In the context of this our study, "practitioner" means managers in large companies and SMEs and their stakeholders as well as policy makers – even though the focus of this handbook is on the first two mentioned.)

To that end, we have created the following Handbook in the hope that it will support the acceleration of impact thinking, logic, methods and approaches within companies, in line with a more strategic alignment and transformation of CSR inside the firm.

The Handbook is divided into two main sections:

I. A short strategy guide for company owners, executives and managers to place corporate impact assessment and management in the wider business context.
II. A more detailed explanation of CIAM from a managerial perspective, and a proposed 10 step methodology to embed CIAM into day-to-day business.

We should explain up front that this publication will not present general or detailed findings and recommendations from IMPACT. This has been done in the Executive Summary, which is available on the project's website: www.csr-impact.eu. Detailed findings from the individual work packages can also be found in the reports published online – just follow the links via our homepage.

By extension, in the forthcoming months a general management book containing a structured collection of more detailed findings will be published, courtesy of our colleagues at the University of Vienna.

As such, the scientific findings of IMPACT will only be presented in the following pages if there is a direct implication towards action and how to act. The fundamental aim of this Handbook is to support companies – if small or large – with their CSR engagement. Or even more precise: to help them to become more sustainable.

Main Objectives

One of the main obstacles for companies to be more sustainable we found in IMPACT is linked to the complexity of the task at hand which calls for a systematic and logic approach on managing corporate impacts. The same can be said for measuring corporate impacts. So far a systematic, logic and comparable approach has not been implemented.

With this Handbook we want to support companies which seek to establish impact assessment and management inside the firm in tackling some essential questions:

> **How to identify the adequate sustainability issues to tackle?**

> **How to identify pathways of impact the company has on them?**

> **How to decide what to do, which activity to implement, for improving corporate impacts on the issue?**

> **How to track and measure company internal changes due to the implementation of activities?**

> **How to track and measure effects for society (including social and environmental effects of the company) due to the implementation of activities?**

One tangible way in which we aim to do this is through a grounded methodology which we call Corporate Impact Assessment & Management (CIAM). CIAM combines established mechanisms of management systems and new elements specifically designed to manage and measure corporate impacts.

Within the process of CIAM we distinguish five phases and ten steps (as part of the phases). This is explained in greater detail in Part II of the Handbook. However, we should be clear from the beginning that we have not tried to, nor do we claim to have reinvented the wheel!

Many of the suggestions and approaches embedded in CIAM are more or less well known and can be found in other management approaches as well. We do not expect companies to depart radically from current practice – or from a base of what they are capable of doing.

On the other hand this does not mean there would be nothing new in CIAM. We believe that there is – in particular the underlying logic behind it, which was rarely identified during our empirical work. We recognise that many companies may struggle to action all of CIAM's 10 steps at once, not least SMEs with fewer resources. To that end, we have added boxes specifically aiming at SMEs which show that it actually is possible to use CIAM in smaller companies.

Finally, from the perspective of the IMPACT research team, it will be far more valuable going forward if companies understand the principal logic of CIAM and its objectives. This implies that they will perhaps seek to follow the steps we propose – or alternatively develop their own solutions. The most important change will be placing impact assessment and management at the heart of enterprise thinking, decision-taking and acting.

” Only a few years ago managers as well as economists considered the social dimension so intangible that performance objectives could not be set. We have now learned that the intangible can become very tangible indeed. Lessons we have learned from the rise of consumerism, or from the attacks on industry for the destruction of the environment, are expensive ways for us to realize that business needs to think through its impacts and its responsibilities and to test objectives for both (...)

Peter F. Drucker[1]

1 *Peter F. Drucker, Management: Tasks, Responsibilities, Practice, pp. 113, William Heinemann Ltd, 1974*

Key Definitions

It is worth pausing here to explain our understanding of a few central terms.

As such, readers are encouraged to keep the following explanations in mind as they continue through the Guidebook:

1. Corporate Social Responsibility

The IMPACT study adopts the broad 2001 EU definition of CSR: *"a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis. It is about enterprises deciding to go beyond the minimum legal requirements and obligations stemming from collective agreements in order to address societal needs."*[2]

We interpret the word "social" relatively broadly by including the social impacts of companies' economic and political behaviour and we use the term "ecological" to capture business impacts on the natural environment. In both the social and the ecological spheres our research lens includes effects "up" and "down" the supply chain, including via suppliers, customers and consumers.

Within the project duration, the EU definition of CSR changed[3]; the IMPACT assumption of CSR however, was not changed accordingly. This mainly was because when the EU changed the definition in 2011, the empirical phase of the project already started and this would have meant to change the subject of research during analysis.

This ultimately means, whenever the term CSR is used related to IMPACT, it is about voluntary activities directed towards sustainability. Mere compliance is not part of this concept. However, it is worth mentioning that not only such activities have been assumed as CSR which companies call or perceive as CSR (and which are dealt with within CSR departments).

The researchers themselves evaluated whether activities mentioned by companies actually are CSR or not – based on the criteria: Does an activity purely fulfil government regulations (compliance) or does it exceed compliance and can thus be treated as voluntary action (CSR)?

2 *Green Paper on Corporate Social Responsibility, (COM (2001) 366), European Commission*

3 *A Renewed EU Strategy for Corporate Social Responsibility, (COM (2011) 681), European Commission*

2. Performance, Outputs, Outcomes and Impacts

Throughout the IMPACT project, one of the key issues which confronted the research team was linked to definitions and people's understanding and application of them in different institutional contexts. Perhaps the most obvious example is with regard to **performance versus impacts** – a source of great confusion among many of the managers interviewed or surveyed.

IMPACT uses three key terms to underpin the conceptual framework: **Performance, Outcomes and Impacts**.

"**Performance**" is defined as company internal process which transforms the motivation and commitment to tackle sustainability issues perceived as relevant and important (perception, motivation, commitment can be summarised as "Response") into company internal changes. Performance itself can be split up into three individual but linked steps:

The company has to decide what exactly to do, agree on programmes of activities and policies ("**Outputs**"), and finally implement ("**Implementation**") concrete activities (which include allocating financial resources and personnel to them). Those hopefully create change within the company ("**Outcomes**") and, even more important, for society ("**Impacts**").

Thus, impact is the last of several interlinked steps and finally is located on level of society. It can be explained as social, economic or environmental effects of something (an activity, project, operation etc.). In relation to companies impact is conceptualized as being external to the company (whereas internal changes are performance in general or more precisely outcomes).

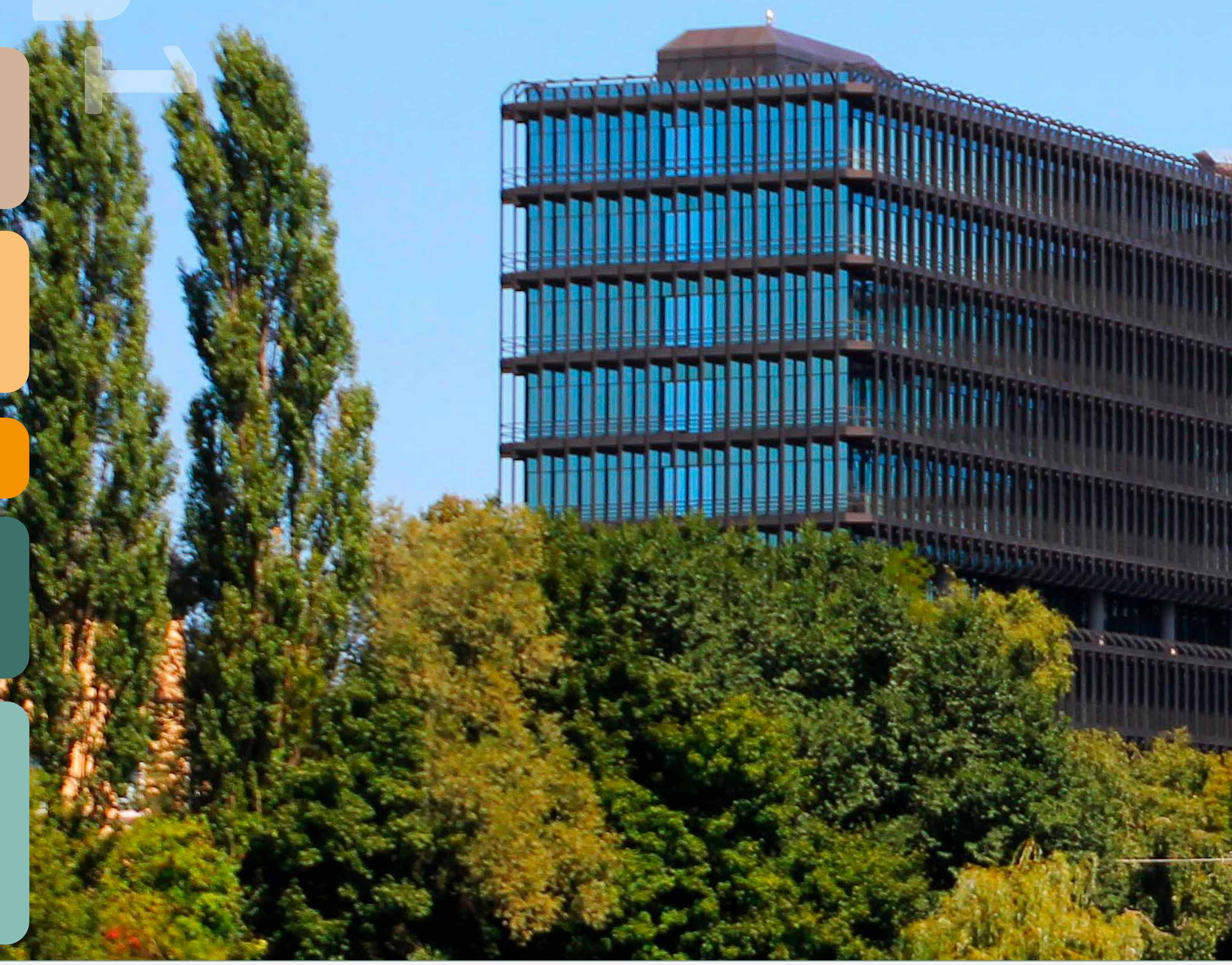
It should be kept in mind, that not only companies and not only voluntary activities create impacts: all actors and all types of activities have impacts. Therefore, when evaluating impacts of an individual company, it is especially important trying to create causality between a company's response to specific issues, company internal changes and finally impacts.

IMPACT especially focused on the link between **Outcomes** on company level and **Impacts** on level of society (within the areas of environment, quality of jobs, and economy). However, it also collected information for and analysed relationships between all the other steps of this process.

The critical importance of doing so was that data collection limited to outcomes and impacts – while ignoring the other steps – would not allow the IMPACT team to create a complete picture of what happens when companies are doing CSR. Additionally, to create causality it is necessary to be able to follow the whole chain from perception of TIEs to impacts, with a special focus on the implementation of certain CSR activities, and what outcomes and impacts they create.

Section 1:

A Strategy Guide to Corporate Impact Assessment and Management



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About the IMPACT Study

In the summer of 2008, the European Commission publicly invited[4] the European scientific community to propose ground-breaking research designs which would empirically assess:

...how corporate social responsibility [henceforth "CSR"] is, in practice, beneficial to the Lisbon and Gothenburg objectives and favours the development of better methodologies and tools to measure the impact of CSR activities at different levels:

> *At company level, addressing motivations to take up CSR activities by companies and reasons for differences in CSR performance across companies, also in the SME sector, including the link between CSR and innovation;*

> *At European, regional or sectoral levels, through comparisons of regions or business sectors where CSR strategies are deployed and have different impacts on growth, competitiveness, quality of jobs and sustainable development.*

The following year, a consortium of 17 partners, led by the Oeko-Institut in Germany and supported by ABIS – The Academy of Business in Society, was selected to deliver the IMPACT study ("Impact Measurement and Performance Analysis of CSR"), supported by Euro 2.6 million in funding from the EU's 7th Framework Programme.

IMPACT has been the first systematic attempt to assess and measure the contribution of CSR to the social, economic and environmental goals of the European Union. The main questions addressed in the study were:

> **What benefits and impacts does CSR actually bring beyond company borders to the economy and society at large?**

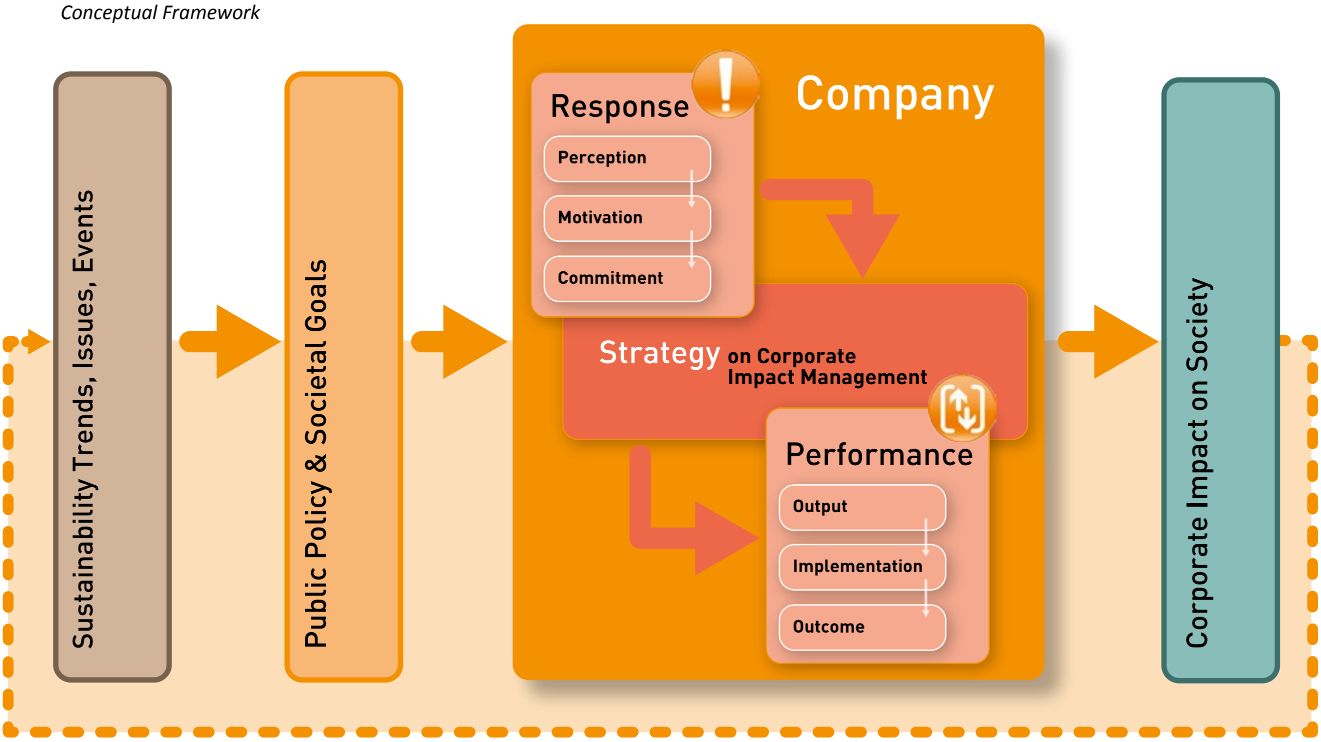
> **How can all stakeholders – but in particular managers inside companies – better measure and evaluate the impacts arising from CSR?**

> **What does this mean for smart mixes of public policies and corporate strategy?**

4 *Work Programme 2009, Cooperation Theme 8: Socio Economic Sciences and Humanities, C(2008)4598 of 28 August 2008, European Commission*

IMPACT grounded the design and delivery of its exploration of these questions in the following conceptual framework:

Corporate Impact Assessment and Management (CIAM) Conceptual Framework



In essence, the study sought to identify and analyse what companies – MNCs as well as SMEs – are currently doing to assess and measure their real impacts on society, in response to changes in their business context, and in particular through their CSR programmes and organisational units within which these are developed and delivered.

The project team also conducted in-depth case studies and analyses of nineteen multinational companies and five CSR-focused networks & partnerships across five specific industry sectors:

The project team also conducted in-depth case studies and analyses of nineteen multinational companies and five CSR-focused networks & partnerships across five specific industry sectors

- Automotive
- Retail
- Construction
- Information & Communication Technologies
- Textile (Garment)

Overall, the IMPACT study gathered an unprecedented amount of data to inform its analysis, including but not limited to: over 5,000 survey responses (mostly SMEs), data for 212 large companies drawn from Sustainalytics, 14,000 observation points of companies from Asset4; 2,000 company profiles (again, mainly SMEs) from Mannheim Innovation Panel ("MIP") supplemented with data from IMPACT-led telephone interviews; and online consultation with over 500 CSR and sector experts across Europe.

The "Big Picture" Outcomes

We have found little empirical evidence which explains in depth the concrete impacts of CSR activities and programmes on the social, environmental and economic performance of companies, the wider economy, or the social and environmental fabric of Europe, its nations and regions.

By implication, we should then question whether the aggregate CSR activities of European companies in the past decade have made a significant contribution to the achievement of the broader policy goals of the European Union.

Over the course of the IMPACT study, we gathered evidence which support the following headlines and core insights:

> **Companies of all sizes indicate that "doing CSR" is a strategic priority for them.**

> **However, in many companies, CSR policies and programmes over time have frequently addressed a set of sub-strategic issues and concerns.**

> **If and when these issues become critical to the company, they become part of "strategy" and receive strategic-level attention (i. e., no longer the responsibility of CSR departments).**

> **As a result, if the issues addressed by companies are not fully integrated with business strategy, companies are less likely to make a significant contribute (through them) to the achievement of major societal goals – as defined by public policy or by the company itself.**

> **By extension, it is unlikely that companies will have reliable and standardised systems, metrics and methods in place for managers to track and assess the real outcomes and impacts of CSR policies and programmes for society and environment.**

During the IMPACT study, the European Commission reworked its previous definition for CSR[5], positioning it going forward as *"...the responsibility of enterprises for their impacts on society..."*. While our research was obliged to continue with the previous definition, this shift changes the entire landscape for CSR and expectations for business in the years to come around our findings.

More specifically, it seems clear that CSR in practice will need to be oriented towards major societal challenges in the business context which require strategic responses. In parallel, it will need to be firmly grounded in robust approaches to impact assessment and management. This implies a closer and deeper integration strategic planning and into organisational mindsets and culture.

CSR impact assessment and management systems will thus become a type of "strategic commitment" made by companies. They will require some kind of measurement approach – and certainly the commitment of decision-makers (executives and managers) and decision-takers (analysts and data-gatherers) to those metrics and the integration of impact measurement into the central, standard information systems of the company. Thus a firm can adjust its thinking and practices in light of performance and impact.

5 *Idem COM (2011) 681*

Implications for Business Strategy

Here below we present twelve key statements generated from the research synthesis, supported by what we see as the fundamental implications for business strategy:

I. **Companies of all sizes perceive CSR as essential**

__Implication__ = European companies, both large and small, have clearly understood that environmental, social and governance issues cannot, or can no longer be ignored in the process of running the daily business. An active response is increasingly important for reputation management, customer and client loyalty, and employee motivation, among others. The challenge going forward is to translate current activities – which are often fragmented and on sub-strategic issues – into an active concern for impact assessment.

II. **There is no clear business case for all-encompassing CSR – it depends on the issue**

__Implication__ = there is no clear overall picture regarding relationships between CSR and the economic results of companies. The economic results are issue-dependent and they differ depending on the economic dimension that is being considered. When CSR issues are combined, economic results are neutral; whereas when different CSR variables are considered one at a time, there are positive and negative relationships.
The study suggests a couple of insights in this regard: first, that it does not make sense to create CSR programmes and activities consisting of multiple issues, and then seek to assess the effect which that programme has on economic performance; second, that it is preferable to try to measure the economic effects of activity around single issues; and third, that tracing the relationship between CSR activities and the overall economic performance of the company is exceedingly hard to do given the number of individual issues involved.

III. **Most companies see the vast majority of sustainability issues as relevant, but do not act on all of them**

__Implication__ = this requires a strategic commitment to action, based on an impact assessment system which must be linked to a coherent management structure if it is to become operational and effective.

IV. **Impact thinking is relatively poorly developed in companies and other organisations**

__Implication__ = this implies a fundamental need to advance impact thinking through education and training, both within companies and through providers such as business schools and consultancies, in order for it to be translated into effective management practice.

V. **There is scant evidence of standardised and accepted methods and tools to measure pathways of impact**

__Implication__ = in the absence of standardised methods and tools, and given the complexity of mapping impact pathways around corporate activities, companies and managers either do not act to do so or act in ways that are inconsistent. As impact assessment becomes part of societal expectations, companies will need to develop this strategic capability – both through mindsets and methods.

VI. Management processes and quality matter

__Implication__ = the companies that make most progress on CSR – whether linked or not to sustainable development – tend to have a strong commitment to management processes and / or quality assurance. This appears to be a pre-cursor to the adoption of impact thinking and the assessment and management approaches which such thinking requires.

VII. **Company size, region and sector can be significant factors in the context of CSR practice and performance**

__Implication__ = organisational CSR policies and programmes should reflect issues linked to core business models in a sector, and / or cultural and regulatory factors in a given operating environment. In the main, however, the IMPACT study has observed that current practices do not consistently do so, nor are they backed by commitments to develop and embed impact assessment and measurement tools, techniques and logic inside the firm.

VIII. **Drivers for CSR performance vary**

__Implication__ = while there is evidence that intrinsic commitment to CSR is a strong motivator of company performance, especially in SMEs, that needs to be supported by impact assessment and measurement systems.

IX. **CSR can improve company outcomes and impacts on environmental and quality of jobs (QoJ) issues – but this does not equate to the impact of a company on society**

__Implication__ = IMPACT found clear evidence for SMEs that the implementation of CSR activities leads to improvements of environmental & QoJ performance and outcomes – mainly through voluntary actions. Yet, while CSR appeared to offer potential impacts in many societal and environmental areas, what mattered more in terms of impact depended on the company, its business context, and management's current and past concerns.
In summary, CSR brings about some positive results for society and can be a useful tool for improving environmental & QoJ outcomes & impacts of companies. There are clear positive trends for SMEs and some support, although no clear validation for all issues, for large companies. However, the impacts that are attributable directly to what might be labelled CSR practices or activities seem relatively minor when compared to the overall impact a company has on society.

X. **CSR in public policy is not seen as having high relevance for companies**

__Implication__ = companies are largely indifferent to – or unaware of – public policy interests around CSR. The IMPACT study suggests that the emphasis of public policy might well (need to) shift from an emphasis on promoting CSR activities by companies to promoting impact assessment and measurement as a standard operating practice for enterprises of all sizes.
Importantly, this includes all impacts arising from company activities, not just those termed "CSR". This represents a potential opportunity for business to engage more proactively with public policy bodies on efficient, effective ways in which to do this.

XI. **Regulation and CSR are not necessarily seen as being in conflict**

__Implication__ = it is quite conceivable that regulations requiring a certain company performance in or regulation which requires impact assessments to be reported can co-exist with voluntary CSR activities, either within established reporting frameworks and guidelines, or through a new mechanism to be developed with the backing of public policy, enterprise and other key stakeholders.

XII. **The importance of sectors and CSR is expected to grow in the future**

__Implication__ = looking into the medium and longer term future, it seems inevitable that the demands for more sustainable forms of business and society will continue to grow. Materiality is likely to be a critical influence on new and improved approaches in companies. This implies a greater concern for issues which have a direct effect on core business models in industry sectors, including new developments in the regulatory and policy domains.
As such, if CSR continues to be seen as a framework for managing enterprise contributions to sustainable development, companies will need to integrate industry-specific thinking into their strategy and approaches. Traditional rivals and competitors will need to consider "unusual alliances" to drive progress, and to engage more strategically with governments and civil society agencies. In this light, industry associations may become key vehicles to raise standards and improve the existing "rules of the game", although good case studies of this happening are elusive.

The Future Value of Impact Assessment & Management

Nowadays, and especially since the financial crisis, sustainable business is gaining currency within the business community. When one asks managers what they mean with this term, they often refer to ideas such as a "lasting business", built on "long-term value creation", inclusive of "stakeholder interests", supported by "trust and legitimacy", with "respected and reliable products and services", with "high standards in production, supply and distribution chains", "responsive to societal expectations and context requirements", and a "stable financial model" which is "resilient to stock market fluctuations and short-term financial concerns".

From our perspective **sustainable business means to consider and take care of a company's or business' impacts**. When comparing how CEOs and managers currently look at sustainability and what this actually means for business, we can observe the following:

I. CEOs and managers take a firm-centric approach rather than looking at the consequences for systems.

II. The latter approach does however look at sustainable business from an integrated point of view. This means it overcomes the "separation thesis" between business on the one hand and society, with its ESG- and ethics-related concerns, on the other.

III. This implies addressing negative and fostering positive impacts and – ultimately – the development of sustainable products and services as such (from a perspective of customer and market expectations, as well as from a broader range of stakeholders) and a search for sustainable business models, sustainable financial models, etc.

IV. Environmental, social and governance (ESG) concerns are complemented by ethical concerns, which may be part of ESG but get specific attention as "managing ethical dilemmas".

But sustainable business is not only beneficial for society. In this sense, sustainable business is more responsive to the demands and challenges of markets and societies (erroneously called the "non-market environment" in some strategy literature) than previous views of business:

> It sets out to optimise competitiveness as well as securing legitimacy and mutually beneficial relationships with key stakeholders by constantly adapting and renewing the company's value propositions through its portfolio of products & services, brand positioning and communications;

> It also pays attention to the long-term shifts in the political, social and ecological environment on which the company depends for its resources;

> It is concerned about its reputational capital and the trust (social capital);

> It needs to keep transaction costs low and to benefit from a favourable licence to operate.

Central to the management of sustainable business is the notion of knowing and managing the impacts of the company. Thus, the final aim is clearly not about managing internal processes or results, but the management and governance of social, environmental and economic impacts of business on the societies and places in which they operate and do business. The objective here is to understand those impacts and then:

> **To reduce negative impacts on society and the environment**

> **To enhance and promote positive impacts on society, the environment and the economy as part of corporate value creation**

Both processes are confronted with the challenges of managing conflicting priorities, objectives, trade-offs and innovative breakthroughs which advance real shared value between business and society. Both approaches are fraught with conceptual and practical problems because companies and their managers have until now rarely been asked to take responsibility for the impacts they have on society and the environment within which they operate.

In the second part of this guidebook, we examine some of those broad conceptual and practical problems. Then we will go on to describe a structured methodology which the IMPACT study has generated – Corporate Impact Assessment and Management (CIAM) – that companies may consider using to structure their organisational approach.

High-Level Conclusions

As signalled by the European Commission's 2011 redefinition of CSR[6], a major shift is under way. CSR is no longer defined as a purely voluntary company activity, largely free from public scrutiny. In parallel, there is increased attention being paid by European policy makers to the international and global dimensions and impacts of "responsible" business activity, such as human rights, sourcing, non-financial disclosure, trade agreements, and more.

6 *Idem COM (2011) 681*

Across the board, the trend appears to be towards **the development and dissemination of impact assessment, measurement and management tools and techniques**.

There are clear generic principles underlying this about impact thinking, impact logic, and the ways in which impacts unfold through human and natural systems. While the specific areas of impact of interest to companies may well differ due to assorted sector-based, regional, legal and / or cultural factors, these generic aspects of impact thinking and impact logic also require **significant development and dissemination**. Without this, there is a clear risk that CSR will not be fully aligned with business strategy in many companies, and therefore less relevant to the economic, social and environmental interests of European society.

The old management adage holds that "you can only manage what you measure". In light of the Commission's new policy intentions around CSR, we can add another: ***"It is not possible to be a 'responsible' company unless you know the impacts of your activities on crucial economic, social and environmental issues in your business context."*** In other words, impact thinking and the methodologies which go with it are a fundamental requirement for accountability, without which responsibility remains something of a chimera!

Beyond this, in IMPACT we have observed various types of business performance in economic, social and environmental arenas and in different sectors. These range from very good to poor.

We suggest that well-run companies – ones which are open and alert to changes in their operating contexts – tend to make and implement strategic commitments in response to those changes. They support these with measurement systems and by an organisational culture that emphasises learning. All things being equal, these better managed enterprises tend to deliver better performance.

As such, well-managed companies are likely to deliver more significant positive performance and impacts than other (less well-managed) companies. While we find that impact logic, measurement and performance is not well advanced, our view is that it cannot flourish without these organisational pre-conditions.

One of the main implications for public policy makers – and in particular the European Commission – must surely be that if they want companies to contribute to impacts in line with societal concerns, then they need to find ways to encourage firms to embrace impact thinking and logic, relevant techniques like impact pathway mapping and more.

We acknowledge that a lot of companies do attempt to gather and measure data linked to a range of their CSR programmes and activities – frequently through ISO standards, GRI reporting guidelines, sustainability indices such as Dow Jones, Sustainalytics, and others.

However, the critical step to measuring impact is usually not made, due to a variety of reasons related to complexity of attribution, lack of data, and so forth. The IMPACT findings point to the considerable capability gap that must be bridged if impact assessment and management are to catalyse a more positive contribution from companies to the sustainable development of Europe (and beyond). In other words:

> Overall, although IMPACT found some examples of impact measurement by companies, case studies showed that any systematic consideration of performance & impact would be regarded as best practice itself! ”

Section 2:

A Manager’s Guide to Corporate Impact Assessment and Management

Corporate Impact Assessment and Management (CIAM) – Why it matters

Contents

From CSR to CIAM

Drawing on the findings from IMPACT, and acknowledging the lack of existing standardised and accepted alternatives aiming in the same direction, the IMPACT team has developed a ten-step approach to identifying and tackling responsibility issues and impact pathways with the final aim to improve corporate impacts for society.

In line with the Commission's new definition for CSR, we have titled this the "**CIAM**" model – "**C**orporate **I**mpact **A**ssessment and **M**anagement". This means CIAM is not only about CSR as formerly defined by the EU and as studied in IMPACT, namely as voluntary and beyond compliance. It is also about all the impacts companies have on society – social as well as environmental – caused by voluntary action as well as caused by compliance.

This approach – Corporate Impact Assessment & Management (CIAM) – was directly derived from IMPACT findings and insights, which are more fully elaborated in the Executive Summary (available for download at www.csr-impact.eu).

Before explaining CIAM in greater detail, however, we should take a moment to explain how we came to it. As mentioned in Section I, some of the central findings IMPACT generated are:

I. Companies perceive CSR as a "must have" – this is the case for large companies as well as for SMEs.

II. Additionally, there is widespread awareness of relevant sustainability issues among companies and – perhaps more importantly – widespread interest in being able to measure and improve corporate impacts as well.

III. Even more, IMPACT found that CSR activities (meaning: voluntary activities) actually lead to outcome and impact improvements on different issues.

IV. However, such improvements have only been relatively low scale when compared to overall developments of companies. CSR does therefore contribute to sustainability – but only in a marginal way.

Taking a look at these main findings from IMPACT led to several questions guiding the way to the recommendations of CIAM:

> If most of the companies perceive CSR as important, are aware of the most important sustainability issues for their sectors and companies and the implementation of CSR activities actually leads to sustainability improvements – why are such improvements only low scale?

> What has to be changed so as to (1) foster activities of companies to improve their impacts, and (2) improve the effects of these activities?

The good thing is there is another IMPACT finding that at least partly guides the way to answer these two questions: what we call "**impact thinking**" is relatively poorly developed in companies and other organisations.

In other words, the logic needed to consider and measure impacts is not embedded in managerial thinking. People in companies mainly do not know what would be the pathway from a corporate activity to its impact, or which are the most important activities and pathways.

There also is widespread confusion between performance and impact; and what is measured and / or managed is not based on logic assumptions of performance and how it possibly leads to impacts, but on individual decisions that can be guided by diverse reasons.

As such, one of – if not the – central conclusions from IMPACT is the following: if an actual improvement of impacts for society shall be the overall aim, impact thinking has to be strengthened in companies and their stakeholders. Without systematic consideration of the impacts for all decisions taken in companies, and without evidence-based, robust analysis of the impacts of corporate activities, no large-scale improvements of impacts can be expected.

In this paragraph only a short overview of what CIAM shall be given; explanations of each of the ten steps can be found in the forthcoming chapters.

The CIAM methodology is built on five phases of activity containing ten steps in sum. The five phases are:

I. **Screening**

II. **Strategy**

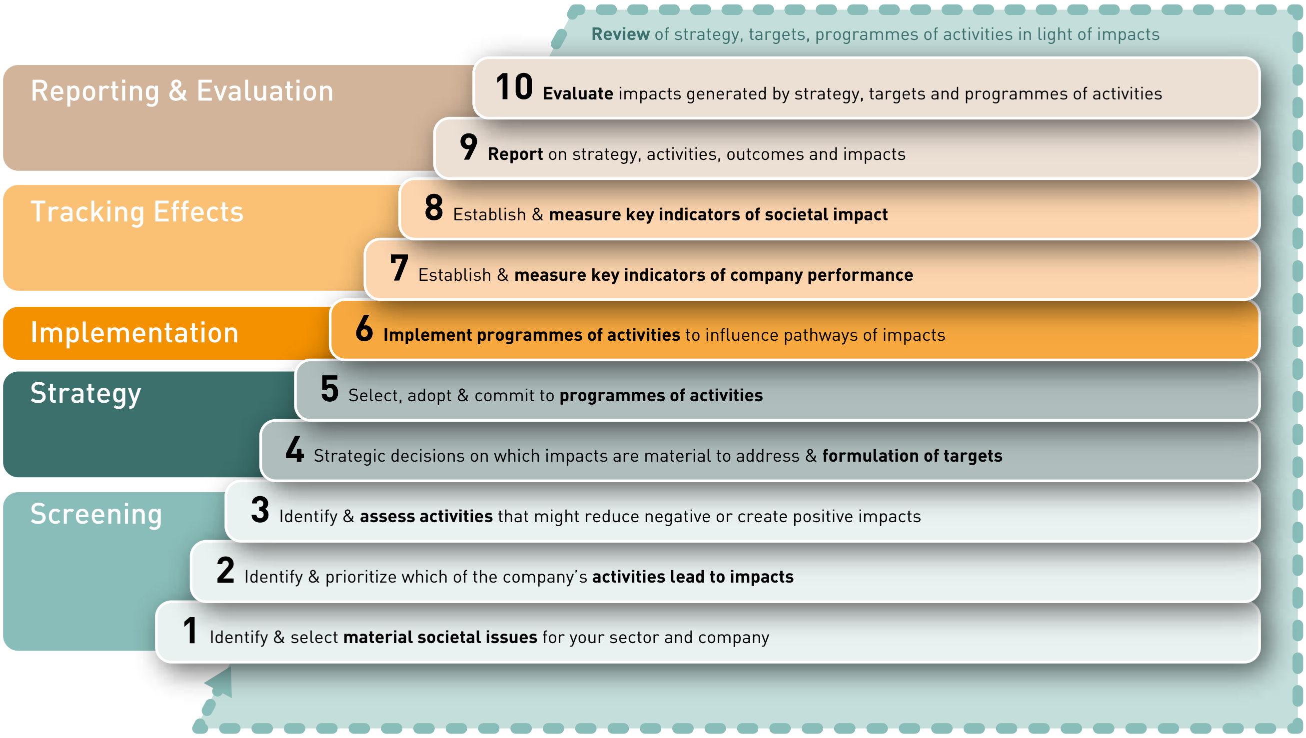
III. **Implementation**

IV. **Tracking Effects**

V. **Reporting & Evaluation**

10 Steps to Corporate Impact Assessment and Management (CIAM)

An overview of the ten steps is represented in the figure below:



NOTE: *Readers are strongly encouraged to keep in mind that this is not a prescriptive, one-size-fits-all toolkit! Rather, it can be seen as a point of departure for companies seeking a framework within which to define and measure their impacts for society – one which aligns with the design of many basic management systems and can be adapted to organisations of any size.*

CIAM's Relevance to Business

The way we approach business or enterprise here is based on a specific understanding of what responsibility, performance and impact would mean for a company – it is about sustainable business. It takes the view that a responsible firm is concerned about the contribution it is making to impacts for society. This can be in terms of creating value through its business activities – its business model, its products and services and the technologies on which those are based. But it also recognises that a responsible company is basically aware that it has negative and positive impacts on the environment and on society and tries to improve them. The significance of these impacts is the result of the scale of the company's activities and the demands or priorities that arise from what are termed "sustainability trends, issues and events" (or "TIEs").

In 2000, the European Commission referred to CSR as the "business contribution to sustainable development", in reference to the Brundtland Report[7] and Agenda 21[8] arising from the Earth Summit. Sustainable development was seen as a form of development that would provide for socio-economic development – i. e., wealth, health and education, to be simplistic – while taking into account the limits of planetary resources, the challenge of fighting poverty and the need to enhance welfare equity around the globe. This approach was needed as a way to ensure that the needs of future generations – in terms of economic opportunities and social development and environmental viability – were not jeopardised by the actions of present generations.

7 *Our Common Future, United Nations World Commission on Environment and Development, 1987*

8 *Agenda 21, United Nations Conference on Environment and Development, 1992*

Corporate Impact Assessment and Management (CIAM) – What it is

Contents

Three key concepts underscore the CIAM methodology outlined in the next chapter. Each of these key concepts is discussed in turn below. Some of the critical issues with the concepts are also introduced. These are the following:

A. The adoption of impact thinking

B. The construction of impact pathways

C. The idea of impact mapping

Impact Thinking

In order for companies to be able to take responsibility for their contribution to sustainability, key decision-makers (executives and managers) and decision-takers (analysts) need to adopt **an impact mentality**. This way of thinking needs to inform strategy and operations. Thus, the development and use of a CIAM approach is based on the development of impact thinking in the mind-set of company executives, managers, and analysts.

At present managers often understand their role in terms of designing, organising and supervising the delivery of routine tasks – frequently those which provide for coordination and control inside a company. More senior managers take responsibility for planning and analysing challenges and opportunities, and / or assessing the possible outcomes and risks associated with investments or business developments. This may also include stand-alone impact assessment exercises for individual projects – not least in sectors where high capital expenditure is involved, or corporate activity leaves behind a major environmental footprint, whether upstream or downstream from the production stage. Management systems, which may be used, can deal with many aspects of business, from financial performance and quality assurance, to employee and customer satisfaction.

Yet the idea of *systematically measuring, monitoring and especially managing over time* the performance and impacts of a company's activities is not commonly found. In many cases today, only one part of it (either performance or impact) gets measured, monitored and managed. This is not caused by a lack of willingness of most companies to do so but by the lacking impact mentality.

Example

A company in the automobile sector will know many things about the cars it produces: e. g. how many cars it produces and sells, or the amount of CO_2 released by the car per kilometre under specific driving conditions. But most companies do not routinely set about trying to systematically understand all of the product's or even the product portfolio's performance and impacts. This would first mean to think about what the real impact of car manufacturing ultimately is, what factors are internal to the company, along the supply chain, etc. Consideration must then be given to how the company can influence these impacts and to then clearly categorize the variables into performance and impact; and second, to think about whether there should be other performance or impact variables taken into consideration. Only then, with a complete picture of potential positive and negative impacts caused by the car and its production, use and end of life, can the company decide what to change internally or what to try to influence outside the company to reduce negative and strengthen positive impacts.

Impact thinking implies (a) an interest in knowing how an activity impacts society and the environment (activities can be related to a product such as a car or to a way of managing such as the creation and work of a CSR department), (b) an interest in improving these impact (including implementation of changes, monitoring, measuring), and (c) accepting responsibility even if other actors are involved in creating impacts (e. g. throughout the supply chain).

The central question behind impact thinking is the following:

If we – the company – commit to a certain course or set of decisions and actions, what effects on environment and society at large – positive and negative, intended and unintended – will they have and how can we improve them?

Of course impacts will range from significant to insignificant – this may apply for all impacts of a certain type or only for impacts of specific activities – and part of impact thinking is recognition that some impacts in general or some impacts of specific activities have low significance. Nevertheless, practitioners need to scope impacts as part of an "impact thinking" culture and approach, so that at some point managers and executives can establish which impacts will receive most (or least) attention and resources.

In addition to priorities it is also important to recognise that impact thinking in many cases might be a complex and challenging task!

Some impacts for example depend on factors beyond the control of the company. This happens in particular when a product is part of a complex system of interconnected products – forming what might be termed a ***technology-set***.

Example

A simple example of a technology-set is a washing machine, tumble dryer, detergent and fabric conditioner, water supply and disposal system. The impacts of the washing machine – on society and the environment – are dependent in part on the functionality and technical performance of other parts of the technology-set. Impacts are also dependent on the wider context within which the washing machine and the technology-set are used. The combined influence of linked technologies and context means that when the question is asked "What are the environmental impacts of this specific washing machine?" the answer is at best:

"The impacts range from X to Y depending on the make-up of the technology set and the broader context!"

Moreover, the challenges and issues that arise from sustainability are highly industry-specific, and can also be geographically determined to a high degree. Compare for example material issues in the pharmaceutical, retail, extractive, financial services, and ICT sectors. All have different competitive demands and pressures in different international markets, while facing distinctive social and environmental TIEs in each. By extension, and inevitably so, companies in each sector and region will create a myriad set of social and environmental impacts. Nevertheless, as said before, it also is part of impact thinking to accept responsibility for impacts of company actions even if it is a complex situation with many actors involved.

One might therefore argue that the greatest challenge for companies around impact thinking is to produce simplicity from complexity.

That said, there are common conceptual issues and demands that a methodology for impact assessment and management needs to take on board if it is to provide a robust approach as part of companies taking responsibility for their impacts. The fundamental aim of CIAM is to explain these common issues and demands, and thus to guide companies towards a starting point from which they can systematically address performance and especially impacts.

The IMPACT project demonstrated that impact thinking is widely recognised by managers as having value. However, most were also aware of the difficulties in making judgments about the range of possible impacts and the effects of sets and context. **That said, the main point is that corporate impact assessment and management (CIAM) will not develop unless there is an organisational commitment to impact thinking in the first place.**

Impact Pathways

The practical application of impact thinking assumes the knowledge and / or identification of the company's **pathways of impact**. In other words, a company sets out to chart the chain of impacts arising from a specific activity or product for which it is primarily responsible. Impact pathways set out to chart the main impacts and that requires some conceptual thinking about what might happen when something is introduced that changes the state of the world. It also depends on the specifics of context. If there are five main impacts arising from a product or activity, the pathway for each needs to be figured out to establish the major impacts.

Pathways of impact are causal chains of effects arising from a specific activity, project or operation leading to (an) impact(s). It is important to note that all activities have impacts, either positive or negative. Even if a company only does business as usual, it will have impacts. The aim of impact thinking finally is to improve the positive quality of these.

Impact pathways anticipate **points of impacts** – where and when impact can be measured and influenced and impact pathways also integrate **points of leverage** – where and when pathways and thus impacts can be influenced and changed. The points of impacts basically mark the border between performance (company internal) and impact (external to the company). Where this point of impact is for the individual issue and activity cannot be answered by definition. This very much depends and has to be identified case by case.

Points of leverage are not necessarily on the level of impact – they are somewhere along the pathways of impact and allow the company (or other actors) to implement changes that finally lead to better impacts.

Example

Let us return to the example of the washing machine momentarily. The key question is what impact does a washing machine have on society and the environment?

To answer it requires the ability to make a comparison against some other "state of the world". It could be a world without washing machines, or a world where the specific washing machine replaces a previous model. Addressing this type of question requires a sense of how the "state of the world" is impacted or changed as a result of the washing machine.

Impact pathways are therefore a representation of the way(s) in which those impacts unfold.

The washing machine arriving in a washing machine-free world will probably reduce the amount of water required for washing the same amount of clothing. At the same time, the washing machine might increase the use of electricity because a household appliance is used that did not exist before. In this example there are two points of impact: the points of impact of the washing machine manufacturer in the use phase are the amount of water used in households and the amount of CO_2 caused by households when washing their clothes.

If the company now wants to improve its impacts, it has to identify the pathways of impacts to select points of leverage. One major point of leverage here could be the product design phase: if the company e. g. decides to reduce the options to wash by 30 / 40 / 90 degrees, and only offers 30 / 40 degrees, this will lead to reduced electricity consumption in households using this washing machine and therefore reduce their CO_2 emissions at the same time. To improve the impact on water use, it might be possible to design washing machines in a way that requires less water for the same washing result. This then directly leads to reduced amounts of water used by households.

In most cases there will be several points of impacts – depending on the issue we look at: introducing a washing machine into a washing machine-free world e. g. also liberates the time from washing: In some settings this might lead to some people specialising in washing, the development of launderettes, or liberated time be used on entrepreneurship i. e.: time for business activities – and several points of leverage – other points of leverage would be for example telling people in the machine's manual to reduce water consumption by only washing in case the machine is fully loaded etc.

Impact Mapping

When all the main impact pathways have been identified and can be drawn, then an impact map arising from individual activities or even for whole issue areas can be produced. This charts all of the main pathways and identified contingencies that accentuate or limit impacts both positive and negative. The impact map represents a picture of the way the system is changed (impacted) as a result of one or several activities. Again it is important to mention that such a map has to be specifically defined. Is it a map of the impacts of the replacement of a model A washing machine by a model B machine or what?

An example for mapping pathways of impact of an individual activity can be seen below in Figure 1.

An example for mapping pathways of impact for an issue area is Figure 2.

Another example, drawn from the IMPACT network studies, is the case of the Partnership for Health in Poland, which took child malnutrition as its major CSR-related issue. Below is a visualisation of how one might map the impacts around this issue. The example of the Partnership for Health is different than the other two impact maps: whereas the first two maps show a mere identification of pathways of impact for company X in a given situation, the Partnership for Health map shows pathways of impact with and without an intervention at the so called point of leverage and how the pathway changes due to this intervention.

Impact thinking, pathways and mapping are consistent with the basic principles of the Earth Summit and Agenda 21 and their work to define the implications of sustainable development. In order for development to be sustainable, it was seen as necessary to know how an activity would impact the state of development or the environmental endowments of the planet.

Back then this was known as "**anticipation**": What consequences do we expect a certain activity to have? Where will it lead to in terms of change? If these impacts are not known or cannot not be anticipated then the actors involved – government, business and others – should act with "**precaution**".

In the chapter to follow, the CIAM approach is demonstrated, supported by a systematic methodology for the deployment of impact thinking inside the firm.

Figure 1: Pathway of impact of a company car fleet on climate change

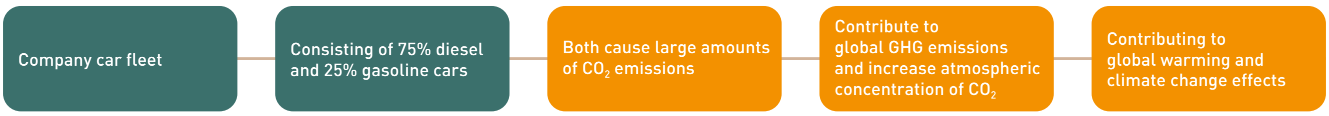
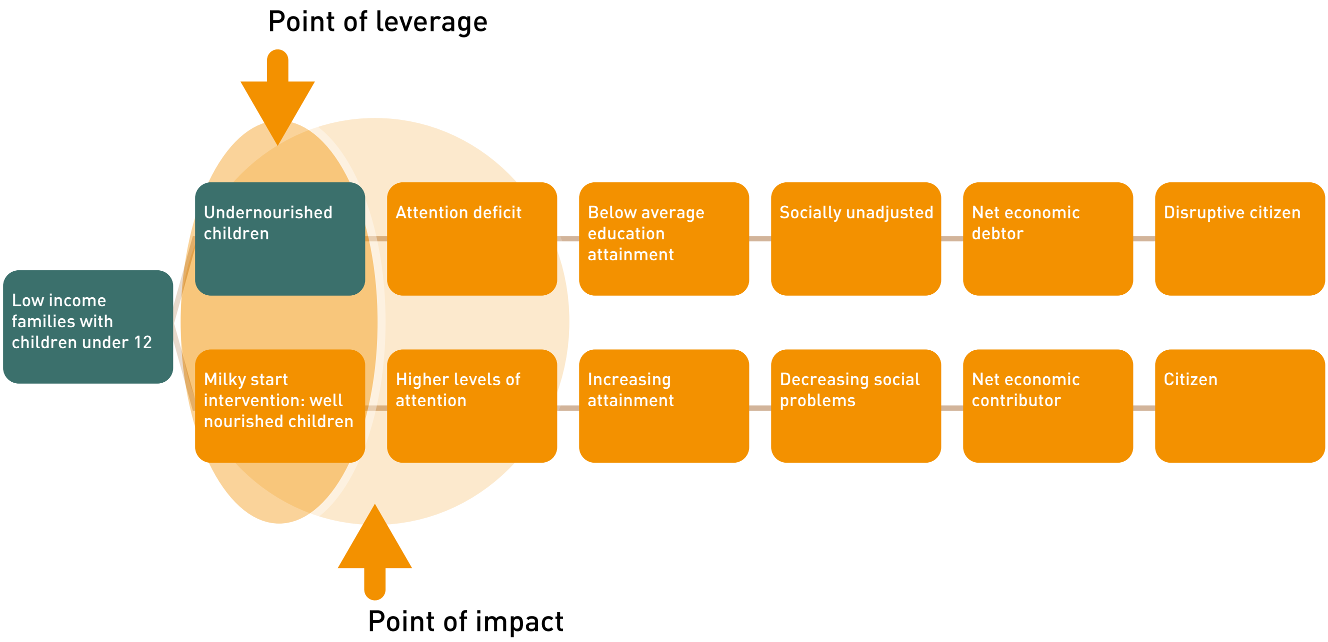


Figure 2: Pathways of impact for the issue area climate change

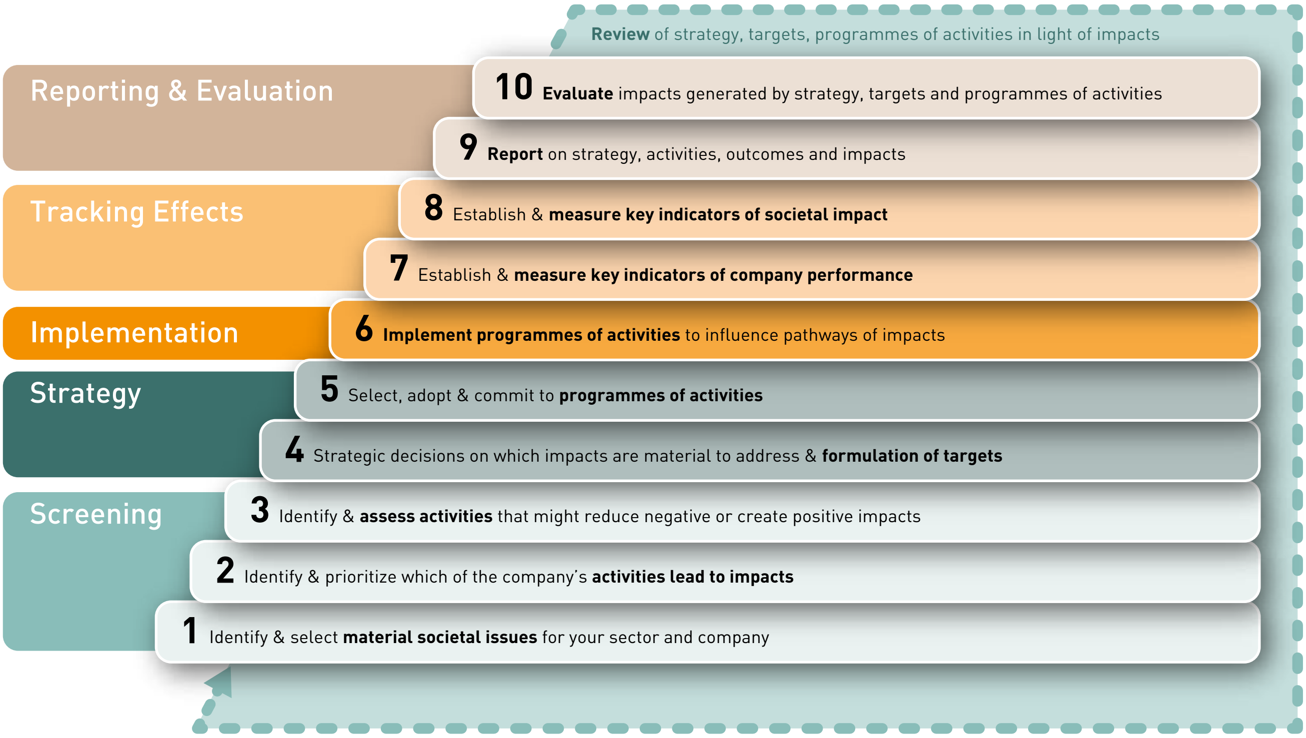
Figure 3: Pathways of impact with & without intervention of the Partnership for Health



Implementing the CIAM Methodology

We return now to the five distinct phases and ten specific steps which underpin our CIAM methodology, and a more in-depth description of each of them.

10 Steps to Corporate Impact Assessment and Management (CIAM)



Phase I – Screening

Step 1

Identify & select **material societal issues** for your sector and company

There are several ways of how the entire CIAM process can be structured and impact thinking can be managed. In IMPACT we worked together with companies managing the whole process in sustainability or CSR departments (while differences remained on where exactly these departments are located and what they deal with), while others did not have individual units for this task. It can of course be an advantage to have a strategic department, handling the overall process. Nevertheless, in each case decisions – and ultimately implementation – should involve all business functions (procurement, marketing, finance, accounting, human resource management, product development, R&D).

At this early stage of the process, for identifying and selecting sector and company specific issues relevant for society, we suggest that a good way to approach this step would be through a small core group with broad knowledge of external issues, which can then involve additional functions after this group has generated an initial list of issues.

Implementing impact thinking in a strict sense implies not to focus only on issues potentially receiving high public & media attention and thus becoming possible reputation risks, but also on relevant / factually important issues for society, no matter whether they have been addressed by stakeholders or media so far or not.

A systematic process helps to identify the most relevant issues for society instead of addressing “any” issues. Besides a general screening of potentially relevant topics and issues the relevance for society therefore has to be evaluated. There are several possibilities on how to do so, e. g. using public policy goals as orientation (at the national or EU level) on an issue. This is in effect what the IMPACT study did, as overarching EU strategies – namely, the Lisbon and Gothenburg Strategies – were evaluated in light of the sustainability goals they contain. Another alternative is to draw on peer-reviewed scientific research & analysis.

1

Example

Quality of Jobs issue selection in the IMPACT project varied between sectors, even though it was underpinned by a common approach based on European policies and strategies to identify relevance for society.

European employment strategies and policies are guided by overarching strategies, such as the Lisbon Strategy (2000 – 2010) and the subsequent Europe Strategy 2020 (2010 – 2020). In general, both of them aim at creating more and better jobs, increasing social cohesion and thus promoting Europe to become more competitive and dynamic. The ten QoJ-issues dealt with in the IMPACT project were directly derived from the scope of these strategies, namely:

- **Flexibility and job security**
- **Work organisation and work-life balance**
- **Gender equality**
- **Wages and poverty reduction**
- **Intrinsic job quality**
- **Skills and life-long learning**
- **Health and working conditions**
- **Diversity and non-discrimination**
- **Social dialogue and workers involvement**
- **Human rights**

The relevance of these issues for individual sectors was then evaluated sector by sector.

At the same time a company's focus will naturally lie on issues which are material for it. The aim of impact thinking therefore is to shift a company's focus on issues material for the company AND society.

Perhaps evidently, the industry sector within which the firm does its core business comes into play here. As noted in previous chapters, each sector features large variances in terms of issue characteristics, maturity and materiality. These sector dynamics should be carefully considered and used – where helpful – to filter issues by level of importance to the firm.

At the same time the sector level can be useful, because the question of which issues are relevant for companies may be answered on an industry level, e. g. by industry associations or other types of networks or clusters, and thus reduce the effort for the individual company: Networks and clusters foster and capture hard-to-imitate human and organisational resources. They are associated with the provision of technical knowledge and expertise in particular fields of value to the companies in the cluster. Moreover, the interaction of companies in close proximity to one another lowers transaction costs.

In this process, the guiding questions for managers to ask are, quite simply:

> **Is the issue influenced by the sector / company (e. g. risk, opportunity, regulation)?**

> **Is the sector / company influenced by the issue?**

NOTE: "Influenced" here means there is an influence beyond a certain level. Influences which do not exceed the de minimis limit do not have to be taken into consideration. Where this level actually is, cannot be answered in general, but has to be answered and explained by the individual company. In doubt the company could use existing forums like stakeholder dialogues to get further insights into this question.

Focus on SMEs 1

According to IMPACT project results, being voluntarily active on sustainability – and thus CIAM – brings benefits for SMEs with regards to employee recruitment and retention. When asked for the effects of voluntary action on different types of stakeholders, most SMEs answered that it mainly improved the motivation of their employees and helped them to recruit staff on the labour market.

Still, in many cases SMEs will struggle on how to translate CIAM into practice. Implementing a systematic approach for identifying issues relevant for society, e. g. including a screening of public policy initiatives and documents, will likely not be a realistic approach for many SMEs. This does not mean, however, that SMEs are not capable of implementing Step 1 at all:

> **As already mentioned, identifying issues relevant for companies and society is an issue that can be done in cooperation with others – be it on level of several companies together, industry associations, chambers of commerce, or through other types of networks and platforms.**

> **Putting into place a systematic screening process and document research is idealism. As mentioned before CIAM and the individual steps should not be taken as prescriptive and it is of course possible to look for lower-level-solutions. Here these could be:**

- **Systematically thinking issues through to evaluate their relevance for society instead of a policy analysis**
- **Brainstorming about issues and their potential relevance for the company / society**

Phase I – Screening

Step 2 Identify & prioritize which of the company's **activities lead to impacts**

After identifying (sectoral) issues relevant for society, the crucial step for each company is to trace the pathways of impact(s) which the firm may expect to have on the(se) issues, and to decide on which to act. As mentioned above, pathways of impact are causal chains of effects arising from a specific activity, product, project or operation leading to (an) impact(s).

The process of identifying the firms' specific pathways of impact on an issue and prioritizing them again splits up into three steps:

Mapping the status quo of the company's influence on the issue

Mapping who else influences the issue

Prioritizing to decide on which issue(s) the company is going to act first

Again, most of Step 2 can still be accomplished by a small group of people. It is assumed that the most relevant pathways, i. e., those with the largest impacts, will be well known to managers and employees, especially those working in sustainability, C(S)R, operations and quality management, or environmental performance departments. It broadly makes sense for individual pathways of impacts to include experts from respective departments for ad hoc interviews or feedback.

We now return to the three levels of identifying pathways highlighted above:

Mapping the status quo of the company's influence on the issue

The first step after selecting issues (Step 1) is to map the company's current influence on the(se) issue(s). A company influences sustainability issues mainly through its activities, products, and processes. At the same time, it makes sense also to map the issue's influence on the company, e. g. through risks, opportunities, regulation, etc. This might help to finally prioritize issues and especially pathways of impact for deciding on which to act first (Step 2, level 3). Examples of how such maps can look like can be found above.

Mapping pathways of impacts means to systematically analyse which actions, products and processes have an influence on respective issues, which characteristics actually influence the issue, and how effects run from implementation, to outcome, to impact. Pathway mapping should not only be limited to pathways creating positive impacts, but also take into consideration pathways leading to negative impacts.

Example

If the issue is conservation of natural resources, a first step would be to identify activities, operations, processes, and products etc. which consume resources. If the resource for example is water, possibly relevant steps could be the operation of office buildings (e. g. water used for toilets) and production processes (e. g. water used for cooling etc.). Comparing all such activities might raise the point that consequences of water use very much depend on the type of water that is used (drinking water, surface water, etc.). The next step would then be to clarify which types of water get used for which activities. Only then, effects of implementing activities and thus using a specific type of water can be derived. Part of the analysis could be to analyse how much water is used per unit of product as well as to collect data on absolute amounts of water used.

Key Advice for Managers = you should keep in mind that impact pathways must **anticipate points of impact** – where and when impact can be measured and influenced by your company – as well as **integrate points of leverage** – where and when pathways can be influenced and changed.

Identifying pathways of impact from your company to an issue is a complex task. Partly because of the amount of activities individual companies may have that influence an issue, partly because pathways of impact from individual activities to impacts are not always easy to identify or obvious. The following recommendations aim at simplifying the mapping of pathways of impact:

> Begin with focusing on major pathways of impact and do not get lost in details.

> Begin with focusing on such pathways of impact that can be (indirectly or directly) influenced / changed by the company.

> Discern different phases / levels and identify pathways of impact for one phase before starting with identifying pathways for another one. Phases / levels to discern could be for example: supply chain, core business (own processes and operations), follower, product use phase, product end of life. To simplify the process of identifying pathways of impact, companies should start with analysing the core business.

Mapping who else influences the issue

It is overly simplistic to think that impacts are determined solely by the actions of companies working in isolation. Even where the actions of companies are promoted through the policies and interventions of different levels of government, there are other mediating structures and institutions that affect the activities of companies and ultimately influence their societal impact.

Against this backdrop, many companies also actively participate in networks, clusters, collaborations or partnerships to form or inform their responses. This often involves working together with other firms (or at least the managers of other companies) and other organisations for a variety of reasons. Among others, these include:

> Stimulating change (driven by sustainability concerns)

> Demonstrating commitment and practice (to sustainability)

> Sharing knowledge

> Influencing the policy environment

> Creating synergies that support performance and enhance impacts on society.

Key Advice for Managers = you should keep in mind **that your company does not act in isolation** around sustainability TIEs. Inevitably, other actors affect the same issues and often even pathways – whether commercial rivals or non-commercial agencies.

In order to achieve positive impacts for society, your company in many cases needs or it might at least be helpful to collaborate with actors from parts of a system to improve interaction and influence current outcomes and impacts.

At this juncture, you are advised to identify and map the major actors within the system of influence around the issue that you wish to tackle. The identification of other relevant actors for an issue should focus on actors with a direct or indirect relationship to the company, or at least the core business of the company. The system of influence for an issue is therefore limited to the corporate environment.

Example

For the issue of health, there are several aspects and actors a company is able to influence: beginning at the internal environment, employees, managers and safety personnel can be trained; in the supply chain, the company can commit their suppliers to health & safety requirements and cooperate with NGOs and professional auditors to monitor compliance.

On the other hand it does not make much sense to look e. g. at the private level: There are of course many aspects of private life related to the health of employees – from leisure activities to lifestyles. However, for companies trying to tackle the issue of occupational health, these private aspects and related actors are not potential allies or competitors. Therefore actors on private level are not part of the system of influence for the company.

When identifying other actors influencing the same issue or pathway of impact, such actors should also be prioritized. Prioritization of actors depends on the specific situation for the issue and within the sector / business:

> With regards to the sector composition, there might be many or only few other relevant actors in the sector. This very much depends on whether there are many active small or medium-sized companies, or whether it is dominated by a few large companies.

> Depending on the phase you look at, actors and relevance of actors are different. If one takes the use phase of products, relevant actors are at least consumers and those companies producing and / or selling the products. What influence which actor exactly has depends on the type of product and interplay between the different actors. Thus, it is important to keep such inter-actor relationships in mind.

> For some issues and / or in some sectors there might be networks for tackling certain issues. If so, the companies organized in the network are still relevant actors, but it might suffice to engage with the network as single actor instead of dealing with several other companies on a bilateral basis.

> Even if there is no network specifically addressing the issue, there might be other industry networks that could be used to tackle the issue.

Besides prioritizing actors with regards to their relevance, they should also be categorized as potential allies or competitors in relation to the issue. It should be mentioned that for tackling sustainability issues with the aim of actually improving impacts, company or even industry alliances might be powerful tools to (a) increase impact improvements, and (b) to simplify the whole process for the individual company.

In many cases – often depending on the phase we look at –, it is even very unlikely that there will be long lasting success in improving impacts without wider participation of at least all or most of the key actors from one sector / for an issue.

Example

Managing sustainability in the supply chain is a huge challenge for many companies, especially in industries with complex supply chains like for example in the ICT industry. Engagement of individual companies is of course positive – but in many if not most cases, individual companies do not have resources and / or the power to significantly and long lasting improve impacts. Both could however be reached if key actors of a whole industry would cooperate: costs for individual companies would be less and the power of companies in comparison with their suppliers would increase.

Cooperation for managing sustainability, in supply chains and elsewhere, is not a new concept. However, we suggest that it is still a not sufficiently practised solution. This is not surprising: cooperating on sustainability issues in many cases means to cooperate with competitors from the same field of business. Therefore the decision whether cooperation is a worthy solution or whether it causes economic damage to the company is a difficult one to answer. Nonetheless, we think that when seriously aiming at improving CSR and sustainability-related impacts, companies should more often consider – and actually practise – industry cooperation. One tool for improving and increasing the use of cooperation approaches could be (industry) networks.

Summarizing this part of Step 2, there are again two simple questions which managers can use to frame their work:

> What significance does my company actually have within the system of influence around an issue?

> What other actors might or need to be important allies for tackling the issue (e. g., for creating networks & alliances, pooling capital or technical expertise, etc.)?

Prioritization of issues for deciding on which to act (first)

Key Advice for Managers = your company may have to choose between more than one pathway of impact towards a given objective. In line with previous analysis, a company can apply a few core criteria to the prioritization of pathways, e. g.

> Relevance for society

> Potential scale of impact of a targeted intervention

> Extent of your company's influence

> Your company's potential response / action time

> Availability of tangible results and ability to measure them

Companies have varying levels of influence over pathways of impact, depending on issue, sector and other factors. After identifying the issues (Step 1) and the major pathways of impact for your company on these issues (Step 2, level 1), your company has to prioritize them in order to decide on which to act first.

The decision of which pathways to prioritize is closely interlinked with the decision of which issue is assumed to be more important than another. If taking "impact-thinking" seriously, the core of this decision should be focused on the issues' relevance for society. Still, the other criteria mentioned above – potential scale of impact, extent of company's influence, potential response time, and availability of tangible results – have to be factored in.

Ultimately, the decision on which issues and which pathways of impact to tackle (first) can only be taken by the company itself. For means of transparency and acceptance in the external environment, it would be wise to explain and reason the reasons for tackling specific issues and pathways.

Such decisions on prioritization can also be taken when identifying societal relevant issues (Step 1). We suggest doing it only after identifying the most important pathways of impact, because this might make it easier. Finally, the decision should be taken at a point where the company feels comfortable with it and has sufficient knowledge for taking action.

It should also be noted that deciding on which issues to act first, does not mean to exclude or ignore all the other issues. Whether to focus on one issue, or a few individual issues, before tackling another, or whether to tackle several issues right from the beginning again is a decision the company has to take.

This may depend on several variables, e. g. the availability of human and financial resources, expertise in the company, the extent of engagement for an issue etc. From an impact-thinking point of view it still might make much sense, first to focus on fewer issues and tackling them seriously than tackling many but focusing on performance changes. Anyways, in the long run, the aim should be to tackle all societal relevant issues the company affects.

Independently from whether a company tackles one or several issues at the same time and which issues to address first, some of these issues and / or pathways of impact might be interlinked: (positive) changes in one pathway or issue might lead to (negative) changes in other pathways or issues.

Example

Situations in supply chains in least developed countries very well illustrate how trade-offs between different issues may affect decisions companies have to take.

While working conditions in global supply chains, e. g. in the textile industry, are often far from adhering to minimum human rights standards (e. g. ILO core labour standards) the question on how to react might lead to trade-off dilemmas.

One of the earliest reactions to poor working conditions – or, in many cases, public awareness of poor working conditions – was to abandon supplier relationships. In case such working conditions are usual in whole countries this can lead to a kind of boycott of this country. This solution finally abolishes a variety of human rights abuses at least in a limited region; at the same time however, it leads to the unemployment of thousands of people in the same region.

In such a case, tackling one issue (here: human rights) or a specific pathway of impact means deciding against another issue (here: job security) or pathway of impact, as reducing negative effects of one pathway actually increases negative effects of a second one.

Managers should remain aware at all times that trade-offs between prioritized pathways have to be identified and decisions have to be taken in favour of one and against another issue or pathway of impact. Guiding principles could be for example:

> **Preferring to invest resources in pathways with higher priority**

> **Drawing on the opinions of external experts, key stakeholders, etc.**

Ideally, companies should not decide on how to solve trade-off situations on their own. In the case of working conditions in supply chains, the prioritization between the issue areas human rights and job security has to be done by a diverse set of societal actors: companies, politics (of European as well as of least developed countries affected), NGOs and workers associations / organizations. In many cases it might not even be possible to finally decide which issue / pathway to prioritize but the decision has to be based on the specific situation.

Focus on SMEs 2

IMPACT results show that in SMEs the use of management systems – such as ISO 14001, EMAS, and SA 8000 – is not very common. In a large scale survey, on average only 22 % of SMEs answered that they actively use such systems.

That said, this statistic does not mean that SMEs fail to engage with sustainability TIEs: more than 60 % of SMEs answered to consciously engage on voluntary actions as a response; and almost half of those (44 %) answered that they had started to do so even before the year 2000!

Both results together show that SMEs engage on sustainability but they mainly do it in less formalized or even informal ways. For the second step of CIAM – the identification and prioritization of issues and pathways of impacts – this means SMEs cannot be expected to implement formal structures to systematically assess pathways of impacts. However, as mentioned already for Step 1, this does not mean SMEs cannot do it at all.

The identification of pathways of impact for the main issues affected by the company can for example be done in a brainstorming process together with employees, instead of formally integrating different departments of the company into a systematic process. Employees working in different areas for the company surely know the processes that create impacts best. At the same time this ensures the integration of a wider spectrum of the workforce into the entire process.

When identifying other actors influencing the same issue or even pathway of impact, SMEs should focus even more on identifying allies (compared to larger companies). This helps to save scarce financial and human resources for individual SMEs and might create new knowledge by learning from other companies.

Phase I – Screening

Step 3 Identify & **assess activities** that might reduce negative or create positive impacts

After having decided which issue and which pathway of impact to tackle, one of the most crucial steps during the whole CIAM approach is to decide what exactly to do – which activities to implement or change – in order to reduce negative or to create / increase positive impact.

It is again important to note that CIAM is not a prescriptive process. Selecting activities to influence specific pathways of impact is of course closely interrelated to the steps before. Deciding which pathway to tackle already limits the activities available to improve impacts. Choosing pathways of impact will in most cases imply at least some ideas and thoughts about what exactly to change and implement to address the pathway.

As such, Steps 1 – 3 are more or less iterative: deciding which issue and pathway to tackle directly affects the availability of options for action; but on the other hand, the availability of options also affects the selection of pathways of impact. If there are no options for action, or only options which imply little effectiveness or high costs, this might change minds on which pathway and issue to act upon.

Finally, the status quo analysis of company's influence on issues and prioritization of pathways (see Step 2 above) offers a basis for identifying potential activities aiming directly at the company's point of impact to improve them. "Improving impacts" means to reduce negative impacts or to foster or even create positive impacts. There is no general guiding principle whether it is better to reduce negative or to create positive impact – both aims should be taken seriously. However, it should not be a preferred option to "neutralize" or "compensate" negative with creating positive impacts.

Example

A company producing insulation materials affects the issue of climate change in several ways and with several pathways – positive and negative ones. As for all manufacturing companies, production processes require large amounts of energy and therefore cause CO_2 emissions (–> negative pathway of impact). At the same time, insulation materials help to reduce energy consumption during their use phase and thus the company indirectly contributes to reducing CO_2 emissions (–> positive pathway of impact). When this company now decides to tackle the issue of climate change, and thus to reduce direct and indirect CO_2 emissions, it can do so by reducing negative or increasing positive impacts:

> **One way of reducing negative impact would be to increase energy efficiency of production processes or to purchase renewable energy instead of a conventional energy mix.**

> **To increase positive impacts the company could decide e. g. to improve the quality of the insulation material it produces – thus increasing the amount of energy and CO_2 avoided by using the material.**

Example (continue)

As mentioned before, both ways are legitimate considerations to improve impacts. They should however be treated as individual options, meaning: it's the company's decision whether (firstly) to reduce negative or increase positive impacts, but both remain individual goals. The company should not decide for increasing positive impacts with the aim of outweighing, neutralizing or compensating for negative impacts.

If the aim is to reduce negative impacts, this should at first be done by directly tackling the respective pathway of impact (here: increasing energy efficiency of production processes / purchasing renewable energy). Only if there is no other possibility to directly influence the negative pathway of impact, creating / improving positive impacts should be an option to be considered for tackling the negative impact.

This leads us to a prioritization of general options to act:

Improve the same pathway of impact
e.g. improving efficiency

Replace a pathway of impact or parts of it
e.g. choosing more sustainable options

Neutralize negative effects of a pathway
e.g. by creating/ fostering another (positive) pathway

The identification of specific activities to tackle the selected issue / pathway of impact very much depends on the specific issue and pathway. The only general recommendations with regards to activity selection are that this should be a creative process leading to innovative solutions, integrating managers and employees from several areas of the company, especially those with a direct connection to the pathways of impact around the issue.

In order to be able to decide on which activity to pursue and resource, a scoping analysis of potential change has to be done.

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Focus on SMEs 3

A deeper analysis of the implementation of voluntary activities on sustainability in SMEs reveals that most activities are implemented within the issue areas of health (reducing work place accidents & sickness), lifelong learning (employee training), and waste prevention (reduction and recycling of waste). SMEs are not very active on implementing activities around gender equality (increasing share of women in executive positions) and recruitment from disadvantaged groups.

When identifying these activities to be implemented for improving impacts, the analysis of potential change is of special interest for SMEs. Selecting and later on implementing activities which only lead to minor effects would be a waste of already limited resources and would thus create even less value for SMEs than for larger companies. Cooperating with other actors and companies identified as potential allies (as per Step 2) could again reduce costs while e. g. replacing systematic potential analyses with a pragmatic exchange of experiences and thus a “lessons learned approach”.

Phase II – Strategy

Step 4 Strategic decisions on which impacts are material to address & **formulation of targets**

On basis of the results of Steps 1 – 3, the company has to make its strategic decisions on issue selection and where it intends to act. The company decides which concrete pathways and especially the exact points of impact it wants to tackle. Impact pathways enable companies (and potentially key partners / stakeholders) to orient themselves towards specific impact objectives. Impact pathways can also be used to influence the choice of scenarios, contingencies, action plans and outcome / impact indicators.

This first part of Step 4 can be seen more or less as a formality. The decision-making process regarding which impact pathways to tackle is not linear, but closely related to issue selection (Step 1), the prioritization of pathways (Step 2), and the identification (Step 3) and selection of activities (see Step 5). Therefore the whole process is iterative and the different steps influence each other.

What is more important than the exact sequence of the steps – which would be an unrealistic assumption anyways – is to note that **at some point the company should finally take a formal decision on its commitments**. In doing so, the company creates a solid ground on which to base the further implementation of activities (see next steps) and demonstrates responsibility for the issue(s) internally and to the wider public.

What companies decide to do is ultimately determined by a set of critical factors:

> Materiality to core business (risk, opportunity, urgency)

> Innovation potential

> Public policy frameworks and objectives

> Firm's capacity to influence

> Existing commitments / partnerships

But still, societal needs in a specific business or geographic context should be the major guiding principle for decision-making. Drawing on what was mentioned during Steps 1-3, criteria such as the relevance for society, the scale of impact the company creates, the company's ability to influence the issue, and so forth, should be major parts of the decision.

It is worth mentioning that impact thinking in many cases might lead to a focus on very few important issues, rather than many of broader relevance. Any manager will know from experience that it can be easier to improve impacts when concentrating on less issues instead of tackling multitude at the same time.

This may in turn give rise to internal conflict with other corporate goals: public affairs and communications departments traditionally like to showcase companies' activities on many issues to create a positive image. Reporting standards and ratings agencies customarily ask for performance data on a diverse set of issues. How to resolve these tensions while planning for action is a highly important part of corporate decision making.

On the basis of the formal commitment, **the company can now start to formulate its targets**. These may be qualitative, but should aim for quantitative where possible. Targets on the one hand have to reflect realistic scenarios on what is attainable given existing capabilities. On the other hand, impact thinking requires targets which actually create impact and thus exceed "business as usual" (BAU) scenarios and performance metrics. The implication is that companies have to be realistic and ambitious at the same time.

Targets not only serve transparency requirements on where the company wants to be within a specified time frame, but also as control mechanism for internal (e. g. management, executive board of the company) as well as external stakeholders (e. g. NGOs, rating agencies).

While target formulation may sound trivial, it isn't. Setting sound targets requires valid information at least about the status quo of relevant corporate processes, the business-as-usual scenario for the envisaged time frame and issue, and the potential for change of available activities to tackle the issue. Additionally, setting quantitative targets requires at least some idea of what can and should be measured (see also Steps 7 & 8). This again shows that CIAM is an iterative process, not a linear one.

Example

The German energy transition process leads to unexpected calculation effects when looking into long-term future.

As the political goal is to fully transform the energy production towards renewable sources, the emission factor (emissions per kilowatt hour energy consumed) will further decline in the next years. When considering these energy transition related declining emission factors, this leads to significantly less total emissions: the effect of consumed electricity on the total GHG balance will sink.

This will happen regardless – no matter whether companies engage on their GHG emissions or not. This ultimately means that for setting ambitious targets on GHG emission reductions, companies have to take the effect of the German energy transition into consideration and put something on top. Otherwise they would reach the targets without implementing anything and thus the targets would be useless as they simply describe the business-as-usual scenario.

Focus on SMEs 4

Where exactly decisions on sustainability activities are taken varies largely between companies: some create centralized departments on CSR / sustainability which are directly connected to the CEO's office or Board of Directors, and thus able to take decisions which will have a distributed impact in different parts of the firm. Others remain decentralized and decisions on sustainability are taken by individual departments so that issue selection and activities largely depend on tradition and individual managers' visions.

For SMEs IMPACT verified the widespread assumption that the company's director or owner – and thus his / her attitude on sustainability or individual issues – was the major driving influence behind voluntary sustainability engagement. If that individual is engaged on sustainability, this increases the company's performance (more than the influence of any other stakeholder). However, when asking the same companies for the stakeholders currently most sensitive to voluntary sustainability activities, directors / owners were not among them.

The decisive role of owners and directors in SMEs might be advantageous for some reasons – e. g. a centralized decision making process simplifies the creation of a common sustainability vision for the whole firm – but there are disadvantages as well. While directors / owners of successful SMEs might be excellent business performer, that does not mean they are sensitive to each and every sustainability issue – especially if they bring costs which might affect the bottom line.

Focus on SMEs 4 (continue)

This raises the question of whether SME directors and owners can define realistic but ambitious targets for such issues. Maybe this is one of the reasons why on average only 18 % of SMEs surveyed in IMPACT indicated that their company has set targets.

In fact, even for large companies setting realistic but ambitious targets will often require external expertise as, depending on the issue, assessing the BAU scenario might be complex. Especially for SMEs however, external expertise will often be too expensive, so that more pragmatic solutions have to be found.

One possibility already mentioned above is to clearly focus on individual issues and pathways of impact instead of tackling many issues and pathways. Another way would be to simplify the formulation of goals. Instead of setting precise target values (e. g. reducing waste by 20 % before the year 2020,) SMEs could formulate “soft goals” (e. g. aim to constantly reduce…).

At this point it should be clearly stated that wherever possible target values should be set – for transparency reasons alone – and this is only a solution where a company is not able to identify reasonable target levels with proportional effort.

A last option, related to the goal of constant improvement, would be to implement individual activities and see (measure / monitor) what effect it brings. In case there is no or only a minor effect, the activity would be adjusted or another one would be implemented.

Phase II – Strategy

Step 5 Select, adopt & commit to **programmes of activities**

So far, most of the process explained – identification and selection of issues, pathways of impacts and activities – can be managed by a small centralized group at strategic level. Expertise from specific parts or divisions of the firm may be helpful but not absolutely necessary.

When deciding about specific activities to be implemented however, **the participation of responsible or involved divisions is an important requirement for success**. Without involving employees who will be directly affected by, and responsible for implementing (parts of) the company’s commitments, the translation of decisions into practice may well fail due to internal obstacles.

Very much like the first part of Step 4, the selection, adoption and commitment to activities, or programmes of activities (i. e. larger sets of activities directed at one or more issues), are mainly a formality.

After deciding on which issue and which pathway of impact to act and setting targets (Step 4), concrete activities have to be officially adopted to prove commitment.

A firm's decision which activities are finally selected to reach the aims formulated in targets (Step 4), will be influenced by several factors, e. g.

> Feasibility / enforceability

> Cost-benefit assessment

> Availability of alternatives

> Urgency of the issue

Nevertheless, the main criteria for selecting programmes of activities should still be relevance for society (Step 1) and prioritization of the issue (Step 2).

Example

One of the most commonly discussed & implemented aspect of the issue of gender equality is the share of women in board-level and executive management positions. The simple message is that the higher the share of women, the better the state of gender equality is in the company.

When thinking about which specific (programmes of) activities to select and adopt two apparent options seem to be available:

1. **Hiring external female members for the board or higher management positions**
2. **Increasing the share of women in lower and middle management and thus creating highly qualified recruits for higher positions company internally**

From an impact perspective, option two is much more interesting than option one, because promoting gender equality in lower and middle management affects much more women than only promoting gender equality on the board and executive positions; at the same time in the long run it promotes gender equality in higher management as well – thus option two creates large additional impact improvements in comparison to option one.

For decision makers in the company, option one might still be first choice because it is much easier to implement, with lower costs at least in the short term and it enables visible short term improvements and thus contributes much more rapidly to positive brand reputation.

This example illustrates how different criteria interact: relevance for society is only one – even though crucially important – of several issues besides cost benefit assessments, feasibility tests, and so forth.

Additionally, the selection of (programmes of) activities should fit to the current internal system within which chosen impact objectives will be pursued, managed and measured, taking into account:

> Levels of awareness

> Existing company policy

> Control processes / functions / capabilities (“PFCs”)

> Coordination PFCs

> Action and implementation PFCs

> Assessment and measurement PFCs (see also Steps 7 & 8)

If a company intends or wishes to engage external actors in tackling the selected issue, the external system (Step 2) within which the chosen impact and its characteristics should be taken into consideration as well. This especially means to clarify:

> Key actors / agents

> Lines of influence

> Direct and indirect causal chains and links

> Interdependencies

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Focus on SMEs 5

All the results on SMEs cited in this handbook are from a survey containing 130 questions which was distributed to approximately 365,000 enterprises (which roughly equates to 2.3 % of all SMEs in the target countries).

Post facto the survey can be considered a resounding success, having attracted over 5,300 responses and created an unparalleled data set for study and analysis. For full and detailed results of the survey and its analysis, we advise readers to visit the IMPACT website (www.csr-impact.eu).

While the basic decision criteria for selecting activities are the same for large companies and SMEs, **emphasis will be different**. A larger company may choose to implement activities that are less cost effective and innovative (for reasons such as reporting, brand management, etc), while for SMEs it might be more important to reduce financial risks.

Thus, higher cost effectiveness and positive past experiences (whether they are own experiences or experiences of other actors – even those of competitors – may be more decisive for SMEs than for other companies.

Phase III – Implementation

Step 6 **Implement programmes of activities** to influence pathways of impacts

Implementing activities – quite obviously – demands that a company invests its human and financial resources over time. In most cases it is not enough to implement something once, but it is a constantly evolving process to design, to deliver, and to collect evidence of real impact (see also Steps 8 & 9).

Outcomes (company internal changes and effects) & Impacts (changes on level of society, external to the company) then become a function of how well companies focus their investments and commitment and manage their implementation accordingly.

In the context of Step 6, it should be clearly mentioned that the focus should not only be laid on implementation. This might appear obvious because implementation is the final step before changes are created. However, IMPACT results show that **commitment to issues and goals, and output (i. e. corporate decisions) are important steps** as well on the way to achieve good results:

The most and largest influences observed in the IMPACT study came from when companies treated commitment, output, implementation and outcome* **as a causal chain**. The largest influence from commitment was observed on output; the largest influence from output was observed on implementation; and implementation affected outcome and impact.

This ultimately means that – although implementation of CSR activities is the final step on the way to creating changes in the company and increased positive impacts for society – the size of these changes and effects still depends very much on whether the whole process is well managed inside the organisation.

So, while the implementation of activities of course is the cornerstone of corporate action on sustainability – and thus CIAM – this does not mean that commitment and output become irrelevant.

Focus on SMEs 6

Depending on the activity, implementation might be a challenging and resource intensive task. Still, IMPACT was able to prove that implementing voluntary activities in response to sustainability TIEs positively affects the company's internal results and impacts for society.

For SMEs, this relationship between the implementation of voluntary sustainability action and improved outcomes and impacts was verified for all issues tested: gender equality, recruitment from disadvantaged groups, work life balance, health, job security, climate change, use of resources, waste reduction. Across the board, the end results were positively influenced.

* *See "Introduction" for a more detailed explanation of these terms.*

Phase IV – Tracking Effects

Now that we are beyond the half-way point in the CIAM "journey", let us take a moment to revisit the overall landscape.

On the basis of Steps 1 – 5, a company should now have developed a clear picture of:

> Which issues are generally relevant and should be tackled

> The pathways of impact through which the company affects the issue

> Which pathways to act on

> Which activities to use

However, without tracking & measuring internal & external effects of the implementation of activities (Step 6), it will be impossible to provide reliable answers on companies' general effects for society and / or the effects of voluntary action for society and their causes.

In this light, a robust and consistent approach to measurement provides a range of benefits:

> It can be integrated into existing management (like EMAS) and information systems (like SAP)

> It provides input for reporting and ratings

> It creates transparency and thus credibility

> It enables internal control (Do activities matter?) and thus management

> It helps discerning effective and ineffective activities and thus saving resources

Before going into detail it should be mentioned that **quantitative measurement in particular is a mid- to long-term goal and an evolutionary process that cannot be implemented overnight**. Thus, companies may require plenty of patience to design and install their impact measurement systems, and for these to provide meaningful or significant data.

With regards to CIAM, this should not be a deterrent to tracking effects (Steps 7 & 8). Even if the process looks daunting, the company's approach should rather be to implement as much as possible, as well as possible, in the short-term. Again, it is important to recognize CIAM is an ideal and not a prescriptive process. The most important task for companies is to create awareness for impacts and to embed impact thinking in the mindsets of corporate decision makers.

As already mentioned above, **effects of corporate action arise at company level and at level of society – and ideally both parts of it should be monitored and measured**. Focusing only on one part of the two does not allow to create a complete picture of what happens due to corporate activities: focusing only on company internal effects prevents gaining knowledge on effects for society; focusing only on impacts (at level of society) prevents gaining knowledge on how these impacts are caused. The next steps (6 & 7) therefore tackle how to monitor and measure company internal effects (Performance) as well as effects at level of society (Impact). One of the main challenges in the CIAM process lies right here: **differentiating company performance indicators from those measuring impact**!

Additionally, indicator creation and / or selection can – depending on the issue to be monitored – be a complex task itself and will only be useful if done in comparable manner by companies. Before discussing and explaining how to generally discern between outcome and impact indicators, this raises the question of responsibility: **indicators created by individual companies alone will not suffice for generating comparable knowledge**.

At least for the most important sustainability issues there should be some kind of common agreement on which indicators to use. This of course sheds light on the potential role of public actors. At a minimum, the identification of societally relevant issues should be a task where public actors take over responsibility. The IMPACT study also indicates that they could play an important role in common indicator development and selection. A central recommendation to policy makers is to establish an independent information clearing house on EU level with the specific tasks of:

- Collecting & sharing existing practices and measurement tools
- Identifying & developing indicators (possibly connecting to indicators already in use)
- Supporting the development of indicators in complex pathways of impact and cross-issue

Experiences so far show that **engagement of individual companies and other actors (rating agencies and non-governmental organizations) did not lead to commonly used indicators** even in highly political, debated issues. This can be very well illustrated in the issue area of climate change:

Example

Climate change – and its probable consequences on environment and societies – is the sustainability issue ranking highest on the political agenda over the last few years. This led to manifold corporate activities on climate change, some of which were introduced due to legal obligations others due to financial pressure or on voluntary basis. In parallel the scientific community started to create ways on how to track corporate effects on climate change – namely how to measure companies' emissions of greenhouse gases.

Example (continue)

Nowadays there are plenty of actors offering the calculation and monitoring of carbon footprints for individual products or whole companies (and sometimes their supply chains etc.) and CO_2 emissions is one of the most common indicators for sustainability reporting and asked for by rating agencies etc. At the same time, the area of climate change is an area well suited for quantitative measurement: there are scientifically proven cause and effect relationships, measurable units for energy consumption and emissions, and strong practical experience on how to measure. Even though, when comparing corporate reporting on climate change, emission data in most cases are not comparable as the indicators used are not:

- **The calculation of company related GHG emissions is influenced in the choice of emission factors (for calculating emissions based on energy consumption). The identification of fitting emission factors is a tricky task and bears the potential for uncertainties and lacking comparability: when comparing available emission factors for specific countries huge differences appear. In most cases, companies do not report which factor they use**
- **Upstream emissions may be included in corporate data or not**
- **Some datasets include only carbon dioxide emissions and neglect other greenhouse gases (so-called "Kyoto gases")**
- **There are different ways of how to take CO_2 emissions of renewable energies into consideration**

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Despite all these complexities and challenges when thinking about tracking effects, the following steps shall give first insights into ways in which managers can discern between outcomes (at performance level) and impacts (at level of society).

Phase IV – Tracking Effects

Step 7 Establish & **measure key indicators of company performance**

Company internal changes and / or effects can be split up in different categories:

> Corporate decisions on how to act and what goals to reach (Outputs, Steps 4 & 5);

> Investment of resources and translating decisions into practice (Implementation, Step 6);

> Actual changes occurring from corporate decisions and implementation (Outcome).

When aiming at evaluating the company internal success of corporate action, it is decisive to monitor outcomes. Outcome is part of the company's performance and therefore located on company level. With "outcome", we mean company internal effects due to the implementation of activities aimed at tackling certain issues.

On qualitative level it might be a rather easy task to describe and analyse company internal changes. These could for example be the introduction of electric cars in the company car fleet or the introduction of regular health and occupational safety training for employees. On quantitative level this gets much more complicated. At the same time it is important trying to measure changes on quantitative level to prove the effectiveness of implementation.

When thinking about what are the company internal changes to be monitored and measured, you should always keep in mind that performance – and thus outcome – is a prerequisite and precursor of impact. **Creating performance indicators should therefore start with clarifying the impact.**

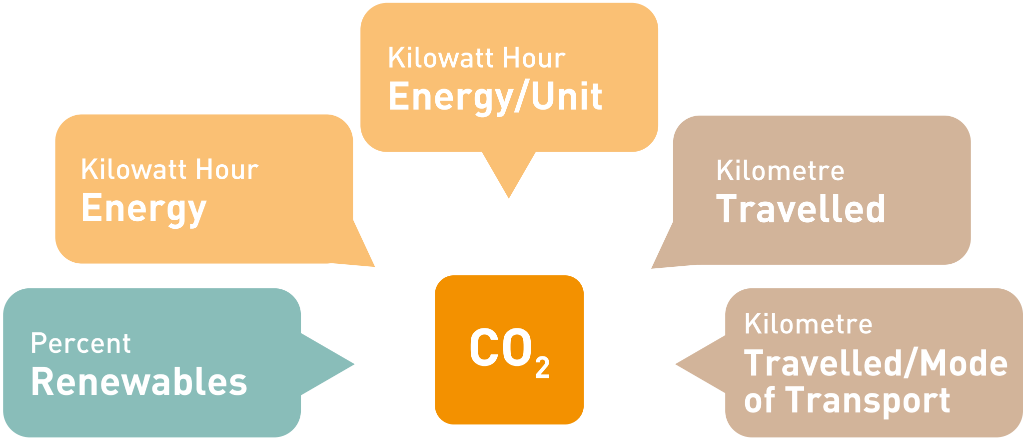
Clarify the (corporate) impact to be achieved
part of Phase I

Clarify what the company internal prerequisite of this impact is → Outcome
part of Step 2

Identify indicators for measuring the outcome
Identify indicators for measuring the outcome

Only then, the company internal prerequisite – that is, the specific activity to be implemented or the change to be achieved – of this corporate impact can be determined, while this again is the basis necessary to identify indicators for measurement. Depending on the outcomes / internal changes aimed at by implementing activities, indicators can be selected.

The figure below is used to illustrate that even when there is only one impact aimed at – in this case carbon dioxide – there might be several performance indicators used to measure the company internal dimension (Performance):



7

Example

In the issue area of climate change, the overall impact to be achieved is a reduction of CO_2 emissions. For the company this means to reduce corporate CO_2 emissions and CO_2 emissions of its products throughout their life-cycle. After identifying pathways of impact (Step 2), the company will know several ways how to reduce these emissions, such as:

> **Increasing the share of renewable energies (by purchasing or generation through own facilities)**

> **Increasing energy efficiency, esp. in production**

> **Increasing energy efficiency of products (in case of a manufacturer of energy-intensive goods like household appliances, cars etc.)**

> **Reducing the amount of business travels, but esp. flights and car use**

Implementing these activities will – hopefully – directly create outcomes that can be measured. The company now should create quantitative indicators to assess and monitor these outcomes. For the examples above indicators could be:

> **Share of renewable energy in percent of total energy consumed**

> **Total amount of energy consumed in kilowatt hours (kWh)**

> **Amount of energy consumed per unit produced**

> **Total amount of kilometres travelled**

> **Kilometres travelled by plane, car, and train**

Having a look at these indicators already tells a lot: If we focus on the amount of energy consumed per unit produced, the company will know whether energy efficiency activities actually work. If the amount of energy consumed per product decreases, they do. Then a company might notice: energy consumed per product decreases, but total amounts of energy consumed increase. This would mean that energy efficiency activities might work but increasing sales and thus production seem to outweigh their effects. An additional solution for not losing sight of the impact goal could then be to increase the share of renewable energies.

This question of impact indicators ultimately depends on the set of activities implemented to achieve the impact. The more activities of different types are implemented, the more indicators might be necessary to monitor effects. So long as a company only tackles energy efficiency, two basic indicators might suffice (e. g. total amount of energy consumed & amount of energy consumed per unit of output). When this company starts tackling business travel, energy sources, and other phases of product life-cycles, this of course increases the amount of indicators necessary to track potential effects.

In general, relative indicators can be important tools to measure internal changes at the level of the firm. The advantage of relative indicators is that they are able to make changes and effects visible no matter how many units are produced / sold and whether production volumes change. Thus, **relative indicators** helpfully:

> Display pure effects of intra company changes / developments

> Neutralize effects from economic development

When using relative indicators, **reference selection is crucial**. In most cases, the easiest way to deal with relative variables is to use turnover as a reference (e. g. electricity consumed per Euro of turnover). This however brings in many intervening factors: turnover is not only influenced by sales development but also by development of prices; for international companies currency fluctuations may be relevant etc.

An ideal reference for manufacturing companies would be units of production (e. g. electricity consumed per unit of production), while the exact figure very much depends on the sector (could for example be per single product – e. g. car – or per ton of product – e. g. raw materials). Whether this is possible at all, of course, depends on the specific sector and company. Service companies will for example have to find other solutions (e. g. per person months). Determining the reference therefore is a uniquely individual task for each company but has to be done thoroughly.

As shown in the example above, this does not mean there are no absolute indicators helpful for identifying company internal effects. And in many cases, the combination of relative and absolute indicators is particularly instructive (see example above). Having said that, absolute indicators on performance have to be selected carefully and it has to be acknowledged that absolute performance indicators in most cases are only helpful in combination with other, relative, indicators.

Drawing again from the example above: the absolute amount of energy consumed alone does not tell very much. Decreasing amounts of energy consumption could e. g. be caused by increasing energy efficiency, outsourcing of certain activities to other companies, or decreasing production due to the economic situation of the firm. Only the use of additional indicators can clarify such questions. Additionally, when selecting absolute indicators it has to be ensured that these do actually focus on the company internal level and are clearly discerned from impact (see Step 8).

8

7

Focus on SMEs 7

In IMPACT, on average 19 % of SMEs stated that they actually measure outcomes and impacts for several issues. When asked not only for measurement but also for "best estimates", on average 50 % of SMEs were able to answer the same indicators.

Those figures available the most were average contract length (100 % availability), share of permanent employment contracts (83 % availability), and share of women in board / executive positions (80 % availability) in the Quality of Jobs domain. Share of waste recycled (34 % availability) and energy consumption (23 % availability) for environment; least availability was observed for overtime hours as percent of total full time equivalents (FTE) (57 % availability), and annual hours of training per FTE (58 % availability) for quality of jobs and use of renewable energy (13 % availability) and CO_2 emissions (9 % availability) applied for Environment.

These results show that measurement is not an easy task for SMEs. Even more than for most of the other steps mentioned so far, resources and capability have a huge influence. Quantitative measurement will be an issue not to be implemented systematically within the near future for most companies – and this is specifically the case for SMEs. Nevertheless, SMEs are still able to make assumptions about indicators even if they do not exactly measure. This is especially the case for quality of jobs issues – while for environmental issues allowing "best estimates" instead of exact measurement did not lead to large improvements of data availability (see above).

Again, part of a solution for SMEs – and other companies facing problems with implementing measurement – can be to simplify their processes, such as:

- When identifying indicators, the final selection should be limited to the absolutely necessary minimum required
- Focusing on fewer issues at the beginning reduces measurement efforts as well
- When beginning measurement, use what is already there. New or additional indicators can be added later on
- As long as measurement is not possible or cannot be implemented, qualitative assessment can be a low-scale monitoring tool as well. It is important, however, to relate these assessments from the outset to the performance indicators which will be potentially measured at a later stage. This means basing qualitative assessment / evaluation on logical assumptions on whether changes observed actually lead to performance improvements or not.

Phase IV – Tracking Effects

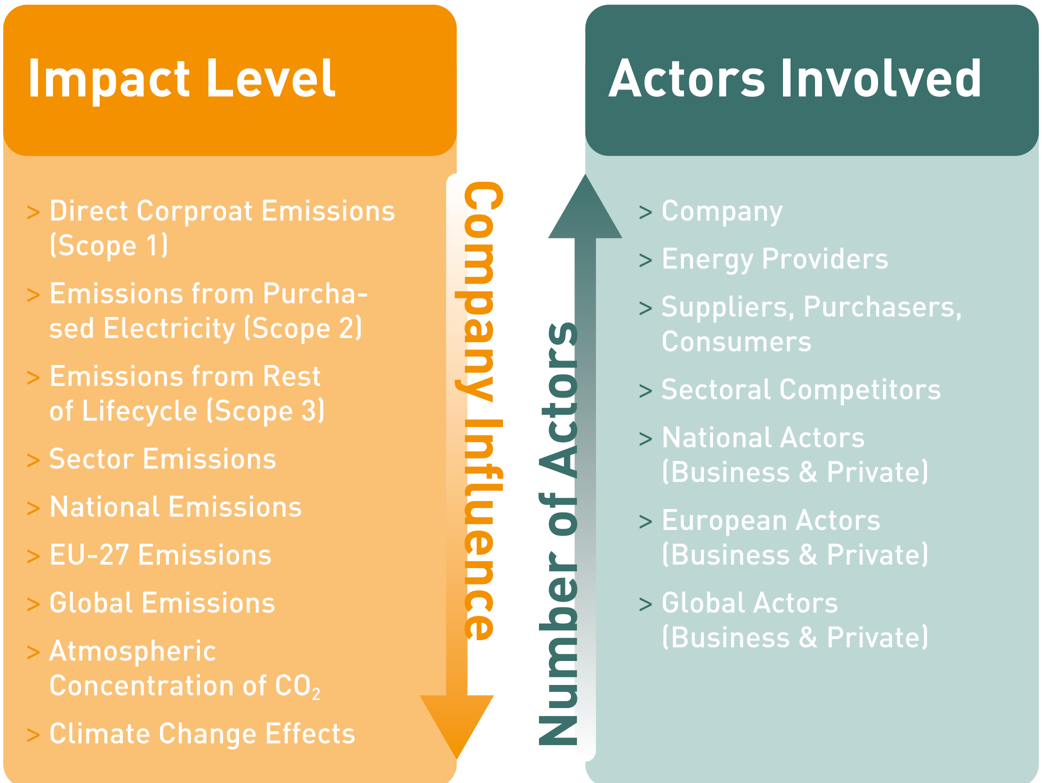
Step

8 Establish & **measure key indicators of societal impact**

Delivering the improvement of **impact** is the end goal of CIAM. Impacts are verified by evidence over time, not just performance improvement in the short-term. Performance improvements are nice to have – but from the societal perspective these are only relevant if they ultimately lead to impact improvements. In CIAM, performance improvements without improvement of impacts would be a reason to reconsider the activities implemented.

As mentioned before, impact is located on the level of society: impacts are social & environmental effects (external to the company) due to the implementation of (corporate) activities. For the company, this means to trace outside effects. Now, managers might raise arguments – and many actually did so when surveyed in IMPACT – that this is not within the responsibility or at least within the interest of a company. The answer CIAM provides to such arguments is: this very much depends on the **impact level**.

The figure below attempts to illustrate what we mean by “impact levels”:



The key message for managers here is the following:

> **The higher the impact level, the more complex it is to measure.**

> **The higher the impact level, the harder it is to prove causality.**

These maxims hold true, not only the impact for a certain issue, but also for a chain of impacts. Lower level impacts (1st level at least) can still be related to a single company – and this is where companies are responsible and should be interested in – whereas higher level impacts might be regional, sector (in other words: the aggregation of the impacts from multiple companies) or indirect impacts. Lower levels of impact still measure basic effects, whereas higher levels of impact measure effects further down the chain. The exact chain of impacts depends on the issue.

The graphic above presents an overview of an impact assessment for a given issue at multiple levels – in this case, climate change. It also illustrates the actors involved: the higher the impact level, the more actors are involved in influencing impacts and the harder attributing impacts to individual actors gets. This partly explains why **for each chain of impacts, there is a level where assessing or measuring impacts will become too complex to be done by companies**, usually because:

> Causal chains are unknown or too many contingencies and counterfactuals come into play

> Calculation / measurement is too complicated

With each specific issue, it is to be clarified at which point the responsibility of the company ends and which other actor supports or even does the assessment / measurement of (the company's influence on) these impacts. Again, the role of an EU supported, independent clearing house as mentioned above should be clarified.

Still, for lower level impacts companies cannot deny responsibility. It is corporate activities which cause and create these impacts and thus it is the responsibility of companies to know about these impacts – positive and negative. Knowing about and understanding impacts implies a responsibility to monitor and measure them over time. Additionally, without impact measurement – at least of lower level impacts – by companies, they would not be able to evaluate effects of implemented activities to improve impacts. Thus, the aim of CIAM could not be assessed.

In contrast to performance, qualitative assessments will not help to monitor impacts. Corporate impacts are direct or indirect consequences of corporate action and CIAM is interested in changes in impacts as consequences of changes of corporate action (performance). As such, only corporate activities and changes of these can be qualitatively assessed. Assessments of consequences (impacts) might be based on logical assumptions of how performance changes affect impacts instead of measurement, but qualitative assessment of impact itself is not possible.

As mentioned in Step 7 already, before identifying and selecting performance indicators, the impact should be clarified. When implementing impact measurement the identification and selection of impact indicators therefore is done already. The company must then take into account the relationship between those two:

> In some cases an impact indicator for one issue might be a suitable performance indicator for another issue – e. g. when specifically discussing raw material use with the absolute amount of (a specific) raw material used as an impact indicator, the total amount of production waste (of the specific material) might only be used as performance indicator while it could still be treated as impact indicator when discussing waste as the impact.

> At the same time, a specific performance indicator can be related to several impact indicators – e. g. increasing raw material efficiency (raw material used per unit produced as performance indicator) might a) reduce production waste (absolute amount of waste as impact indicator for the issue waste), and b) reduce the total amount of raw materials used (impact indicator for the issue raw material use).

These examples show that it is not possible to identify and select performance or impact indicators without taking the other part into account.

It is also important to note: while relative indicators are well suited to be performance indicators in many cases (see Step 7), **impact indicators will in most cases be absolute indicators**. This is particularly true in the environmental realm, where volume of materials and emissions are decisive.

While relative indicators neutralize economic effects, this is not relevant for impacts. No matter whether changes are caused by the company's (voluntary) activities to tackle certain issues or by increased / decreased consumer demand of its products (translating into increased / decreased production) etc. – what finally matters for society & environment in most cases are absolute data, especially for environmental issues. This does not mean that it is not possible to have relative impact indicators, but it will be less often than absolute indicators.

As it is the case for the development of performance indicators, where it has to be ensured that these do actually focus on the company internal level and are clearly discerned from impact, the impact indicators have to clearly focus on level of society. This is mainly to be achieved by selecting the right unit. While for example kilowatt hour (kWh) is not a sensible unit for impact measurement – as environment is not affected by kWh alone and the final environmental effect will be determined by other factors as well (e. g. share of renewable energies) – the impact indicator here would be CO_2. Again, the choice of units is an important one and should be done thoroughly.

Focus on SMEs 8

While performance measurement is not really different, or more or less complex, than impact measurement in most cases – this was verified in IMPACT by the fact that the availability of performance and impact indicators in case studies on average was almost at the same level – some of the recommendations for simplifying measurement (see Focus on SMEs 7) will not work for impacts. It is for example not possible to make qualitative assessments of impacts (see above).

At the same time there still are some cases where it actually is more complex to generate impact data. These are those cases, where the relation between performance and impact is not just relative vs. absolute data, but completely different units.

For example, perhaps most important impact indicator for the issue of climate change is "absolute amount of CO_2 emissions in tons". Still, data on CO_2 emissions is not data that is available in companies without specific efforts to generate it. The starting point for calculating CO_2 emissions is data on energy consumption: the amount of energy consumed (e. g. in kilowatt hour) can be converted into CO_2 emissions by using so called emission factors (telling which amount of CO_2 emissions is related to a certain amount of energy consumed). While data on energy consumption are available in any company at least for electricity (via their electricity bill), it requires expertise and resources to convert these data into CO_2 data. While it may be commonly accepted for large companies to report CO_2 data – basically as a reaction to European emission trading, reporting standards and rating agency information requirements – for SMEs this still is a challenge: While 23 % of SMEs were able to insert energy data (energy consumption in kilowatt hour), only 9 % were able to insert information on CO_2 emissions.

In such cases, many companies might be overburdened with exactly calculating / generating impact data. Initial efforts might then focus on performance measurement, while impacts are not quantified but assessed by logical assumptions. This is of course only possible if direct causal links between performance and impacts are there, known and verified (as it for example is the case for energy consumption and CO_2 emissions where a reduction in energy consumption usually leads to less CO_2 emissions – as long as other variables remain stable, e. g. the purchased energy mix / share of renewable energies). Then however, performance data can at the same time serve as proxy indicators for impacts as long as no impact measurement is possible.

To summarize the above, IMPACT's basic guidelines for indicator development are the following:

> **Take into consideration the relationship between performance & impact**. There is no obvious untouchable categorization of indicators to performance or impact – this depends on the issue you look at. When identifying and selecting performance indicators you should therefore know what impact you want to achieve / influence – and the other way round.

> **Performance and impact should be clearly discerned from each other**. This can be achieved in different ways (e. g. relative vs. absolute indicators may be a simple way in many – but not all – cases), but units will play a decisive role and should be chosen carefully.

- **Companies are responsible for their impacts – this also applies to monitoring and tracking impacts**! Without knowledge on impacts, they cannot be steered and/or the success of influencing impacts cannot be evaluated. This does however not mean companies would be responsible for measuring all the impacts there are. For each issue there is a level of impact where a company's responsibility ends. This level has to be defined – ideally not by companies alone.

- **Avoid seeking data on a highly aggregated level**. This hampers the identification of causalities & therefore potential solutions. For reporting it might be sufficient to publish global data; for monitoring and steering the implementation of activities to improve performance and impact, less aggregated data (e. g. on national level) is more feasible.

- **Keep indicators as simple as possible** – the more complex they are, the less likely it is that the data will be available!

Reaching this stage in the CIAM process, and taking on board such a volume of considerations, is a complex and challenging task. Nonetheless, with the end prize in sight, the diligent manager will persist, confident that the worst is already over!

Phase V – Reporting & Evaluation

Step 9 **Report** on strategy, activities, outcomes and impacts

An essential part of company action is to be transparent about the material issues it seeks to tackle and influence and the effects – especially impact – it actually has. Reporting should represent all the steps of CIAM, especially strategic decisions on which issues how to influence and the outcomes and impacts of these activities.

The role of sustainability reporting should not be underestimated: research for large companies in IMPACT showed positive effects from mandatory reporting on CSR performance. The main pathway of influence for CSR reporting was to increase stakeholder awareness for CSR, which then led to higher motivations for the company to improve its performance. In other words: sustainability reporting increases awareness of corporate stakeholders for sustainability issues. A company observing increased stakeholder awareness for sustainability is then urged to improve its CSR performance. Thus, reporting is also but not only about transparency and credibility. Reporting can in fact make a difference for the company's performance and thus impacts on sustainability.

The company should be open in sharing with stakeholders its rationale behind identifying and prioritizing pathways of impact, and the approaches and interventions it intends to deliver to achieve impact. Ideally this not only seeks to present which and how issues are addressed by the company but also which issues are not tackled and why. This should of course not lead to detailed justifications for a multitude of issues, but there might be issues being relevant at first sight which are not tackled by the company for broader strategic reasons. It may be a reasonable reaction of most companies not to mention issues that are not tackled, because explaining the reasons why not to tackle the issue raises interest of the public for this issue. Still, in terms of credibility it is better to proactively explain why some issues are addressed and others are not than to wait for external stakeholders to bring these issues up.

It is of special importance to show how the company exactly tries to improve its impacts. It therefore is not enough to state strategic decisions on which issues to tackle and corresponding goals. Reports should contain information on what the company is going to implement.

As mentioned in the description of Steps 7 and 8, measurement should not only serve internal purposes but make company performance and its impacts transparent to a wider public. Only the publication of outcome & impact data reveals whether sustainability engagement is successful.

Focus on SMEs 9

According to IMPACT results, on average 18 % of SMEs report about their engagement on sustainability. On specific issues, those reported on by SMEs the most are occupational health and lifelong learning, whereas the least are gender equality and supply chain management.

These results do not say anything about the type of reporting done by SMEs. This ultimately is not the crucial question: with limited resources available the main aim should be to use information internally and improve impacts. From a societal perspective, this is more important than informing a wider public. It of course would be wise, even with little resources, to at least publish information that is there anyways in a way that does not create much additional effort and costs, e. g. on the company website.

Phase V – Reporting & Evaluation

Step 10 **Evaluate** impacts generated by strategy, targets and programmes of activities

Fulfilling all ten steps does not mean the process is once and forever done. It is an integral part of CIAM to be self-critical: the evaluation which underpins Step 10 provides input for a review of issue, impact and pathway selection. It is inevitable, given the ongoing turbulence and effects of the multiple crises in Europe, that new issues will become relevant and demand attention. After solving one issue, another could be tackled next; if the evaluation finds that outcomes and impacts do not change as a result of implementing activities it might be rethought which activities should be implemented and how, etc. The 10 steps are a constant approach that is managed as an ongoing process.

This final stage implies an evolving design based on continuous improvement and integration of new trends & factors, such as:

- An ongoing revision of mapping (Step 2) ensures that relevant company internal and context changes are taken into account.

- Measuring & tracking outcome and impact changes / effects over time which leads to insights on whether the activities implemented improved outcomes and impacts of the respective issues and pathways of impacts. With this knowledge at hand, adjustments can be made.

- In case priority issues (Step 1) are effectively tackled, minor important issues can be addressed.

Issue selection, strategies, targets, programmes on activities & their outcomes and impacts should be evaluated regularly to ensure target achievement. Based on this evaluation, a review of the aforementioned should be conducted and adjustments be implemented.

The Partnership for Health – An example of impact thinking & mapping

Let us finish the explanation of CIAM and its steps with an illustrative example. The Partnership for Health, analysed as network case study in IMPACT, serves as a practical example of how CIAM can be put into practice. Even though the partnership did not use or even know the CIAM approach, they implemented many of the ten steps explained. This proves that CIAM can be an intuitive, easy-to-implement approach as soon as impact thinking is embedded in managers' minds.

At the same time it shows that CIAM is not a prescriptive process to be done step by step. Some of the (sub-) steps were not implemented at all by the Partnership for Health (for example, they did not map all the pathways of impact the companies had on the issue, but only identified and created a new pathway they wanted to use to influence impacts) and others are done at the same time (e. g. identification of the pathway to tackle, prioritization and the decision what to tackle and what to do).

Step 1

Identify & select **material societal issues** for your sector and company

The Partnership for Health was formally established in 2006. The original concept of Partnership for Health was developed by a manager of Danone Poland. He performed an **issue-based analysis of the Polish market which identified undernourishment of children from low-income families as a material problem** which Danone Poland might tackle. The purpose of the partnership was to **improve the nutritional status of children in the poorest sections of Polish society and thus their educational attainment**.

Step 2

Identify & prioritize which of the company's **activities lead to impacts**

A: Mapping company's influence on the issue

The Partnership for Health was set up to bring about direct impacts for society linked to poor childhood nutrition: It has direct effects on the nutritional status of children. The partners take the view that **there is a set of pathways around nutrition at school that lead to social outcomes**. For example undernourished children are known to be less able learners at school. Undernourished children are also less attentive and more demanding in class situations, leading to short- and long-term educational and social problems. As their educational attainment is often impaired this can lead to restricted lifetime opportunities. Clearly, the problems of undernourishment do not normally arise in isolation from a bundle of other social problems but the Partnership for Health provides a means to address the undernourishment aspect of poverty through a business model that requires parents to pay for their child's better nutrition at low cost and the partnership provides the market possibilities through which that better nutrition is delivered.

B: Mapping who else influences the issue

The second step in the process was to **map all of the existing organisations with a direct or indirect focus on child malnutrition, and to identify which among those would bring the most relevant expertise and competence to a partnership**.

The Partnership for Health is a coalition of three companies – Danone, Biedronka, and Lubella – working with the Institute of Mother and Child in Warsaw (The Institute for Mother and Child is concerned with the wellbeing and welfare of mothers and children in Poland). Lubella produced Milky Start; Biedronka (the supermarket) distributed and sold it and had exclusive rights to sell Milky Start in exchange for complete distribution rights throughout all its shops; the Institute for Mother and Child was involved in the partnership to guarantee the quality of the product Milky Start ad to support nutritional information that was to be provided; Danone took responsibility for developing the communication about Milky Start but otherwise was not involved as a business partner in the project.

Step

3 Identify & **assess activities** that might reduce negative or create positive impacts

The main activity for improving impacts was **developing and providing an affordable and accessible nutritional breakfast product for low income families** with young children and by publicising guidelines for a balanced diet. To be successful, this approach had to overcome some significant economic barriers. In particular, the problems of affordability and accessibility in relation to poor families and the need to set up a distribution mechanism to deliver that nutritional product at a sufficiently low cost. Even more, **the partnership is also involved in educational programs and campaigns**. Its work with schools is designed to bring messages about good nutrition to school children and teachers. This campaign was set up in such a way that it has been possible to use the campaign as a way to find out more about the extent and effects of poor nutrition among young school aged children at the beginning of the day and the contribution of Milky Start to resolving the immediate educational and social problems of poor nutrition.

Step

4 Strategic decisions on which impacts are material to address & **formulation of targets**

The Partnership for Health is run on commercial lines by the mentioned organisations. And it directly aims at creating positive performance and social impacts. It has to perform in business terms by **not carrying any direct financial losses**. In order to do that the partnership has to be run in an effective and efficient and reliable way, as a business. In this **area it sets objectives and annual targets and monitors its performance**.

In terms of impact, the long-term goal is to abolish child malnourishment. The short-term target set by the Partnership for Health was to **reduce malnourished children by 50 % until 2015**.

Step
5 Select, adopt & commit to **programmes of activities**

The final decision was guided by a diverse set of motives. Thus, cost benefit assessments were important as well as the urgency of the issue and the potential to influence the problem:

As mentioned above, the initial idea was to tackle the problem of undernourishment of school children in low income families. At the same time the partners recognised, the objectives of the partnership are not necessarily in line with the motives and strategies of the partnering organisations. In that sense the partners have created the Partnership for Health as a vehicle that is rather separate from the partner organisations that set it up.

Additionally, the Partnership for Health creates direct and indirect economic returns to the partners involved. The companies are also involved because their participation in the project has an effect on the attractiveness of their company brand – the companies are increasingly known for their involvement in the project. This creates brand value in the eyes of customers as well as making the companies appear interesting to the types of employees they would each like to attract. The idea is that the companies do not just want to be known for their success in enterprise and their profitability but also because they are able to contribute to some project that has value to society. The partnership is interesting to the Institute for Mother and Child because it provides a project that enables the Institute to reach a wider audience for its good nutrition messages than would be the case if it acted alone.

Step
6 **Implement programmes of activities** to influence pathways of impacts

Since September 2006 over 50 million servings of Milky Start have already been sold. In the first half of the 2011 a monthly average of 2.3 million sachets of Milky Start has been sold all over Poland, which means the daily sales of about 80,000 servings. Currently, a portion Milky Start costs 0.69 PLN (0.16 Euro).

Step
7 Establish & **measure key indicators of company performance**

The main performance metrics of the partnership concern the sales volume of product and whether the product reaches those who it believes need it:

As mentioned before, since September 2006 **over 50 million servings of Milky Start have already been sold**, which reaches 80,000 children each day.

Considering that the most important recipient of Milky Start are the poorest families with children, with income per capita below 799 PLN per month , the Milky Start only in part is bought by this particular group – according to the representatives of the Partnership for Health . This group is very large indeed, because – according to studies – up to 23 % of Poles have a monthly income of not more than just these 799 PLN per person. Research shows, however, that Milky Start is over-represented in this group and as much as 27 % sachets sold goes to the poorest families in Poland. In 2009, the group bought an average of 3 734 servings per day, in 2010 – already 14 675, now – more than 26 000 servings.

Step 8 Establish & **measure key indicators of societal impact**

In addition to this performance the partnership also aims at measure its social impacts. It is of course hard to discern effects of Milky Start from other effects, so there is no clear evidence of the impacts of the partnership. Still, referring to **national statistics on malnourished children in Poland serves as a proxy**: the number of malnourished children has fallen and it is expected that Milky Start somehow contributed to this impact improvement. This is not an ideal impact measurement, but the best that is there.

Additionally, the Partnership for Health conducts surveys in schools on whether children eat meals, **what percentage of children in the class is apathetic, does not participate in classes, or physically looks malnourished**. These surveys could also serve to inform about impact developments (malnourishment and educational attainment).

Step 9 **Report** on strategy, activities, outcomes and impacts

The Partnership for Health is run on commercial lines by these organisations. And it directly aims at creating positive performance and social impacts. It has to perform in business terms by not carrying any direct financial losses. In order to do that the partnership has to be run in an effective and efficient and reliable way, as a business. In this area it sets objectives and annual targets and monitors its performance.

However, the partnership is also involved in educational programs and campaigns. Its work with schools is designed to bring messages about good nutrition to school children and teachers. This campaign was set up in such a way that it has been possible to use the campaign as a way to find out more about the extent and effects of poor nutrition among young school aged children at the beginning of the day and the contribution of Milky Start to resolving the immediate educational and social problems of poor nutrition.

On the back of activities implemented, the partnership has created a website to showcase publicly its overall objectives, present accomplishments against targets, as well as highlight areas where it is struggling to reach (and also measure quantitatively) its impact goals.

Step 10 **Evaluate** impacts generated by strategy, targets and programmes of activities

While these impacts are difficult to assess or measure, the partners have long since recognised that the objectives of the partnership are not necessarily in line with the motives and strategies of the partnering organisations. In that sense the partners have created the Partnership for Health as a vehicle that is rather separate from the partner organisations that set it up.

Summary and Conclusions

Reflections on the Overall IMPACT Project

IMPACT results showed, where outcomes and impacts from corporate CSR policies and programmes are measured, there is no convincing evidence that there are significant improvements over time large enough to create change and reach major policy goals. For us it is therefore obvious that voluntary sustainability action as usual cannot be "the" solution to environmental, economic or social problems confronting business and societies. It can only contribute a small piece to an answer which has to be much broader (e. g., as part of a policy mix).

This is partly caused by the fact that managers and companies had no standardised and accepted ways of taking into consideration and assessing their impacts / the impacts of their activities and thus hampering larger impact improvements. The IMPACT research team looked at other forms of organisation as well, not just companies. It looked at: (1) networks of companies and other associations promoting CSR or aspects of the CSR agenda; (2) ratings agencies (focused on "sustainability"), and (3) organisations like GRI which generate internationally used reporting frameworks. The key insight here is that impact thinking and approaches in most cases are not deployed in these organisations any more than they are in companies.

It appears that European companies today are ill equipped to assess, manage and transparently communicate on their impacts for society, despite the aspirations and expectations of European policy makers and citizens.

Key Success Factors for Making Progress

IMPACT showed that it is of eminent importance that future corporate activities focus on impacts. Encouragingly, a wide range of interviews and surveys confirms that many managers are interested in being able to trace the relationship(s) between a company's activities and its impacts for society. In the context of our analysis, these are referred to as pathways of impact.

Nevertheless, the IMPACT data show that there is no clear understanding about how to approach this either. There was no evidence of existing methods for the identification or mapping of impact pathways. By extension, the research found no commonly accepted standard methods, tools and techniques to measure impacts for society.

The study therefore proposes that a Corporate Impact Assessment & Management (CIAM) approach is needed if responsibility is to be taken seriously – this approach has some parallels with management systems.

In order to address this deficit, it is evident that industry will need to engage closely with policy making institutions (at the EU and member state level) and other key stakeholders to develop the practical tools and methods which will permit them to trace and measure their impacts.

Any such collaboration will be well advised to ground their work in variants of approaches used in management systems. Future tools and methods will need to be able to trace and measure how activities lead to consequences – just as management systems seek to bring environmental or social information into decision making in a systematic way.

In the case of sustainability indices and ratings agencies, it is clear that they have an important future role to play, given the increasing value investors place on material information on companies linked to environmental, social and governance ("ESG") performance. As our study has tried to show, it is not much of a logical leap to go from performance to impact! In this light, therefore, it is rather curious that they do not seem to measure the sustainability of a company's activities in terms of its impacts – both positive and negative – on its operating environment.

Nonetheless, the IMPACT team recognize the limitations of time and scope in terms of researching these kinds of indices and agencies, and acknowledge that there may be current or emerging cases which would demonstrate a different commitment to sustainability assessment and measurement.

The analysis in IMPACT also shows that there is no practice in companies to discern effects stemming from voluntary activities (CSR in the sense of the former definition by the EU Commission) and other company activities (e. g. caused by regulation). The main obstacle is that data is not collected in ways discerning between different types of activities addressing the same issue or different motivations for different activities. This is also a criticism levelled at companies from the world of investors (asset owners and managers) – an inconsistency in the data and confusion of what is genuinely material.

The IMPACT team does not recommend doing so in the future. The focus of corporate assessments and management should be on impacts and how they can be achieved. Whether impacts were achieved purely by voluntary activities, or in combination with activities or changes due to legal compliance, is not essential when it comes to the question of how to contribute most effectively towards sustainable development. A more coherent agreement between companies and financial market actors on what constitutes material data, on the other hand, would be a significant leap forward in terms of defining impacts and deciding what to assess and manage.

There is another important challenge, however, which businesses will need to tackle internally if they are to align their activities with these new European public policy goals and societal expectations. This is the development and embedding of impact thinking in companies.

In other words, a company uses the positive impacts for society which it seeks to create as the decision-making framework which determines and shape its strategy, commercial and non-commercial activities, resource allocation, etc. Within the context of impact thinking, financial goals and returns on investment or capital employed are no longer the predominant factors in decision making.

Assessing and measuring a company's impacts for society is a long-term commitment. It should also by definition be an evolving process and approach, as companies adapt their systems and operations to changes in their business context and what constitutes material issues to the company.

Without impact thinking at different decision-making levels within a firm, it is hard to envisage a company making the necessary commitments to integrate corporate impact assessment and management into its DNA.

Acknowledgements

The IMPACT consortium would like to thank the European Commission's Directorate for Research & Innovation for having supported its work under the 7th Framework Programme.

Foremost among the Commission's inputs has been that of Mr. Dominik Sobczak, Scientific Coordinator in Unit L2. As the Project Officer for IMPACT since its inception, Dominik has been an exemplary source of advice and guidance throughout. We are deeply grateful for his invaluable contribution to the overall project and its delivery.

We would also like to recognise the inputs of a select group of senior people who gave freely of their time to sit on the project's Strategic Advisory Board. This body convened at regular intervals to review progress and challenges with the scientific leadership of IMPACT, and to provide feedback on the materiality and relevance to stakeholders of emerging insights. Chaired by ABIS' President, Professor Gilbert Lenssen, the Advisory Board featured the following eminent individuals from industry, academia and civil society:

Business:	Jeremy Bentham, Royal Dutch Shell NV; Uwe Bergmann, Henkel; Mike Patrick, TNT Group;
Academia:	Ruth Aguilera, University of Illinois-Urbana; Elzbieta Kawecka-Wyrzykowska, Warsaw School of Economics; Bjarne Ytterhus, BI Norway; Beat Bürgenmeier, University of Geneva;
Think Tanks/Civil Society:	Ralf Frank, DVFA GmbH and EFFAS; Teresa Fogelberg, Global Reporting Initiative; Andrew Wilson, Corporate Citizenship; Eleanor Haller-Jordan, Catalyst Europe AG; Anthony Kleanthous, WWF International; Bruce Haase, WWF International & IDH The Sustainable Trade Initiative.

Last but not least, IMPACT would not have happened without the diligence, passion and ongoing commitment of many individuals who were involved in the research consortium. They have all contributed to the design, development and execution of the project since the Commission launched its Call for Proposals in 2008. For that, they deserve all due thanks and acknowledgement for having helped us to embark on the journey in the first place, let alone reach the finish line in 2013!

By Institution & Individual

Oeko-Institut:	Regine Barth (Coordinator); Christoph Brunn; Inse Warich; Katarina Schmitt
Aalto:	Minne Halme; Mika Kuisma
ABIS:	Simon Pickard; Joris-Johann Lenssen; Elena Urizar; Claudia Kipka
CBS:	Jette Steen Knudsen
CentERdata:	Marije Oudejans ; Marika de Bruijne
CEU:	Peter Hardi; Gergely Radácsi
IESE:	Steven Macgregor; Joan Fontrodona
INSEAD:	David Ronnegard; Luk Van Wassenhove
ISOE:	Irmgard Schultz; Barbara Bernard
Kozminski:	Boleslaw Rok; Iwona Kuraszko;Inga Szaniawska
KU Leuven:	Luc Van Liedekerke; Ann Van Espen
MIP Milan:	Paolo Maccarrone; Anna Maria Contri
Nottingham:	Jeremy Moon; Wendy Chapple; Christian Herzig
Tilburg:	Johan Graafland; Hugo Smid
Vienna:	André Martinuzzi; Robert Kudlak
Vlerick:	Nigel Roome; Céline Louche
ZEW:	Klaus Rennings; Christiane Reif

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The IMPACT project receives funding from the European Community's Seventh Framework Programme FP7/2007-2013 under grant agreement n 244618

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