

Challenges and opportunities in social impact measurement



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Marketing and Communication Department
Management Solutions

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Introduction

*“Now is the time to secure the well-being of people, economies, societies and our planet.
It is possible. So, we must make it happen together.”*

– Antonio Guterres¹



Today, the business world is facing a growing number of challenges from multiple sources. In the words of Klaus Schwab², "for businesses, the economic, technological and reputational pressures of the current context carry the risk of a disorderly collapse and threaten to leave large numbers of workers and companies behind".

Some of these challenges are global warming and environmental deterioration, the inefficient use of natural resources, the increase in migratory crises, the violation of human rights, war conflicts, food crises in certain regions, employment crises, or the serious health crisis resulting from the COVID-19 pandemic, which in turn exacerbates these challenges and jeopardizes progress made in terms of development and social advancement.

Among them, social and environmental challenges have a particularly broad resonance with society, key stakeholders and regulators and supervisors, which is conditioning company strategy. According to the United Nations Global Compact⁴:

"Social sustainability is about identifying and managing the business impact, both positive and negative, on people. The quality of a company's relationships and engagement with its stakeholders is critical. Directly or indirectly, companies affect what happens to employees, workers in the value chain, customers and local communities, and it is important to manage impacts proactively".

Responding to these challenges requires a "sustainable transformation" of the business fabric in order to ensure its long-term resilience. This implies a paradigm shift in all areas: corporate strategy, product and service offerings, risk analysis, the operating model, relations with customers and suppliers, communication, etc. In short, the evolution towards a new business model in line with sustainability principles, particularly social and environmental ones.

The corporate sector is already immersed in this transformation, in response to changes in demand from customers and investors⁵ (figure 1). Examples include:

- ▶ **Efficient treatment of raw materials:** adaptations to transformation processes (manufacturing, packaging, packing, equipment maintenance, etc.). Some initiatives include the search for efficiency in the consumption of natural resources (use of certified raw materials, use of recycled or recyclable materials, etc.), and product adaptations to make them more sustainable (products without planned obsolescence, products that can be reused, refurbished, remanufactured or recycled, etc.).
- ▶ **Changes to distribution processes:** incorporation of environmental and people care principles such as the promotion of the local economy, the hiring of people at risk of exclusion and the restructuring of supply chains to improve transportation processes (reorganization and coordination of routes, more effective groupage, transformation of fleets, creation of offshore logistics hubs, etc.).

¹Antonio Guterres, Remarks of the Secretary-General to Member States on the 2021 priorities of the United Nations.

²World Economic Forum. Global Risk Report (2021).

³United Nations Global Compact for Sustainable Development and Social Responsibility.

⁴World Economic Forum (2021).

⁵Social Impact Chair at Universidad Pontificia Comillas, Open Value Foundation, Repsol Foundation, Management Solutions (2021).

- ▶ **Development of sustainable technologies:** comprising approved accessibility criteria, inclusive technological developments in the use and application of technologies and systems, and embedment of social policies in development projects (work-life balance policies, promotion of team diversity, etc.).
- ▶ **Human resources management:** incorporation of social and environmental criteria in the remuneration policies of company governing bodies, appointment of independent roles, implementation of policies to promote social rights, etc.

This transition towards a sustainable economy has led to the so-called "environmental, social and governance impacts of an organization's activities"⁷ becoming fundamental in business management. And this trend has sparked interest in measuring the value that companies' activities, projects and investments generate, in an effort to anticipate how opportunities may be captured and the risks associated with ESG impacts⁸ may be mitigated.

But how an "impact" can be defined? There is still little concreteness in the definition and scope of what constitutes a social and environmental impact; the ecosystem is still in the process of developing a common language. Some of the definitions proposed by international organizations with a relevant role in the ecosystem are:

1. The European Commission and the Group of Experts on Social Entrepreneurship (GECES) in its report "Proposed Methods for Measuring Social Impact" defines social impact as follows: "the reflection of social outcomes as measurement, both long-term and short-term, adjusted for the effects achieved by others (alternative attribution), for effects that would have happened anyway (deadweight), for negative consequences (displacement) and for effects declining over time (drop off)"⁹.
2. According to the World Bank¹⁰, environmental and social impacts refer to any actual or potential changes in relation to: (i) the physical, natural, or cultural environment, and (ii) the (ii) impacts on the wider community and workers as a result of the project activity in question.
3. Impact Management Project, an initiative that, since its launch in 2016, has brought together more than 2,000 professionals from the social impact measurement and management ecosystem, defines it as: "The positive and negative, primary and secondary long-term effects produced by an intervention, direct or indirect, intended or unintended"¹¹.

⁶Social Impact Chair at Universidad Pontificia Comillas, Open Value Foundation, Repsol Foundation, Management Solutions (2021).

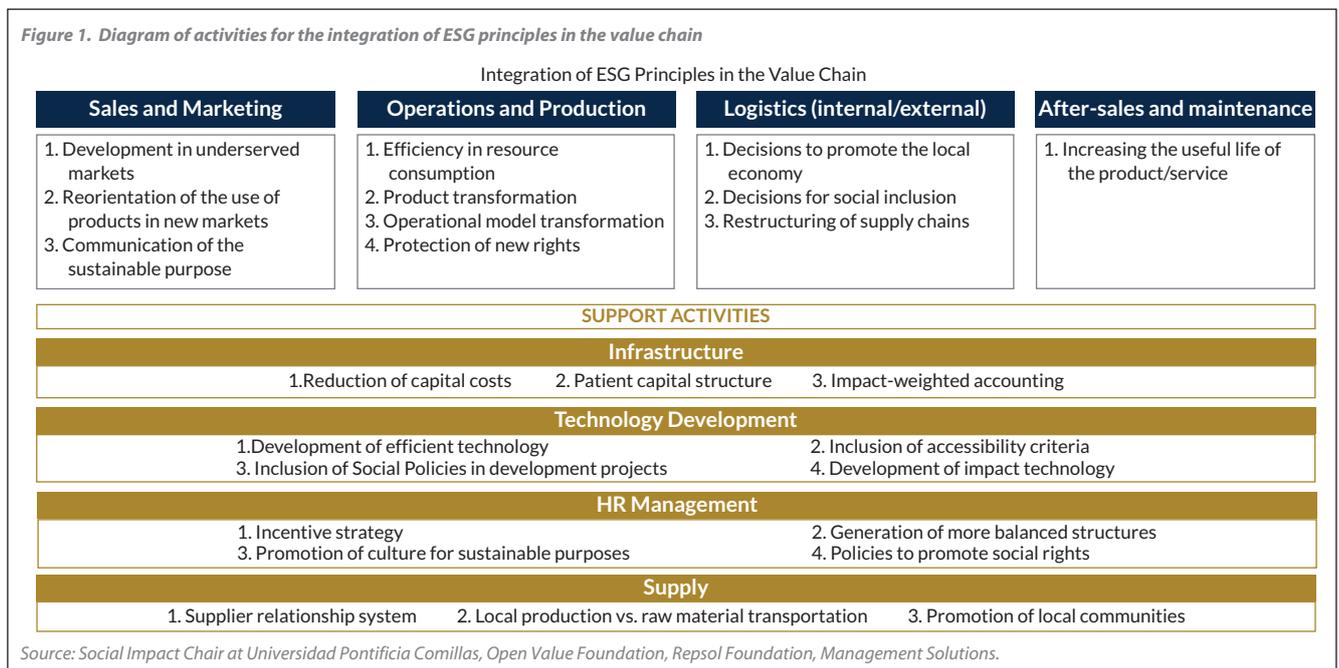
⁷In order to simplify the reading, the concept of "social and environmental impact", mentioned recurrently throughout the report, is referred to interchangeably as "social impact", "ESG impact" or "impact".

⁸ESG stands for the three most widespread indicator parameters in the corporate sustainability ecosystem: Environmental, Social and Governance.

⁹European Commission (2015).

¹⁰Banco Mundial (2017).

¹¹Impact Management Project (2021).



As can be seen, the definitions all agree on the idea of generating changes in human welfare even if they are slightly different from each other.

In an attempt to overcome the confusion arising from the absence of a common notion of social impact, the Social Impact Chair at Comillas Pontifical University, Open Value Foundation, Repsol Foundation, Management Solutions recently proposed a definition that has been endorsed by a large number of experts in the field:

“The changes experienced by both people and the planet as a result of a particular activity, program or policy, which affect human conditions over the long term. These changes may be measurable, positive or negative, intended or unintended, tangible or intangible”.

In addition to reviewing the definition of social impact, many questions are addressed: How are social, environmental and good governance impacts measured? Are there standards that define the methodology and make it possible to build sustainability strategy reporting and monitoring exercises? Where do the difficulties currently lie in implementing these social and environmental impact measurement exercises in organizations? What is the current state of development of these practices in the business world and what are the future trends in the market?

This paper will attempt to answer these questions and is structured in three sections

- ▶ **Regulatory context:** the document will first provide a brief review of the regulation, focusing on Europe and on international standards setting out the first guidelines on social impact measurement and reporting.
- ▶ **Characteristics of the impact measurement and management process:** the paper will then discuss the social impact measurement and management process in organizations, under different approaches, illustrated with a practical example.
- ▶ **Benchmark practices:** finally, an analysis will be provided on good market practices adopted by several companies that have already started to measure and manage their social impact, with a description of the measurement goals, the processes implemented, the characteristics of the reporting and communication exercises, etc.



Executive summary

“There’s a fundamental opportunity for business today to impact and address these social problems, and this opportunity is the largest business opportunity we see in business”

Michael Porter¹²



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

1. Regulators and supervisors around the world are developing a comprehensive regulation package to promote from the transition to a more sustainable economy, largely arising from the international impact of the 2030 Agenda on Sustainable Development and the Paris Agreement reached at the United Nations Framework Convention on Climate Change in 2016.
2. The two main objectives of this legislation are: (i) the integration of ESG criteria and risks into organizations' strategy, governance, management, decision-making and internal processes; and (ii) the promotion of sustainability disclosure across all economic sectors, including transparency on ESG risk management and environmental¹³ and social impact.
3. The European Union has emerged as the international institutional leader of this trend. Some of the milestones it has achieved within its regulatory effort have been: the launch of the Sustainable Finance Plan in March 2018, the Action Plan for Financing Sustainable Growth (2018) and the launch of the Next Generation funds for the period 2021-2027 which, together with the EU's long-term budget, has become a temporary instrument designed to boost recovery
4. Despite this important regulatory effort, there are no regulations specifically referring to how companies should measure and manage environmental and social externalities¹⁴, and international standards are covering this lack of regulation for the time being.
5. In spite of the important role of these standards, some problems still need to be addressed, such as the lack of uniform principles and criteria for measuring impacts and the need to establish parameters that allow for consistency and comparability of the reported information. All this should be achieved through a collaborative effort between the different institutions and organizations involved.
6. Recently, and beyond the reporting of the various philanthropic investments or initiatives carried out by Corporate Social Responsibility departments or corporate foundations, organizations have begun to invest resources and effort into measuring their social impact, in order to use this information as a key input for managing and refocusing their business models.
7. Some of the reasons behind this change in trend are the growing demand for this type of information from investors and clients, as well as the opportunities behind this type of corporate action leveraged on sustainability criteria (such as cost savings as a result of ESG risk mitigation or capturing market value from new financing opportunities).
8. Management Solutions has developed an approach that addresses this issue holistically and responds to the needs of organizations, also considering their limitations and targeting those elements that most concern them.

¹²Michael Porter (Harvard Business School)

¹³Management Solutions (2020).

¹⁴Secondary impacts for society or the environment, whether positive or negative, generated as a result of the organization's activity and not reflected in the cost of producing goods or services, therefore not reflected in their market price.

9. This approach follows a structure consisting of three main phases: screening, assessment and reporting
10. The screening phase aims to build a frame of reference based on the conceptual definition of impact, the identification of areas of analysis for the classification of impacts, and the development of impact narratives as detailed descriptions of how a project or activity will positively or negatively affect the criteria under consideration.
11. The Assessment phase deals with the evaluation and quantification of impacts, underpinned by the appropriate methodology, the definition of the necessary indicators, the impact attribution exercise and the identification of sources and data capture.
12. Finally, the reporting phase covers aggregating the economic value of the previously calculated impacts and communicating this information in order to set objectives and monitor results.
13. In order to illustrate this approach, this document provides a practical exercise in which the economic and social impact of a project in the energy sector is measured using the aforementioned methodology to find out the total social and environmental impact generated.
14. The project in question generates a total monetary impact of approximately 54 million euros in year 1 of the project. This amount results from the economic impact (mainly in terms of GDP; 39 million euros), the social impact (mainly represented by the sustainable remuneration of employees; 9 million euros), and the negative environmental impact (CO emissions² become the largest item at -1 million euros).
15. In addition, in order to analyze how established these practices are in the market, a benchmarking exercise has been carried out to identify examples of good practices already effectively implemented by companies in the financial, telecommunications, construction and pharmaceutical sectors, among others.
16. This analysis covers more than 60 companies from different geographies and sectors that are considered to be strongly committed to sustainability based on the scores issued by the top sustainability indices, such as the Dow Jones Sustainability Index, MSCI or the B-Corporation Certification, as well as their membership in associations or cross-industry initiatives such as the Value Balancing Alliance or the Impact Institute. Of the companies analyzed, fewer than 20% are currently disclosing the results of their social impact measurement exercises.





17. Specifically, a number of best practices by companies that have already begun to report their measurement results have been identified, including: reporting of the information in independent documents or reports (impact reports, Social Value Report, Integrated Profit and Loss Statement, Impact Report, 4-dimensional P&L or ESG Report, etc.); inclusion of results on the impact generated by the company as a whole; integration and linkage of these analyses with the company's strategy based on the relationship between its values and principles and its impact objectives; structuring of these impacts into the three areas (economic, social and environmental) proposed by J. Elkington's Triple Bottom Line; use of the materiality matrix as an input to build the impact measurement framework structure; and the use of market and internationally recognized impact measurement methodologies to develop impact quantification exercises (SROI¹⁵, True Price, Integrated Profit & Loss Assessment Methodology, etc.).

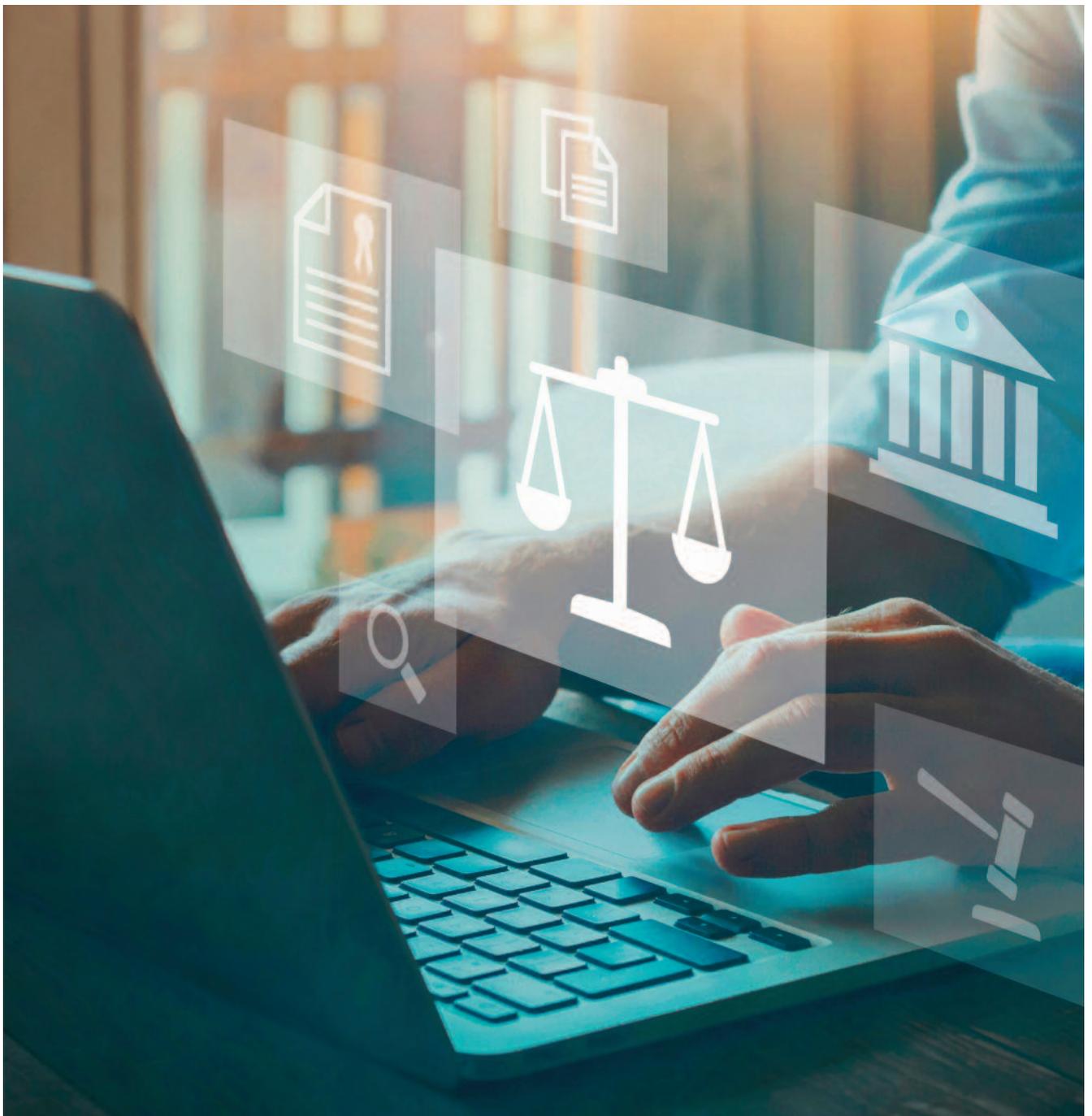
18. Finally, and due to their incipient development, it is worth highlighting that there is ample room for great improvement in the implementation of social impact management and measurement practices in organizations, including broadening the measurement scope, improving the calculations, sources and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

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

Regulatory context: characteristics, trends and applicability

“This is why the implementation of the European Pillar of Social Rights is so important - to ensure decent jobs, fairer working conditions, better healthcare and better balance in people's lives”

- Ursula von der Leyen¹⁶



Considering the significance associated with environmental, economic and social challenges, international institutions, regulators and supervisors around the world have begun to promote regulatory development in this regard, establishing guidelines and facilitating the transition to a more sustainable economy.

Among the international initiatives with the greatest impact and global reach, two fundamental agreements that set the priorities for sustainability at the global level are worth highlighting: the Sustainable Development Goals (SDGs)¹⁷ and the Paris Agreement¹⁸:

- ▶ The 2030 Agenda on Sustainable Development, agreed in September 2015 at the United Nations Assembly, involved the adoption by world leaders of a set of global goals to eradicate poverty, protect the planet and promote prosperity for all. The novelty of this framework is its multidisciplinary nature, both in the use of sources and in terms of the stakeholders involved. This has led to a deep sense of adherence and to its implementation throughout the international community, from stakeholders in the public sphere (multilateral organizations, institutions and states) to those in the private sphere (companies, tertiary and quaternary industries, foundations, civil society, etc.).
- ▶ On the other hand, the signing of the Paris Agreement reached at the United Nations Framework Convention on Climate Change in 2016 marked the recognition of the climate change challenge and the need to move towards a carbon neutral economy² as a global priority. The signatories to the agreement committed to "keeping the global average temperature increase well below 2°C above pre-industrial levels and pursue efforts to limit that temperature increase to 1.5°C."

To date, environmental risk, and in particular climate change mitigation and adaptation, have been at the forefront of regulatory developments due to the perceived urgency and magnitude of the challenge posed by this phenomenon. To this end, a multitude of commitments and national Climate Change Framework Laws have proliferated¹⁹ as well as the establishment of carbon pricing and greenhouse gas emissions markets²⁰.

However, it is also observed that regulations are tending to adopt an integrated approach to sustainability, considering the environmental, social and corporate governance (ESG) pillars, promoting positive impacts and mitigating and managing negative impacts.

In short, the main objective is the gradual integration of these factors into economic and business decision-making at all levels. To this end, the regulations focus on the following aspects:

- ▶ Integration of ESG criteria and risks in the strategy, governance, management and decision making and internal processes of organizations, both in their current situation and in their objectives and future plans²¹.

¹⁶Ursula Von der Leyen (2021). President of the European Commission at the 2021 State of the Union address.

¹⁷United Nations (2015).

¹⁸Paris Agreement (2015).

¹⁹Some relevant examples of this trend, among many others, are the European Climate Law, the Draft Law of the Spanish Congress of Deputies, approved in Congress on April 8, 2021 ; Chile's Draft Framework Law on Climate Change in 2019 ; the New Zealand Government's Climate Change Response (Zero Carbon) Amendment Act 2019 (or the French Draft Law (2021)), . The first climate law adopted in the world was that of the United Kingdom in 2008

²⁰Carbon Pricing Leadership Coalition (2021).

²¹Some relevant examples of this trend are the ECB Guide on Climate Risks (2020) or Asobancaria's General Implementation Guide in Latin America.

- ▶ Promoting sustainability disclosure across all economic sectors, including transparency on ESG risk management and environmental and social impact²². Information disclosure is, in most cases, the first pillar of regulation to be developed, because informed decisions cannot be made about what is not known and has not been previously measured²³. In order to facilitate this task, taxonomies of sustainable activities are emerging²⁴ developed both by regulators and independent organizations, which aim to establish official methods and classifications, as well as to promote uniform understanding of which activities are truly sustainable and thus combat the so-called greenwashing or socialwashing²⁵.

Regulation is being particularly intense in the financial sector to encourage the channeling of capital flows in a way that drives the transition to a sustainable, low-carbon economy. ESG risks, and in particular climate change, are seen as potentially relevant to the stability of the financial system. In particular, it is worth noting how the European Union (EU) has taken a leading role at the international level in terms of developing sustainability regulations in both the financial and non-financial sectors (figure 2), recognizing the business sector as a key player in this transformation process.

In November 2016, through the European Commission²⁶, the EU expressed its firm commitment to pioneering, together with its member countries, the implementation of the 2030 Agenda, paying particular attention to the impact of climate change on the economy and the promotion of sustainable finance.

- ▶ This commitment was first materialized through the Sustainable Finance Plan in March 2018²⁷, an ambitious package of measures to transition the economy to a more sustainable and carbon neutral model, including the enactment of the European Climate Act²⁸.

²²The European Non-Financial Reporting Directive (NFRD), applicable since 2018, and the proposal for its revision and extension, the Corporate Sustainability Reporting Directive (CSRD) in 2021, applicable since 2018, and the proposal for its revision and extension, the Corporate Sustainability Reporting Directive (CSRD) in 2021. Other examples are the Modification of the Chilean Social Responsibility and Sustainable Development Report in 2019, or the United Kingdom's proposal in 2020.

²³For more details, see the update on the new proposal for a European directive on disclosure of non-financial information (CSRD).

²⁴Among the environmental taxonomies developed the european taxonomy of 2020 stands out. There are other examples, such as the chinese taxonomy of 2020. An example of independent initiatives is the Mexican taxonomy published in 2020. Also noteworthy is the social taxonomy- related work currently being carried out by the EU's Sustainable Finance Platform, the result of which has been included in the first report published in February 2022.

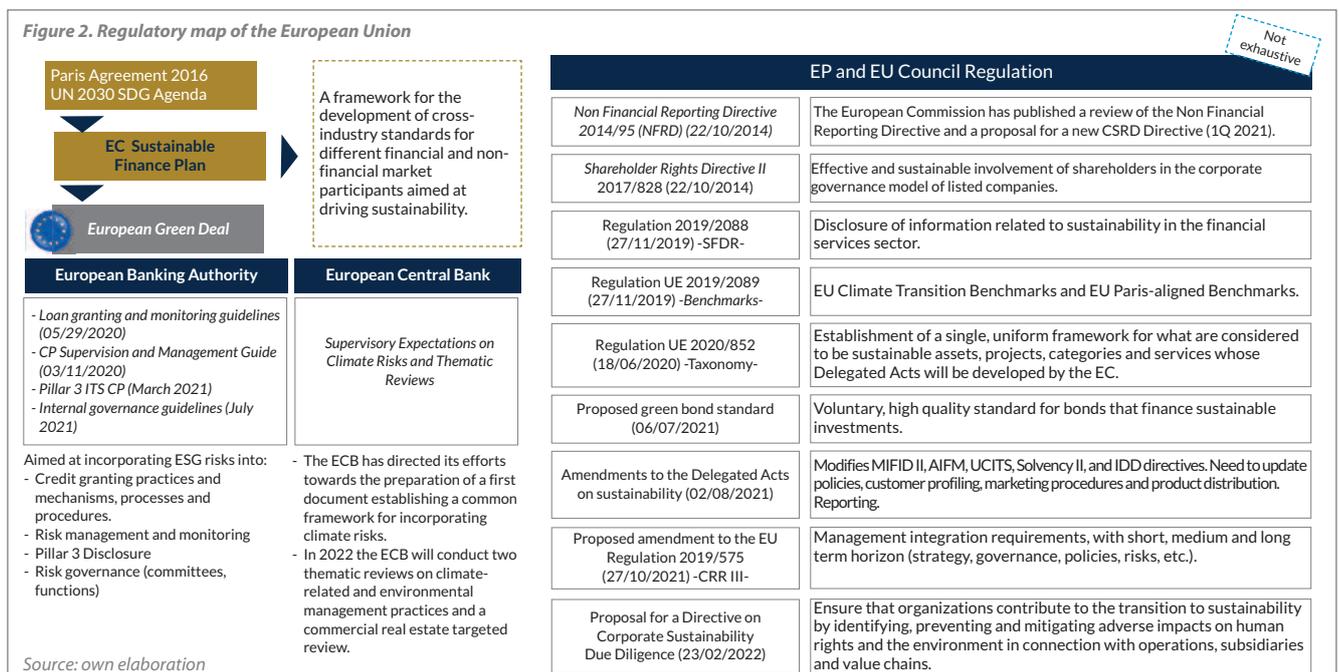
²⁵The presentation of misleading information about the (environmental or social) sustainability of an organization's activities and products, usually showing as sustainable what cannot be defined as such under official or scientific criteria.

²⁶The European Commission itself outlined its strategic approach to the implementation of the 2030 Agenda, highlighting a number of key actions:

- Include the Sustainable Development Goals in EU policies and initiatives at all levels, with sustainable development as an essential guiding principle for all European Commission policies.
- Submit regular EU progress reports starting in 2017.
- Drive the implementation of the 2030 Agenda together with EU governments, the European Parliament, other European institutions, international organizations, civil society organizations, citizens and other stakeholders.
- Set up a high-level multilateral platform to support the exchange of best practices in implementation between the different sectors at national and European level, and define a long-term vision.

²⁷European Commission (2018).

²⁸European Commission (2021).



- ▶ Following this, the European Commission²⁹ launched the Action Plan for Financing Sustainable Growth in 2018, giving rise to a veritable wave of regulatory requirements in the region³⁰.

On the other hand, special mention should be made of the launch of the Next Generation funds for the period 2021-2027 which, together with the EU long-term budget, have become a temporary instrument designed to boost recovery from the COVID-19 crisis, and the largest stimulus package ever financed in Europe. A total of €³¹ 2.018 trillion to help rebuild a greener, more socially and territorially cohesive Europe.

A document worth mentioning among the numerous publications arising from the European Action Plan³² is the environmental Taxonomy³³, an official and detailed guide on which activities qualify as sustainable. To date, an Environmental Taxonomy has been published which sets out six objectives³⁴ and key climate and environmental aspects. For the first two objectives of the Taxonomy (climate change mitigation and adaptation), the detail of activities that substantially contribute to these two objectives was published in April 2021, along with the technical criteria for each. In addition, in July 2021, the Parliament and the Council of the European Union published the disclosure requirements and dates for both financial and non-financial firms. On the other hand, a report is expected to be published shortly by the European Commission on the possible extension of the European Taxonomy Regulation to address social, neutral and brown aspects.

However, this transition to a green economy will entail imbalances and an unequal distribution of the resulting costs, which is why it is essential to ensure proper coverage from a social perspective, trying to prevent any group from being left behind. To this end, in July 2021 the Technical Expert Group on

sustainable finance appointed by the European Commission published a first draft of the social taxonomy, which will be revised in order to launch a final version of the report (initially expected by the end of 2021³⁵).

It can be observed that, despite the current rapid and comprehensive regulatory effort around sustainability, no standard refers strictly to how companies should undertake exercises to measure and manage externalities (social and environmental impacts beyond the scope of climate change). It could be said that, in this case, international standards are covering this lack of regulation and the elements to be considered:

²⁹European Commission (2020).

³⁰The three main objectives of the Action Plan for Financing Sustainable Growth are:

- Redirecting capital flows towards sustainable investment to ensure sustainable and inclusive growth.
- Managing financial risks related to climate change, environmental degradation and social issues.
- The promotion of transparency in ESG areas and long-term sustainability in financial and economic activity.

³¹In this document, monetary amounts are expressed using the long scale, whereby one billion equals one million million.

³²For more details see figure 2 on "EU regulatory map".

³³European Commission (2020).

³⁴(1) Climate change mitigation, (2) Climate change adaptation, (3) Sustainable use and protection of water and marine resources, (4) Transition to a circular economy, waste prevention and recycling, (5) Pollution prevention and control, (6) Protection of healthy ecosystems.

³⁵Platform on Sustainable Finance (2022).



- ▶ Lack of uniformity: until now, there have been several standards that, working independently, have developed different frameworks for measuring and reporting impacts through the definition of metrics and criteria. This multiplicity of standards has generated some confusion among companies and investors.
- ▶ Need for consistency and comparability: as stated in the IFRS Foundation³⁶, based on comments from different stakeholders, both information requesters (regulators, central banks, auditors, etc.) and information providers (organizations, companies, banks, foundations, etc.), despite differences in scope and motivation, call for an urgent need to improve consistency and comparability in sustainability reports
 - First, investors are suffering from a lack of comparable and reliable data, failing to respond to the growing expectations of their respective clients and beneficiaries, while having to deal with insufficient data and analysis on investable sustainable assets.
 - On the other hand, business professionals also refer to the difficulties that exist around specialized requests for sustainability data, as there is no consistency or uniformity in the information requirements³⁷.
- ▶ Collaborative work: although there is still no single reference standard for the measurement and disclosure of social and environmental impacts, in recent years collaboration between the institutions that advance these standards has been encouraged in order to promote uniformity and the development of single, internationally recognized standards:
 - By September 2020, the organizations leading the way in integrated reporting and sustainability information (CDP³⁸, CDSB³⁹, GRI⁴⁰, IIRC⁴¹ y SASB⁴²) published a statement confirming their intention to cooperate⁴³ in order to develop a corporate reporting system for sustainability, seeking to alleviate the existing confusion.
 - The Value Reporting Foundation has emerged as a result of the merger between SASB and IIRC, due to the complementary nature of the reporting practices promoted by both.
 - GRI, Social Value International and the European Union have suggested and are promoting the development of a single accounting system capable of integrating social impacts (double materiality view⁴⁴).
 - IFRS, which, together with the IASB, develops international financial reporting standards, has created a parallel Sustainability Board and is launching consultations with the aim of developing two formal accounting frameworks in parallel.

At present, this welter of norms and standards does not provide sufficient clarity for companies to measure the social and environmental impacts they generate. For this reason, and with the aim of assisting in these developments, the next section presents a methodological introduction to impact measurement.



³⁶Paper consultivo de diciembre de 2020.

³⁷For these reasons, and as the CEO of the Sustainability Accounting Standards Board (SASB) himself states, "both groups would benefit from standardized disclosure of the subset of sustainability issues most relevant to long-term financial performance in a given industry" (Janine Guillot, 2020).

³⁸Carbon Disclosure Project.

³⁹Climate Disclosure Standards Board.

⁴⁰Global Reporting Initiative.

⁴¹Integrated Reporting.

⁴²Sustainability Accountign Standards Board.

⁴³Integrated Reporting.

⁴⁴A perspective that advocates the consideration and integration by organizations of the externalities (social and environmental impacts) affecting investors and the rest of society/planet in general terms that are not reflected in financial accounting.

Main non-financial reporting standards

Agency	Target	Description	Integration/Collaboration Initiatives
Global Reporting Initiative (GRI)	<ul style="list-style-type: none"> The Global Reporting Initiative is a pioneering, independent, international organization founded in 1999 to develop sustainability reporting standards for business. These standards, called GRI Standards, are currently the most widely used internationally and establish a common framework and language for sustainability impact reporting and non-financial reporting. 	<ul style="list-style-type: none"> GRI supports the principle of double materiality, as it considers the impacts of the business activity on people and the planet in addition to the financial impact of sustainability issues on organizations. The standards are structured into economic, social and environmental matters, with a number of foundational and cross-cutting standards that include corporate governance. Around 80% of the top 100 companies in 41 countries currently use the GRI guidelines to prepare their non-financial and sustainability reports. 	<ul style="list-style-type: none"> GRI collaborates in the same way with B Lab, an organization that has developed the B Impact Assessment tool for measuring and managing the impact of companies on their stakeholders.
Sustainability Accounting Standards Board (SASB)	<ul style="list-style-type: none"> SASB is an independent, not-for-profit organization that develops and maintains disclosure standards enabling companies worldwide to identify, manage and communicate financially relevant sustainability information. It aims to establish standards that ultimately improve the information available to decision-makers 	<ul style="list-style-type: none"> SASB standards consider the principle of simple materiality and are primarily designed to capture and satisfy the financial needs and concerns of investors (SASB, 2020) . SASB has developed specific standards for 77 industries (identified in the Sustainable Industry Classification System). Each standard, applicable globally, covers industry-specific topics on which information should be disclosed, as well as accounting parameters. SASB metrics capture essential operational aspects that drive long-term value creation through clear linkages to business strategy and financial performance. For companies, they highlight key risk areas to mitigate and opportunities where improved performance can lead to higher profitability, increased revenue or competitive advantage (SASB, 2020). 	<ul style="list-style-type: none"> GRI and SASB announced a collaborative work plan that aims to study the use of both standards, the similarities and differences in the information generated by each, as well as potential areas for further collaboration In November 2020, SASB and IIRC announced their intention to merge into a single organization, the Value Reporting Foundation , due to their complementarity, and in order to simplify and make the current sustainability reporting ecosystem clearer and more uniform.
International Integrated Reporting Council (IIRC)	<ul style="list-style-type: none"> The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standards developers, accountants, academia and NGOs. It has developed the Integrated Reporting Framework (IRF), a framework for reporting on the financial and non-financial aspects of an organization. 	<ul style="list-style-type: none"> The areas to be reported are classified into six forms of capital: financial, industrial, human, intellectual, social and natural. It does not establish specific metrics or prescribe a series of KPIs; it is a principles-based standard. It is based on a simple view of materiality in which the information considered is that which generates value primarily for the company's stakeholders. An integrated report under the IRF framework should include the organization's business model, context and strategy; the governance model for value creation in the short, medium and long term; the risks and opportunities affecting the organization's ability to create value, and their management; the scope of the sustainability objectives established; the definition of the materiality of each area and methods of quantification and evaluation. 	
IFRS Foundation	<ul style="list-style-type: none"> The IFRS Foundation is a not-for-profit organization created to develop globally accepted accounting standards - the IFRS Standards - and to promote and facilitate their adoption. Its standards are created by the International Accounting Standards Board (IASB), which establishes the IFRS Accounting Standards for the preparation of financial statements. In November 2021 IFRS Foundation announced the creation of the International Sustainability Standards Board (ISSB) that will establish the framework for the IFRS Sustainability Disclosure Standards. 	<ul style="list-style-type: none"> The intention is for the ISSB to provide a comprehensive, transparent and comparable global basis for sustainability-related disclosure standards that will provide investors and other capital market participants with information on companies' sustainability risks and opportunities to help them make informed decisions. 	

Characteristics of the impact measurement and management process

“Our ambition is to create accounting statements that transparently capture external impacts in a way that drives investor and managerial decision making.”

– George Serafeim⁴⁵



In contrast to traditional reporting models focused on capturing and presenting the financial value generated by companies (shareholder view), there is a trend towards the integration of both positive and negative impacts generated by their activities into the reporting.

Guided by this trend, and as mentioned in the previous section, accounting bodies are revising their principles and standards to incorporate the sustainability variable, with the aim of reporting in a consistent and standardized manner to all stakeholders on the value of the externalities generated by the company's activity (Stakeholder Theory⁴⁶). Insofar as these standards are still under development, this measurement exercise is still an incipient practice among large organizations, although its development and integration into internal processes is leading to a major transformation.

The purpose of this section is to describe the characteristics of the process, starting with an analysis of the reasons for the exercise, and then highlighting all the key elements of its implementation.

Reasons and usefulness

Companies have always tended to disclose the various philanthropic investments or initiatives made through their Corporate Social Responsibility departments or corporate foundations. However, it has not been until recent years that organizations have begun to invest resources and dedication to measuring their extra-financial impact, with the aim of considering this information as a key input for the management and reorientation of their business models.

The reasons behind this change in trend on the part of business organizations are basically the following:

- ▶ Demand for information from investors and customers on sustainability and the impact generated by organizations, in addition to demanding business strategies and production processes that are more respectful of people and the environment:

- Some of the world's leading investment funds (e.g. BlackRock⁴⁷) have already announced their investment policies and put sustainability at the center of their decisions, identifying climate risk as an investment risk, as well as promoting the good governance initiatives of the organizations in which they invest.
- And there have been public-private initiatives to promote the development of cities with more sustainable forms of consumption, transportation, education and services from civil society (e.g. Madrid Futuro⁴⁸).
- ▶ Opportunities in business actions with sustainability criteria
 - Cost savings as a result of ESG risk mitigation.
 - Capturing market value from new financing opportunities (green and social bonds, better financing conditions as a result of ESG ratings, etc.).
 - Public concessions weighted by sustainability criteria (e.g. Next Generation Funds in the EU ecosystem).
 - Innovation developments allowing firms to anticipate changes in customer demand and concerns regarding sustainability, leading to increased market share and number of customers.

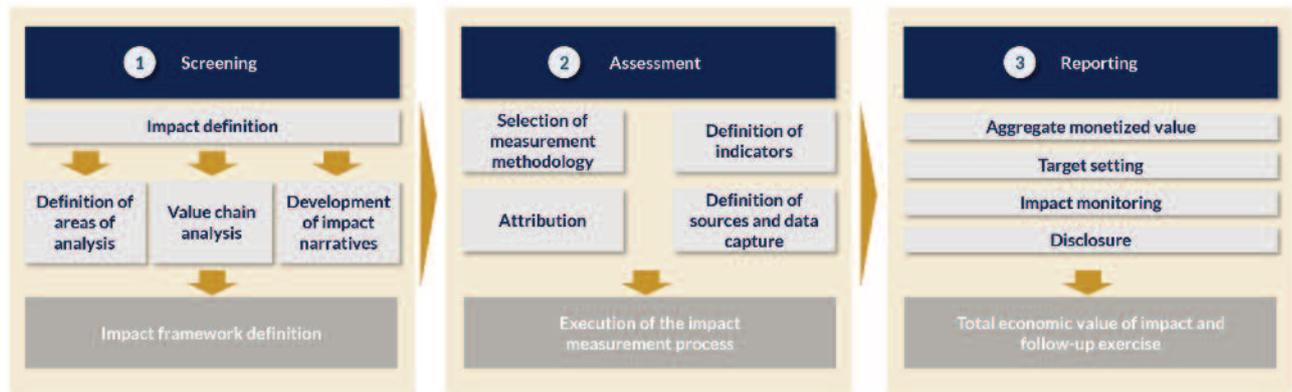
⁴⁵George Serafeim is a professor of Business Administration at Harvard University and one of the precursors of the Impact Weighted Account Initiative.

⁴⁶The World Economic Forum 2020 Manifesto (Davos) specifically supported this model, inviting companies to develop strategies aimed at generating value for all stakeholders.

⁴⁷BlackRock (2020).

⁴⁸Madrid Future (2022).

Figure 3. Impact measurement methodology process



Source: own elaboration

Despite these obvious benefits, many companies are not being able to incorporate the sustainability factor into their strategy, among other reasons because they do not have an effective mechanism for evaluating the ESG impacts of their projects or investments.

Therefore, the construction of an impact assessment model can become an effective transformational lever, allowing organizations to manage their impact (by quantifying and analyzing the results obtained and integrating these data in their decision making), improve their performance (by establishing control and monitoring measures on the objectives set, through benchmarking against past results and competition) and, ultimately, to transform their businesses.

Approach

Many frameworks establish procedural approaches for managing and measuring the social and environmental impacts of organizations.

All these methodologies have three fundamental steps in common:

- ▶ Firstly, the identification of both positive and negative impacts generated by the activity of the organization or specific project to be analyzed.
- ▶ Secondly, the qualitative and/or quantitative assessment of each impact analyzed individually.
- ▶ And finally, the aggregation of the value measured according to the previously defined classification, so that the impact generated by the company, or by the particular project, can be communicated.

Management Solutions has analyzed and compiled best practices for the management and measurement of these impacts, developing an approach that addresses the issue holistically, responding to the needs of the organization, while also considering its limitations and targeting those elements that most concern it (figure 3).

1. Approach

The impact measurement exercises carried out by organizations differ depending on whether they are aimed at a specific investment or project⁴⁹, or whether they seek to assess the company's global activity and quantify the monetary value represented by the total social, environmental and good governance impacts generated by the organization, beyond its economic-financial profitability.

Despite the particularities of each of these two approaches, there are some common elements in the structure, methodological model or tools used in the impact measurement exercises.

2. Screening

The above measurement exercise begins with the construction of an impact framework that will serve as a reference map and facilitate the remaining process:

- ▶ Definition of impact: in this first phase, the organization must agree and define what it understands by social and environmental impact (does it include positive and

⁴⁹This resource is currently being used for the development of projects within the framework of the extraordinary recovery package under the Next Generation EU instrument for the period 2021-2027, mentioned above.

Figure 4. International Social Impact Measurement Frameworks (not exhaustive).

Initiative	Institution	Detail
 ODS	United Nations	<ul style="list-style-type: none"> A blueprint of 17 goals set up by the UN comprising 169 outcome targets for eradicating poverty and inequality, promoting economic development, improving education and health, and reducing the impact of climate change.
 IMP	Impact Management Project	<ul style="list-style-type: none"> A framework to determine how impact should be measured, managed and reported. Classification consisting of five dimensions organized into 15 impact categories (what, who, how much, contribution and risk).
 Theory of Change	Donald Kirkpatrick (Wisconsin University)	<ul style="list-style-type: none"> A diagram using causal logic to graphically represent the objectives that an intervention seeks to achieve and the specific way in which it intends to achieve them.
 Social and Human Capital Protocol	United Nations	<ul style="list-style-type: none"> Decision-making framework that serves as a reference map to guide organizations that want to measure and assess impacts related to social and human capital. Four stages: Purpose, scope, measurement and assessment.
 EVPA	European Venture Philanthropy Association	<ul style="list-style-type: none"> Develops standards for managing and measuring impact. The aim of this framework is to maximize and optimize the social and/or environmental impact of organizations.

Source: own elaboration

negative impacts that affect society and the planet, does it include tangible as well as intangible impacts, does it include only external impacts generated by the organization or also the internal impacts of some stakeholders - human resources, shareholders, etc.?). This delimits the criteria to be applied in the analysis and conditions the methodology.

- ▶ Definition of the axes of analysis: identifying the impacts arising from the organization's activity requires defining a number of axes of analysis that make up the structure of the so-called impact framework. These axes are determined by the impact elements considered:
 - Material typology of impacts (social, economic, environmental, etc.).
 - Types of stakeholders impacted (customers, local communities, public administrations, supply chain, etc.).
 - Corporate values of those companies that, beyond their mission and vision, have shown a firm commitment to structuring their strategy around a series of principles that take into account the impact generated on society and the planet.

In addition, this phase can take as a reference the use of some of the frameworks suggested by international standards, such as the Theory of Change, the Impact Management Project or the SDGs (Fig. 4).

- ▶ Value chain analysis: a company can measure the impact generated by a specific project or investment, or carry out this exercise on a general basis, for the entire activity of the company as a whole. In the latter case, the company must analyze its value chain in order to identify which key processes are related to the previously defined impact axes.

- ▶ Development of impact narratives: the link between the definition of impact, the axes of analysis and the project/investment/activity of the value chain to be measured is developed on the basis of the so-called impact narratives ("impact pathways"). These narratives are detailed descriptions of how the project or activity positively or negatively affects the axis under consideration. The narratives make it possible to understand how the impact is made, over what period of time (bearing in mind that, by their very nature, many of the effects identified will take place in the long term), which stakeholders are impacted, etc.

To this end, the different elements of the impact value chain should be considered, consisting of:

- ▶ the so-called financial and non-financial inputs or resources used by an organization (e.g. use of renewable energy).
- ▶ the activities or actions carried out to achieve the objectives (e.g. construction of an infrastructure that respects the biodiversity of the ecosystem).
- ▶ the outputs, products or services resulting from the activities, (e.g. development of a technology product that meets the criteria of social inclusion of people with disabilities).
- ▶ the outcomes, which are the social or environmental transformations resulting from all of the above (e.g. increase in access to quality education for a given population as a result of the creation of new jobs and the reactivation of the local economy) that ultimately make it possible to identify the impact generated by the activities or projects of the organization in question.

Figure 7. Axes for the segmentation of a financial institution's loan portfolio according to its impact (non-exhaustive)

ACTIVITY FOCUS	CUSTOMER FOCUS	PRODUCT FOCUS
<p>Activities directly eligible due to their social orientation: manufacture of medical equipment and supplies, manufacture of vehicles for people with disabilities, R&D&I activities related to social issues, activities of employment or HR agencies.</p> <p>On the other hand, the rest of the activities should be analyzed by evaluating a series of ad-hoc social KPIs: manufacture of pharmaceutical products for therapeutic purposes, construction of subsidized housing, energy or telecommunications activities aimed at vulnerable populations, etc.</p>	<ul style="list-style-type: none"> ▶ Foundations and NGOs. ▶ Social economy enterprises. ▶ Micro-SMEs operating in regions with lower GDP per capita and/or higher unemployment or start-ups. ▶ Entrepreneurs and startups that incorporate R&D&I. ▶ Self-employed operating in regions with lower GDP per capita and/or higher unemployment rate or because they are <35 years old. ▶ Exclusive financing. 	<ul style="list-style-type: none"> ▶ Microloans. ▶ Mortgages for purchasing a first home or for home rehabilitation for vulnerable groups. ▶ Financing aimed at improving the accessibility of premises or dwellings for people with reduced mobility. ▶ Financing for socially and economically vulnerable tenants. ▶ Free basic payment accounts created for customers in vulnerable situations. ▶ Advance payment of unemployment benefits.

Source: own elaboration

The materiality analysis (a complementary tool for listening to the different stakeholders to identify and prioritize their concerns and their relevance to the business) can be used at this stage of the exercise, and enables priorities to be established in relation to what impacts to measure and to set objectives for them. The impact framework and materiality matrix should reflect consistent and homogeneous information.

It should be noted that the multiplicity and diversity of the possible impacts may significantly complicate the exercise, so it will be necessary to apply the criterion of proportionality, prioritizing the direct and most relevant impacts included in the materiality matrix.

In the case of the banking activity, the social impact generated is intrinsically linked to the impact generated by the activity financed. In this sense, the measurement can be enriched by the prior definition and implementation of a social taxonomy⁵⁰ that

allows segmentation of the portfolio and granular analysis of the impact generated (Fig. 5).

The implementation of this segmentation exercise based on social taxonomy, beyond its use in the area of measuring the institution's social impact, has uses in terms of disclosure and transparency, marking and control of potential underlying sustainable or social emissions and is the basis for setting strategic objectives. Its consideration for social impact purposes can range from incorporating enriched information on segments and impact metrics of the portfolios (without economic quantification of the impact) or evolving the model towards an exercise that allows a differentiated economic

⁵⁰It should be noted that the criteria established by this social taxonomy cannot yet be based on any existing regulations (the European Commission is working on the report it plans to publish in the near future (end of 2021), and should be inspired by the criteria defined by international standards.

Figure 6. Most widespread methodologies for measuring social impact (non-exhaustive)

Initiative	Institution	Detail
 Impact Weighted Accounts Initiative	Harvard University	<ul style="list-style-type: none"> • It aims to promote the creation of accounting statements that transparently capture external impacts by reflecting a company's financial, social and environmental performance.
 SROI	Social Value International	<ul style="list-style-type: none"> • Methodology to measure and quantify monetarily the social value of an organization, project or initiative. It considers social, environmental and economic costs and benefits. Based on the economic indicator ROI.
 B-impact Assessment	B- Lab	<ul style="list-style-type: none"> • It allows to evaluate the impacts through answers to a given form and then compare the results with other companies in order to create improvement plans based on tools and guidelines.
 LBG	London Benchmarking Group	<ul style="list-style-type: none"> • Provides data on the contributions, achievements and impacts of Corporate Social Action. Focused on the management, measurement and communication of the activities that companies carry out with a social and environmental focus.
 ROSI™	New York University	<ul style="list-style-type: none"> • Methodology that identifies material sustainability strategies and changes in practices resulting from those strategies and then quantifies and monetizes the resulting benefits.

Source: own elaboration

quantification of social impact financing, taking into account the characteristics of the sector or recipient of the financing.

3. Assessment

Once the impacts to be evaluated have been identified and described, their quantification is addressed.

To this end, the organization must focus on selecting the best tools to articulate this exercise:

- ▶ Selection of the quantification methodology. Bearing in mind that there are currently numerous alternative methodologies for measuring social and environmental impact, the company must analyze which of them is best suited to the type of specific impact it intends to measure, also taking into consideration the information available for the calculations.

Some of the methodologies most widely recognized by the ecosystem, and whose recurrent use favors the comparability and standardization of results, are: Impact Weighted Account Initiative of Harvard University, Social Return on Investment (SROI) of Social Value, or London Benchmarking Group (LBG), among others (Fig. 6).

- ▶ Definition of indicators: additionally, an exercise is carried out to define the variables, both qualitative and quantitative, that will be used as a reference to measure the impact. The indicators, as well as the methodologies, are selected according to the type of impact, as well as the data available to carry out the measurement exercise. There are also a multitude of indicators that can serve as a reference for organizations to select the most appropriate ones (SDG indicators⁵¹, INE⁵² metrics, IRIS + indicators⁵³, etc.) (Figure 7).
- ▶ Attribution: in the case of certain impacts, especially indirect impacts, it is advisable to establish criteria to isolate the transformations (outcomes) derived from the activity or project on society or the environment from what would have occurred naturally without its implementation.

Materiality matrix

Materiality analysis has become a process used by all types of organizations to identify those economic, environmental and social impacts that most concern each of the different stakeholders and relate them to their respective business strategies.

The result of this analysis is the so-called materiality matrix, a map that classifies and prioritizes each of these elements (e.g. diversity, climate change, local economy, product affordability, etc.) according to the relevance that these stakeholders (customers, suppliers, employees, shareholders, etc.) attach to each one, and the impact they have on the organization's business strategy and performance.

This information is used by organizations as an input for restructuring and designing their respective strategies and making decisions, becoming a fundamental link between financial and non-financial information.

The analysis is based on a process of dialogue with the different stakeholders and the review and prioritization of the information gathered:

- Identification of stakeholders.
- Definition of a listening and relationship methodology.
- Selection of dialog tools.
- Identification and analysis of material issues.
- Prioritization and categorization of such information.

Illustrative example of a materiality matrix

Thresholds

The organization shall define thresholds (criteria) that identify an aspect as material.

These thresholds are key to the analysis, so the thresholds and criteria used must be clearly defined.

A qualitative or quantitative approach can be used with the aim of defining how significant a particular aspect is.

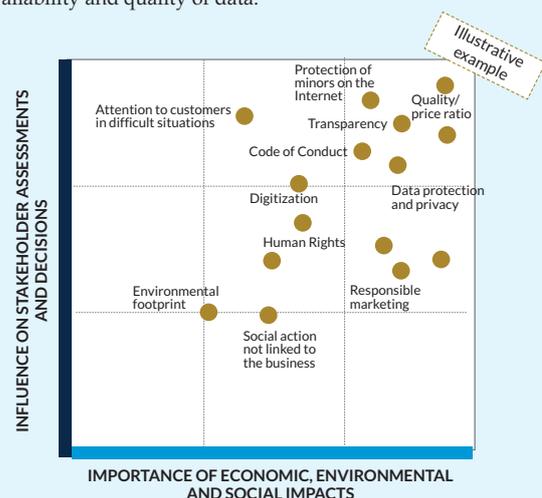
There will be aspects that are not significant at the present time, but that may become so.

Coverage level

Coverage refers to the prominence, amount of data and narrative explanation provided by the organization about a material aspect of the organization.

Depending on the priority of certain aspects, they will be included in the reports with a different level of detail. Aspects that are a high regulatory priority should be reported in detail.

In cases where there are material aspects occurring outside the organization, indicators will be reported depending on the availability and quality of data.



⁵¹United Nations (2015).

⁵²INE. Instituto Nacional de Estadística español (2022).

⁵³The GIIN (2021).

- ▶ Definition of sources to feed the indicators and data capture: the credibility of the data provided by the model depends on the soundness of external information, especially that used as a conversion factor to monetize the selected impact indicators. In this sense, it is necessary to analyze the publications based on scientific evidence and which generate the greatest consensus. On the other hand, it is necessary to have sufficient internal data in relation to the project or activity whose impact is to be measured. It should be noted that, on occasions, the existence of insufficient non-financial information in the organization is a stumbling block, so it is advisable to establish actions to ensure the availability and quality of the data

- ▶ Impact monitoring: in addition, and as part of the continuity of the exercise, it is advisable to define a governance model and a results monitoring process to facilitate the process of following up on the impact and evolution of the established objectives⁵⁴. In this way, an iterative process is developed that allows decision making to be updated.
- ▶ Disclosure: the integration of the measurement process in decision making requires a prior transparency exercise of all the elements used in the process (objectives, deadlines, frameworks, methodologies, sources, data, etc.). In this way, the exercise can be verified by third parties as a guarantee of the model's credibility.

4. Reporting

Finally, once the measurement exercise has been carried out by calculating the economic value of the different impacts, the third and last phase of the process will be addressed:

- ▶ Aggregation of the monetary value of the total impacts measured previously. To do this, and responding to the predefined structure through the impact framework, the monetized value of all the variables in the same category is added up.
- ▶ Setting objectives: based on the results achieved, the organization establishes a series of objectives that will allow it to mitigate negative impacts and increase the positive impacts generated by its activity or project.

Finally, once the organization's situation has been analyzed from the point of view of the extra-financial impact it generates, decisions can be made and the results obtained can be reported to the different stakeholders.

⁵⁴In this section, operational issues related to the updating of the information used (inputs), data capture processes, traceability, validation of the quality of the information to feed the defined indicators, etc. must be considered.

Figure 9. International standards on sustainability indicators (non-exhaustive)

Initiative	Institution	Detail
 SASB	Sustainability Accounting Standards Board	Indicators developed to provide investors and other market participants with a visual representation of their portfolio's exposure to specific sustainability risks and opportunities. The organization proposes 77 different standards for sustainability management in a variety of organizations.
 GRI	Global Reporting Initiative	Indicators that help measure the social, environmental and governance impact of organizations. These indicators are grouped by type of impact and, in turn, by other subgroups. They aim to make organizations transparent through the reporting of non-financial information to generate real impact.
 SDG Indicators	United Nations	The 17 Sustainable Development Goal framework is linked to 232 indicators that use statistical data provided by the Office for National Statistics or other sources to measure the progress made.
 IRIS+	Global Impact Investment Network	Catalog of benchmark performance indicators that guide and assist impact investors in understanding the social, environmental and financial impact of an organization.

Source: own elaboration

Strand 3: Social Taxonomy of the European Union

Achieving each of the social and environmental goals pursued by the global economy requires significant capital investments¹.

The European Commission is developing a series of taxonomies to define the set of activities that can be categorized as environmentally and socially sustainable. This effort aims to harmonize the definitions associated with these concepts, favoring the uniformity of disclosure exercises and, consequently, facilitating decision-making for investors interested in this type of investment, who must ensure that these companies really implement sustainable practices.

Following the publication of the Environmental Taxonomy in June 2020, the Sustainable Finance Platform under the mandate of the European Commission has been working on the development of a proof of concept for a Social Taxonomy.

The Final Report of Sub-Working Group 4, published in February 2022, contains the main recommendations and preliminary and tentative characteristics of this Social Taxonomy, which in no way reflects an official position of the European Commission itself, whose work could end up having different objectives.

Firstly, the report presents the main differences between this social taxonomy and the environmental taxonomy:

- ▶ While many economic activities may have detrimental impacts on the environment from a social point of view, it can be argued that most economic activities can be considered inherently beneficial to society (e.g. creation of decent jobs, payment of taxes, production of goods and services, etc.). Social taxonomy must therefore distinguish between inherent benefits and social benefits that can be considered additional.
- ▶ On the other hand, environmental objectives and criteria can be based on scientific criteria, while social taxonomy must be based on authoritative international standards, such as the International Bill of Human Rights, among others.
- ▶ Finally, although a priori it might be more difficult to develop quantifiable criteria for a social taxonomy than for an environmental taxonomy that is based on scientific research whereby quantitative criteria can be attributed to economic activities, social sustainability is making promising progress in the quantification and measuring of social impacts. The EU Social Scoreboard, which represents examples and recommendations relevant to the 20 principles of the European Pillar of Social Rights, and contains a set of impact indicators, or the United Nations Development Program's annual Human Development Report are two good examples.

The foundations on which the social taxonomy is built are the following international standards and principles: the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights, the International Covenant on Civil and Political Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, the European Pillar of Social Rights and associated action plan, the European Social Charter, the EU Charter of Fundamental Rights, the European Convention on Human Rights, the SDGs, the UNGPs, the UN Global Compact and the OECD Guidelines for Multinational Enterprises.

These documents cover a wide range of social issues that fall within the scope of this social taxonomy, including: labor rights, social protection and inclusion, non-discrimination, the right to health, housing, education and food, assistance in the event of unemployment or self-employment, consumer protection, peaceful and inclusive societies, and the fight against corruption and tax evasion.

Considering this starting point, the agreed approach to articulate the objectives of this type of taxonomy, based on the identification of the stakeholders impacted by the different economic activities, is included:

- The workforce, including workers in the value chain.
- End users or consumers.
- And the communities affected through the value chain, directly or indirectly.

Based on this allocation of the material issues and the different stakeholders, the following three objectives are defined that should determine the social taxonomy:

- ▶ **Decent work, including for workers in the value chain:** focused on people's working lives. Its pillars are: job creation, social protection, rights at work and social dialogue.
- ▶ **Adequate standards of living and well-being for end users:** focused on people as consumers of products or services and activities that meet their needs and provide health and safety

¹According to the latest estimates, to meet the Sustainable Development Goals (SDGs) of the 2030 Agenda, an annual investment of between \$5 trillion and \$7 trillion is needed between now and then.

Relationship between social issues and stakeholders

Social Issues	Stakeholders
Labor rights and working conditions	Labor Force
Social protection and inclusion	Workforce, communities and societies
Non-discrimination	Workforce, communities and societies
Right to health, housing, education and food	End user, communities and societies
Assistance in case of unemployment or self-employment	Labor Force
Consumer protection	End user
Peaceful and inclusive societies	Communities and societies
Fight against corruption and tax evasion	Companies

coverage. Sub-objectives refer to issues such as consumer protection and economic and social rights, including housing or education.

- ▶ **Inclusive and sustainable communities and societies:** this is an objective that emphasizes respect and support for human rights by focusing on the management of negative impacts and the provision of economic infrastructure to certain stakeholders. Some of the sub-objectives addressed are land rights, indigenous peoples' rights, human rights advocacy, and maintaining accessibility and availability of basic economic infrastructure such as access to water, electricity, etc.

In addition, and inspired by the methodological structure developed by the environmental taxonomy, a series of structural elements have also been constructed to allow the development of this social taxonomy:

- ▶ **Development of sub-objectives:** each of the three objectives will require development to address the prioritization of the sectors, the different substantial contributions and the different "Do No Significant Harm" criteria. These sub-objectives should cover all the essential issues of each objective without any overlap between them. A non-exhaustive list of sub-objectives has been developed for each of the three objectives. For example, for the decent work objective: the promotion of equality and non-discrimination at work, ensuring respect for human rights and workers' rights by avoiding precarious working conditions, etc.
- ▶ **Types of substantial contributions:** a structure has been developed that classifies and credits the substantial contribution generated by three different types of economic activities:
 - Those reporting substantial contributions that focus on avoiding and addressing negative impacts.
 - Those that generate additional social benefits inherent to the activity.
 - Enabling activities that allow other activities to provide social benefits (see table 1).
- ▶ **"Do Not Significant Harm (DNSH)" criteria:** are a set of criteria that ensure that activities that contribute substantially to one social objective are not harming the other objectives. These criteria, unlike those established by the environmental taxonomy, must:
 - Be more granular, responding at the sub-objective level, as the substantial contribution criteria in the social taxonomy will be developed and evaluated at the sub-objective level.
 - The second characteristic of these criteria is that they can play an important role in developing substantial contribution criteria to prioritize sectors and/or activities in relation to some social issues and sub-objectives for which this action could be a challenge.
 - Finally, it is critical to note that it is a challenge to build a meaningful case for a substantial contribution to objectives such as "preventing and addressing" child labor or forced labor. This is because these issues are generally subject to zero tolerance by law and are sometimes subject to import bans and exclusion criteria
- ▶ **The minimum safeguards of the social taxonomy:** The EU recognized the importance of key international standards on social issues by including them as minimum safeguards in the environmental taxonomy regulation (Article 18). This was deemed necessary when creating a taxonomy focused on environmental sustainability to avoid a situation where certain activities are categorized as environmentally sustainable despite the fact that the entity conducting them violates: (i) fundamental human rights; (ii) workers' rights; or (iii) good governance principles such as anti-bribery measures or non-aggressive tax planning. Article 18 does not include information on its practical operation or application, and therefore, the Sustainable Finance Platform has been asked to advise the Commission on the operation of this Article 18.
- ▶ **Justification for the selection of sectors:** a justification is needed to prioritize the sectors for each objective and sub-objective, for which a methodology has been developed based on the use of the sectors and economic activities framework determined by the NACE industrial classification system and considering the selection of relevant sectors according to the

Table 1. Explanation of substantial contribution types

Type of substantial contribution	Explanation
Avoiding and addressing negative impact	(i) High-risk sectors with documented human rights and labor rights abuses of relevance to the objective; or (ii) sectors that are less likely to contribute to the objectives of the European social pillar.
Improving the inherent positive impacts of: (i) social goods and services; and (ii) basic economic infrastructure.	Target social goods and services sectors that provide: (i) goods and services for basic human needs; and (ii) basic economic infrastructure of direct relevance to the right to an adequate standard of living. In doing so, it helps to make progress towards the SDGs and the objectives of the European social pillar.
Enabling activities	Where economic activities have the potential to reduce risk in other sectors, these activities should also be classified as such (economic activities that, by the provision of their products or services, allow a substantial contribution to other activities).

criteria defined to determine the substantiality of the activities: sectors that avoid negative impacts, those that enhance positive impacts and sectors enabling such positive impacts.

► **Linking substantial contribution to capital expenditures (CapEx), operating expenditures (OpEx) or revenue:** the way to link CapEx, OpEx and revenue to social activities is based on the differentiation between "reducing negative impacts" and "enhancing inherent social benefits":

- For activities that reduce a negative impact, the investment made by a company can be counted as a social contribution. For example, spending on training, as defined in the social taxonomy, will be counted as a socially sustainable investment reflected in the OpEx.
- If it is an activity that inherently generates social impact, such as the sale of a fair trade product or a mineral from a mine with an approved social certificate, the turnover will be counted as socially sustainable.
- Finally, enabling activities consist mainly of services that address and avoid negative impacts. Here it is suggested that the company selling the product or service that enables the other company to address and avoid negative impacts should count the turnover as socially sustainable.

The table 1 is a non-exhaustive example related to the decent work objective and the training sub-objective:

According to the views of Sustainable Finance Platform members who have been working on the preparation of this final preliminary conclusions report, the next steps in developing the Social Taxonomy should be the following:

1. Clarify the minimum safeguards in accordance with the scope note.
2. Conduct a study on the impacts of a social taxonomy considering different application options and designs.
3. Develop a rationale for prioritizing objectives and sub-objectives.
4. Prioritize the objectives according to the justification.
5. Define substantial contribution criteria and DNSH for the first objectives and sectors.

Although this report is not an official European Commission document, nor an official position of the European Commission, these tentative recommendations can be considered a proof of concept for the social taxonomy, on which the European institutions can begin to build

Table 2

Justification for the selection of sectors			
Sector selection		High-impact NACE codes could be selected across 1) sectors with skills shortages, according to OECD and EU data; 2) sectors negatively affected by the green transition or digitalization with risks of layoffs and therefore in particular need of training certain groups of workers; 3) sectors with general skills shortages.	
Tipo de contribución sustancial		Reducing negative impacts on workers	
Substantial contribution		The company has extensive training and continuing education/upskilling/requalification programs for workers in vulnerable situations. There are high levels of worker participation in the development of these programs (OpEx for training).	
Decent work		Adequate standards of living and welfare for end-users	Inclusive communities and societies
DNSH	Workers must be paid at least the national minimum wage, where available, or in accordance with negotiations and collective bargaining agreements of the social partners. ILO core labor standards must be complied with.	N/A	Non-discrimination in training offers

Practical example of impact measurement

"If you can't measure it, you can't manage it."

- Attributed to Peter Drucker⁵⁵

"It is wrong to suppose that if you can't measure it, you can't manage it – a costly myth."

- William Edwards Deming⁵⁶



A practical example is provided to illustrate the previously defined methodology.

The example illustrates how an energy company decides to measure the impact of building a new wind farm consisting of 11 wind turbines of the SG 132 model and an installed capacity of 39 MW

Screening

First, the company defines the impact it wants to measure as: those tangible and intangible changes experienced by people and the planet that are caused by the investment, directly or indirectly.

It therefore decides to create an impact framework based on the definition of three horizontal impact axes: social, environmental and economic.

To describe the scope of these impacts, the company considers the different phases of the project life cycle:

- ▶ Construction phase of the wind farm.
- ▶ Operation and maintenance phase of the wind farm.
- ▶ Dismantling of the wind farm and management of materials and waste at the end of their useful life.

The vertical axes are assigned narratives that make it possible to relate the project to the horizontal axes of analysis, as shown with some examples below:

- ▶ The commissioning of the wind farm has entailed the hiring of personnel, after defining a remuneration policy appropriate to the needs and social characteristics of the region.

- ▶ Social reintegration and cohesion are being promoted based on the economic reactivation of the region caused by the creation of indirect employment and the payment of taxes.
- ▶ The construction of the wind farm will lead to an increase in CO2 emissions into the atmosphere, which are certainly offset by the emissions avoided during the operation phase, as it is a renewable energy source.
- ▶ Etc.

The following is an executive approach to the framework for these impacts (table 1):

Assessment

The company then launches the impact measurement phase, selecting and implementing the methodologies best suited to each type of impact and defining the variables that will serve as qualitative or quantitative indicators of the different impacts to be measured.

In this case, and based on the framework of impacts, the analysis and measurement of four positive and/or negative, direct and/or indirect impacts, belonging to the different previously defined axes, will be exemplified (table 2).

⁵⁵Peter Drucker (1909-2005), Austrian-American author, founder of modern business management.

⁵⁶William Edwards Deming (1900-1993), American engineer and professor at New York University and Columbia University.

Table 1. Executive example of a project impact framework

ACTIVITY/ PROCESS	AREAS OF ANALYSIS			IMPACT NARRATIVES		
	TYPE OF IMPACT		STAKEHOLDERS			
GLOBAL 		+	Direct	 	Recruitment of new personnel under conditions determined by a fair remuneration policy. Payment of taxes arising from the construction of the new wind farm, payment of licenses, etc., and later from the profits obtained by the company.	
			Indirect		Socioeconomic impact on the region through the generation of direct and indirect employment. Impact on GDP growth at the local, regional and national levels.	
CONSTRUCTION 		-	Direct		Increase in occupational accidents and injuries as a result of the risk generated by the presence of machinery, clearing, earthmoving and grading tasks. GHG emissions produced during the wind turbine manufacturing process, during the transport of wind turbines from the factory to the wind farm and during the wind farm construction process. Worsening of air quality in the area due to heavy traffic on unpaved areas, earthworks, excavations, etc., and noise pollution (while wind turbines are generating power). Changes in geomorphology due to the design of roads for accessing the wind turbines and electrical substation, as well as to stockpile areas or land levelling. Worsening of water quality due to clearing, earthmoving and the transit of machinery that produce dust, increasing the amount of suspended particles in the water. Impact on irrigated crops due to erosive processes resulting from the removal of the existing vegetation cover, earthworks or excavations.	
			Indirect		Increase in green, accessible and affordable (low pool price) energy sources for consumers. Contribution to climate change mitigation through renewable energy generation. Increased mortality of avifauna and bats due to collisions with the windmills when the blades are in motion. Reduction of GHG emissions as a consequence of green energy generation, favoring the decarbonization of energy production. Erosive processes in the areas cleared and removed during the construction process due to land preparation for the construction of the wind turbines, access to the wind turbines and the stockpile area. GHG emissions from transportation of components from the wind farm to the recycling/waste management plants. Morphological restoration to pre-operational levels of all areas affected by the presence of the wind farm that will not be used in the future.	
OPERATION AND MAINTENANCE 		+	Direct		Increase in green, accessible and affordable (low pool price) energy sources for consumers. Contribution to climate change mitigation through renewable energy generation.	
			Indirect		Increased mortality of avifauna and bats due to collisions with the windmills when the blades are in motion. Reduction of GHG emissions as a consequence of green energy generation, favoring the decarbonization of energy production. Erosive processes in the areas cleared and removed during the construction process due to land preparation for the construction of the wind turbines, access to the wind turbines and the stockpile area. GHG emissions from transportation of components from the wind farm to the recycling/waste management plants. Morphological restoration to pre-operational levels of all areas affected by the presence of the wind farm that will not be used in the future.	
						
						



1. Positive economic impact in terms of contribution to GDP

The economic impact in terms of GDP is a global impact that can be quantified at any stage of the project. This calculation uses the Leontief model, a method that analyzes the relationships between different production and consumption sectors in the economy, based on the economic correlations between the outputs of one industry and the inputs of another.

The total economic impact generated throughout the project life cycle (wind farm construction phase, wind farm operation and maintenance phase, wind farm decommissioning and end-of-life materials and waste management) is determined by the sum of direct, indirect and induced impacts on GDP, as shown below:

- ▶ The direct impact is calculated through the income or remuneration of productive factors⁵⁷ approach, from the sum of production as gross value added (the income generated by the company), plus the value of direct job creation (measured as the sum of remunerations paid on account of the employment generated throughout the project)⁵⁸, together with the tax contribution (measured as the value of taxes directly levied on the economic activity in question).

According to the latest data published by the Spanish Wind Energy Association⁵⁹, the wind energy sector accounted for 0.3% of Spanish GDP in 2020, contributing 1,778.5 million euros to direct GDP and 1,327.9 million euros to indirect GDP.

In this specific case, and based on an average value of the direct economic impact generated in terms of GDP, it is

estimated to generate around 20 million euros per year, of which approximately 9.5 million are attributed to direct jobs created.

- ▶ The indirect impact corresponds to the production and employment generated in the sectors that indirectly benefit from the distribution of the investments (CAPEX) and expenditure (OPEX) of the project in question, which have an impact on other industries, such as construction, equipment and component manufacturers, transportation, machinery and equipment repair and installation, among others.

This indirect impact in terms of GDP is calculated from the Leontief inverse matrix, which in turn is fed by the input-output tables published by the respective institutes of national statistics⁶⁰ or by international organizations such as the OECD⁶¹. From this matrix, the value of the sum of the production impacts of the sectors concerned can be extracted, according to the average breakdown of expenses, represented mainly by purchases from suppliers, and the average breakdown of investments (tangible and intangible fixed assets).

⁵⁷Macroeconomic study on the impact of the wind energy sector in Spain. Wind Energy Business Association

⁵⁸If, as shown below in this example, the social impact created by the quality of employees' salaries is to be assessed as an independent impact variable, the direct job creation value must be subtracted from this direct impact on GDP in order to avoid "double-counting". In this example, and as indicated in the following section, this value is approximately 9.5 million euros.

⁵⁹ESA (2020).

⁶⁰In the case of Spain, see the information published by the Spanish Office for National Statistics.

⁶¹These updated tables are published in periods of 5/6 years.

Table 2. Examples of impact narratives to be evaluated

ACTIVITY/ PROCESS	AREAS OF ANALYSIS			IMPACT NARRATIVES	CALCULATION METHODOLOGY APPLIED
	TYPE OF IMPACT		STAKEHOLDERS		
GLOBAL 			Indirect 	Impact on GDP at local, regional and national levels.	Input-output matrices (Leontief model).
			Direct 	Recruitment of new personnel under conditions determined by a fair remuneration policy.	
CONSTRUCTION 			Direct 	GHG emissions produced during the wind turbine manufacturing process.	GHG Protocol / Impact-Weighted Account Initiative.
OPERATION AND MAINTENANCE 			Indirect 	Reduction of CO2 emissions as a result of green energy generation, favoring the decarbonization of energy production.	Impact-Weighted Account Initiative (Harvard Business School).



Social



Economic



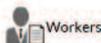
Environmental



Positive



Negative



Workers



Society



Country



Planet



Customer

In the case of this particular project, it is estimated that the company generates around 15 million euros per year in terms of indirect GDP.

- ▶ The induced impact corresponds to the production and employment generated from the consumption of goods and services by employees, both company employees and employees in the supply chain.

These personnel expenses must be weighted by the marginal propensity to consume (MPC), a theoretical mathematical relationship indicating to what extent that part of the income that is increased is allocated to consumption or savings. This increase is usually taken as a unit . In this case, and using the OECD as a source, this ratio is calculated from macroeconomic information on total expenditure and the money available to households, to determine a MPC for Spain of approximately 65%.

In turn, the total remuneration expenditure of both the supply chain (estimated from the expenditure on purchases from suppliers weighted by a percentage allocated to salaries) and the expenditure on own salaries are added and multiplied by this marginal propensity to consume, generating induced impacts in terms of GDP of around 4 million euros per year.

2. Positive and direct social impact from the generation of quality employment.

The construction phase of the wind farm has involved the hiring of 220 workers. In this case, and with this basic information, it was decided to measure the social impact that is being

generated from the promotion of quality employment, applying Harvard Business School's Impact-Weighted Account Initiative methodology, taking into account that it allows quantifying the economic value of this impact from the evaluation of wages.

As can be seen in the table 3, the calculation of the economic value of the impact generated from job creation is determined, on the one hand, by the amount of the salaries of the workers that will be hired for the construction of the plant, and on the other, by an indicator of the quality of the wages:

- ▶ Total Unadjusted Salaries: the calculation is based on the total sum of wages paid to all workers hired for the new wind farm (distributed by average salaries classified according to the three salary bands of the company in this case).
- ▶ Adjusted (Living) Wage: beyond the minimum national wage established by the regulations of each country, the IWAI methodology developed by Harvard University aims to take into account the payment of living wages adjusted for the economic needs of each region. For this purpose, tools from external sources such as the MIT calculator⁶³ or the one proposed by the UK Living Wage Foundation⁶⁴ are used as a reference. In this case, the total economic value (more than 9 million euros for the creation of 220 jobs at market prices/wages) is adjusted downwards, discounting the sum of all salaries below the living wage level that has been defined. Conceptually, this penalty is established by the

⁶²As an economic ratio, the PMC is between 0 and 1.

⁶³Living Wage Calculator MIT (2022).

⁶⁴Living Wage Foundation (2022).



Table 3. Methodological development of the calculation of wage quality impact from the wind farm construction according to the Harvard Business School's Impact-Weighted Account Initiative (IWAI) methodology.

Employment impact (wage quality)			
Concepts	Data	Formulation/rational	Impact (€)
(1) Total Unadjusted Salary		(1.1) + (1.2) + (1.3)	9.561.204,00 €
1.1. Management team		(1.1.1) * (1.1.2)	475.444,00 €
1.1.1. Number of employees	4 employees		
1.1.2. Average salary	118.861 €		
1.2. Middle management		(1.2.1) * (1.2.2)	4.906.176,00 €
Number of employees	88 employees		
1.2.2. Average salary	55.752 €		
1.3. Professionals in the trade		(1.3.1) * (1.3.2)	4.179.584,00 €
Number of employees	128 employees		
1.3.2. Average salary	30.653 €		
(2) Annualized Living Wage	20.632 €	Reference MIT Calculator (https://livingwage.mit.edu/)	
(3) "Living Wage" Penalty		Sum of wages "below the living wage".	382.448,16 €
(4) Adjusted (Living) Wages		(1) - (3)	9.178.755,84 €
(5) Annualized Minimum Wage		Minimum Wage according to local regulations (OECD Statistics, Real Minimum Wages)	13.510,00 €
(6) "Minimum Wage" Compensation		Sum of wages "between living wage and SMI".	+294.983,61 €
(7) Adjusted Salary (Minimum)		(4) + (6)	9.473.739,45 €
(8) Total impact			9.473.739,45 €

IWAI methodology with the objective of encouraging companies to pay better wages offering a higher quality of life to their workers. In this case, the penalty amounts to around 380,000 euros, representing a reduction of approximately 4% of the total initial value.

- ▶ Adjusted Wage (Minimum): finally, and with the aim, in this case, of promoting the effort made by organizations to raise the lowest wages, the value of the total wages that are between the minimum wage in the region in which the organization operates and the defined living wage, is added. This is an upward adjustment, which, in this case, is valued at around 295,000 euros.

Based on the above, and after analyzing the economic value of the social impact generated by the creation of 220 jobs measured in terms of wage quality under the IWAI methodology, it can be concluded that this company is generating a positive impact valued at 9.47 million euros throughout the year⁶⁵.

In some cases, the destruction of jobs dedicated to those lines of business replaced by the wind farm may need to be considered as a negative social impact, in the event it were to occur. Or even, if the company itself decided to go for a training strategy to recycle its workers, the economic value that this decision could entail could be analyzed by measuring the added value of the economic return of an investment in training, measured as the social value of such learning.

3. Product's social impact

As indicated by Harvard's own methodology (Impact Weighted Accounts), it is essential to measure the social impact generated by products. This can be done by

⁶⁵The calculation is made for a period of 1 fiscal year, taking into account that the economic value of the salary quality is determined by the total value of the payrolls paid in a year.

evaluating different variables. One of them could be the impact generated in terms of the scope of the service. What is the market share and how many customers are being offered a service that satisfies an essential need, such as, in this case, energy supply. Another option is to measure the value generated from supplying a product to an underserved customer segment living, for example, in rural areas or in developing countries, by measuring the impact it can have in terms of improving their quality of life (e.g. increase of income savings per capita, coverage of losses resulting from power outages, etc.). On the other hand, it is worth noting how the introduction of renewable energy sources leads to a final reduction in the price of energy. If this price reduction is passed on to individual and industrial consumers, it can improve their purchasing power. This effect is especially relevant in a context such as the current one, with wholesale market price levels at historical highs. This particular project will supply energy at prices ranging between 28 and 34 euros/MWh, compared to average wholesale market prices⁶⁶.

According to data from the Spanish Wind Energy Association⁶⁷, wind power generation in 2020 represented a significant benefit for Spanish consumers, especially industrial consumers. At the national level, and according to AEE estimates, in 2020 wind power generated total savings for consumers of 1,292 million euros for 27,446 MW of installed capacity. Therefore, the estimated contribution of this 39 MW installation project would represent an additional impact in terms of reduced energy prices and hence savings of over 1.7 million euros.

In addition, and although not discussed in detail in this example, other social impact variables should be evaluated, such as the value of health and safety at work measured in terms of the impact on insurance coverage savings for prevented losses due to injury and illness, the value of training measured in terms of the return for society, or the social value of corporate volunteering in which employees participate.

4. Direct negative environmental impact from the transport of wind turbines from the factory to the wind farm.

The construction phase is responsible for the largest volume of negative environmental impacts compared to the rest of the project phases.

In this case, the value of the impact generated by the GHG emissions associated with the manufacturing of wind turbines, which according to the GHG Protocol, fall under scope 3 emissions, will be analyzed. For its calculation, the IWAI (Impact Weighted Account Initiative) methodology developed by Harvard University⁶⁸ will be applied.

The manufacturer of the wind turbines at the wind farm indicates in its "Report on greenhouse gas emissions" that for each MW of installed capacity, 3.17 tons of CO₂ equivalent⁶⁹ are emitted into the atmosphere. With this primary data, the calculated emissions associated with the manufacturing of all the wind turbines were approximately 123.63 tons of CO₂ e

The total tons emitted as a result of wind turbine manufacturing must be evaluated in terms of impact. To do this, the value of the overall impact of externalities, both social and environmental, linked to the emission of one ton of CO₂ is used. According to the Environmental Protection Agency (EPA), this social cost is €34.23 per ton of CO₂ emitted.

This means that the manufacture of these wind turbines has a negative impact valued at -4,231.85 €.

5. Positive and indirect environmental impact from the reduction of CO₂

In this case, the commissioning of this wind farm will allow the production of 100% renewable energy generated from inexhaustible sources, which will avoid an annual emission of around 55,000 tons of CO₂ according to the technical studies that have been carried out.

The total GHG emissions avoided due to the decarbonization of the energy production process must be evaluated as an impact, so the value of the global impact of externalities of €34.23 per ton of CO₂ emitted is used as in the previous point.

Therefore, it can be concluded that the development of this project has a positive impact valued at 1,882,650 €, generated from the total emissions avoided under the IWAI methodology.

From an environmental point of view, the company must also evaluate the rest of the direct and indirect environmental impacts related to the construction of the plant, its operation and maintenance, and finally, its dismantling. To this end, estimates must be made of the tons emitted by these activities weighted by the aforementioned social cost.

In addition, and although they are not being analyzed in detail in this illustrative example, other environmental variables can also be considered, such as the total impact of water recycling by assessing the cost of production and delivery, or the impact related to the cost of wastewater treatment, the net impact generated from the cost of waste generation, and the value of the waste generation and the value of recycling this waste, the impact on the local biodiversity due to the destruction or disturbance of habitats, etc.

Reporting

Finally, all previously quantified impacts are aggregated into their corresponding categories according to the structure defined in the first phase:

⁶⁶Prices for the last few months have not been considered in order to avoid the bias that would result from factoring in the very high prices in the current market.

⁶⁷AEE (2021).

⁶⁸Impact-Weighted Accounts Harvard Business School (2022).

⁶⁹Siemens-Gamesa (2020).

- ▶ Direct, indirect and induced impact on GDP economic variable (+30.000.000 €) is included in the category associated with economic impact.
- ▶ Salary quality variable (+9,473,739 €), aggregated in the social impact category.
- ▶ Social impact through affordable product variable (+1,696,000 euros) for increased consumer per capita income from savings as of year 2, once the plant is operational and offering services considered in the social impact category.
- ▶ CO₂ emissions variable (scope 1, 2 and 3) which includes the -4,231.85 € of emissions associated with the manufacture of wind turbines along with the rest of the direct and indirect emissions of the project corresponding to year 1. This is included under the environmental impact category.
- ▶ Avoided emissions from the value chain variable (+1,882,650 € en el año 2, y 2.862.000 euros en el año 26) aggregated in the environmental impact category.

Table 4 shows the result for years 1 and 2 of the project, as well as a projection over the years of useful life of the wind power plant to show the increased cumulative environmental impact resulting from the increase in avoided social costs of CO₂ due to clean energy production.

Year 1 shows the result associated with the activities related to the construction of the wind farm, so the value associated with avoided emissions is zero.

On the other hand, year 2 shows the exercise associated with the wind farm operation and maintenance stage. This is the reason why the value associated with negative environmental impacts is much higher in year 1, whilst year 2 shows a positive value in this respect. Likewise, 220 people are hired during the wind farm construction stage, and 10 people are hired during the operation and maintenance stage, implying a lower value of the social impact from sustainable salaries, among other variables. As for the economic impact generated in year 2, it is reduced due to the decreased number of direct hires, although this is certainly offset by the benefits generated once the plant is operational.

The total aggregate economic value of the impacts generated by the company's activity makes up the so-called ESG-P&L – an indicator of the extra-financial value generated that complements the financial P&L for the year.

In addition, a governance model must be defined that allows for monitoring and updating this indicator within the established deadlines.

Table 4. ESG-P&L

(In thousands of euros)	Year 1	Year 2 ... 26 ¹
Extra-financial result for the period (ESG-P&L)	40,314 €	30.940 €...31.919 €
1. Economic Impact	30,783 €	26,869 €
Direct impact on GDP ²	10,942 €	17,650 €
Indirect impact on GDP	15,064 €	8,980 €
Induced impact on GDP	4,776 €	239 €
2. Social Impact	9,598 €	2,190 €
Occupational health and safety	-75 €	-4 €
Sustainable remuneration	9,474 €	431 €
Return on training (external and internal)	108 €	16 €
Sustainable product	- €	1,696 €
Corporate volunteering	91 €	52 €
3. Environmental Impact	-67 €	1,881 € (year 2)...2,860 € (year 26)
CO ₂ Emissions (Scope 1, 2 and 3)	-4 €	-1 €
Avoided Emissions ³	-	1,883 € (year 2)...2,862 € (year 26)
Water Consumption	-4 €	-0 €
Waste generations	-7 €	-0 €
Biodiversity	-52 €	-1 €

¹As can be seen in the avoided emissions item, the purpose of this year 2 to year 26 projection is to show the increased positive cumulative environmental impact value resulting from the increased avoided social cost of CO₂ emissions over the useful life of a wind power plant of this nature.

²As mentioned above, "double-counting" is avoided by subtracting from the direct impact on GDP the wage value of direct employment generated, which is already accounted for by the "sustainable remuneration" variable.

³The social cost of carbon will increase by 152% according to EPA projections for the next 25 years. This will lead to a cumulative increase in the environmental impact from avoided emissions, considering the useful life of a wind power plant of these characteristics (25 years). Therefore, the environmental impact value for the first year in which the plant is operational is 1,882,650.00 euros, and the accumulated value considering the projection of the avoided social cost of carbon (2023-2047) is 59,525,462.60 euros.

Analysis of the degree of advancement of standard market practices

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

– Laurence D. Fink⁷⁰



Analysis scope and structure

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

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

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

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

General aspects

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

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

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

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

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

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

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

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

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

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



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

Structure

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

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

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

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

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

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

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

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

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

⁸⁰Elkington J. (1998).

⁸¹Impact Report de ABN Amro (2020).

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

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

⁸⁴Telefónica or AkzoNobel use the Impact Management Project framework.

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

Measurement and monitoring

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

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

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

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

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

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

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

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

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

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

⁸⁸Implemented by ABN Amro.

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



Conclusions

“Corporate social responsibility is measured in terms of businesses improving conditions for their employees, shareholders, communities, and environment. But moral responsibility goes further, reflecting the need for corporations to address fundamental ethical issues such as inclusion, dignity, and equality.”

- Klaus Schwab⁹⁰



Social and environmental impact measurement exercises is still an incipient practice in organizations from different sectors and geographies, despite the particular focus of their strategies on sustainability, as well as the specific interest they are showing since the launch of the first initiatives in this regard.

As a consequence of the still limited maturity of the exercises in general, there is wide room for development and improvement, through:

- (i) An increase in the scope of measurement (e.g. including as many lines of business as possible from each organization).
- (ii) An improvement and deepening of calculations, sources and data (e.g. calculating based on the methodologies most recognized by the impact ecosystem, turning to official external sources and generating sufficient non-financial information).

(iii) A unification of practices (e.g. developing the same typology of reports - independent impact reports).

(iv) The use of materiality matrices and international standards for the construction of analysis axes and measurement structures.

(v) A commitment to achieving effective management integration as a result

In short, the regulatory efforts of some of the most important international legislators (e.g. European Union), and the statements and requests of the most relevant investors (e.g. BlackRock), are increasing the appetite for developing social impact management and measurement practices in the business ecosystem.

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Glosario

Paris Agreement: agreement reached at the United Nations that sets a new course in the global effort against climate change, whereby nations establish concrete and ambitious goals, through contributions at the national level, to be reviewed periodically. To date, 187 of the 195 signatory parties have ratified the agreement. The signatories to the agreement commit to "keep the increase in global average temperature well below 2°C above pre-industrial levels, and to pursue efforts to limit this temperature increase to 1.5°C".

Carbon Disclosure Project (CDP): a non-profit organization that currently runs the world's largest global environmental impact disclosure system and one of the world's most comprehensive databases on the subject. Its goal is to promote the transition to a more sustainable economy by helping investors, companies, cities and regions to measure and understand the impact of their operations on climate change.

Next Generation Funds: the Next Generation European Union Funds are a financing mechanism whose main objective is to help Member States recover, relaunch the economy by focusing on green transition and digitalization, support private investment and improve the European Union's resilience to future crises. To this end, the Recovery and Resilience Mechanism (RRM) seeks to ensure that funds are quickly allocated to the countries and sectors most affected by the crisis through national recovery and resilience plans.

GRI: the Global Reporting Initiative is an independent international standards organization that helps companies, governments and other organizations understand and communicate their impacts on issues such as climate change, human rights and corruption through the development of a list of indicators that facilitate non-financial reporting.

Impact Management Project: a framework for measuring social impact that allows determining how this impact should be measured, managed and reported. It presents a classification consisting of 5 dimensions organized into 15 impact categories (what, who, how much, contribution and risk).

Impact Weighted Accounts Initiative (IWAI): a social impact measurement methodology developed by Harvard University that aims to promote the creation of accounting statements that transparently capture external impacts by reflecting a company's financial, social and environmental performance.

SDGs (Sustainable Development Goals): 17 main goals and 169 targets to be achieved over the next 15 years by all members of the United Nations, as agreed at the United Nations Summit held in September 2015 in New York. The SDGs are a call to action to end poverty and inequality, promote economic development and improve education and health globally, while at the same time, as explicitly stated in goal number 13, combating climate change.

Social washing: the presentation of misleading information about the environmental or social sustainability of an organization's activities and products, usually showing as sustainable what cannot be defined as such under official or scientific criteria.

Theory of change: a framework for the development of social impact measurement exercises. It is a scheme that, through a causal logic, graphically presents the objectives that an intervention seeks to achieve and the concrete way in which it intends to achieve them.

Stakeholder Theory: according to Freeman (1984), the Stakeholder Theory considers that organizations are composed of a set of actors (shareholders, workers, investors, suppliers, etc.), which it calls stakeholders, and for whom (all of them) the organization must generate value and positive impact through its economic activity. According to this vision of economic activity, the mission of organizations should be focused on satisfying the interests of these stakeholders.

Triple Bottom Line: a conceptual scheme defined by J. Elkinton (1998) that incorporates three dimensions of performance: social, environmental and financial.

Acronyms and abbreviations

AEE: Asociación Empresarial Eólica	OECD: Organization for Economic Co-operation and Development
CAPEX: Capital Expenditure	OPEX: Operating Expenses
CEO: Chief Executive Officer	PMC: Propensión Marginal al Consumo
CDP: Carbon Disclosure Project	P&L: Profit & Loss
CDSB: Climate Disclosure Standards Board	PSA: Peugeot Société Anonyme
EPA: Environmental Protection Agency	ROI: Return On Investment
ESG: Environment, Social and Governance	ROSI: Return On Sustainability Investment
ESG-P&L: Environmental, Social & Governance Profit & Loss	R&D&I: Research, Development and Innovation
EU: European Union	SASB: Sustainability Accountign Standards Board
EVPA: European Venture Philantropy Association	SDGs: Sustainable Development Goals
GDP: Gross Domestic Product	SROI: Social Return On Investment
GECEs: European Commission's Expert Group on Social Entrepreneurship	VPO: Social Housing
GEI: Gases de Efecto Invernadero	
GHG: Greenhouse Gas	
GRI: Global Reporting Initiative	
IASB: International Accountability Standard Board	
IFRS: International Financial Reporting Standards	
IIRC: International Intergrated Reporting Council	
IR: Integrated Reporting	
INE: Spain National Institute of Statistics	
IRIS+: Impact Report and Investment Standards	
IWAI: Impact Weighted Accounts Initiative	
KPI: Key Performance Indicator	
LBG: London Benchmarking Group	
MIT: Massachusetts Institute of Technology	
MSCI: Morgan Stanley Capital International	
MW: Megavatio	



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Soledad Díaz-Noriega

Partner at Management Solutions
soledad.diaz-noriega@msspain.com

Juan Luis Martín Ferrera

Partner at Management Solutions
juan.luis.martin.ferrera@managementsolutions.com

José María Elola Oca

Experienced Senior at Management Solutions
jose.maria.elola.oca@msspain.com

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