IMPACT Project

Executive Summary

September 2013

Headline findings, insights & recommendations

for policy makers, business & stakeholders

SEVENTH FRAMEWORK PROGRAMME

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Executive Summary

1 Introduction

1.1 Background Context

For the last decade, Corporate Social Responsibility (CSR) has assumed increasing practical and political relevance in the European Union (EU). Within the grand designs and ambitions of the EU's Lisbon and Gothenburg Strategies, launched in 2000-2001, CSR became part of the high-level debate in Europe about the social contract for business in the new millennium.

This was in part due to a growing recognition that globalisation, the ICT revolution, and the acceleration of macro trends such as resource depletion and climate change, were creating unprecedented rates of change in the dynamics of European and international markets. The future contribution of business towards the sustainable economic, social and environmental development of the EU and its member states would take place in a new and more uncertain paradigm.

This in itself constituted a new phase in a longstanding debate about the most suitable forms of mediation between the world of enterprise and the societies most directly affected by industrial and commercial activities. Indeed, governance frameworks as established between policy makers, regulators and markets had been shifting for some time.

The perceived retreat of government from the 1980s onwards was accompanied – some might say driven – by the rise in popularity, and near-universal acceptance, of a number of neo-classical economic theories.

Central among them was the infamous "Efficient Markets Hypothesis" (EMH), which at heart underpinned the simple beliefs that the business of business was business and that governance was the business of governments but with as little interference as possible. EMH, and others, had enormous influence on two generations of policy makers.

Against this backdrop, it was argued that CSR was a fitting mechanism for business to go beyond compliance and contribute to the common good. It was therefore unsurprising that the European Commission opted in 2001 to define CSR as a "concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (COM (2001) 366).

CSR therefore became a widely accepted policy context within which companies were empowered to deliver greater benefits for Europe’s economies, societies and the environment. In exchange, they received light-touch regulation and oversight of their activities from governments.

The IMPACT project has sought to test the real value of this approach to CSR over the past three years, through interdisciplinary and objective scientific inquiry. Perhaps the most important headline to emerge is the following:

The aggregate CSR activities of European companies have not made a contribution to the achievement of the sustainability policy goals of the European Union large enough to create change.

Furthermore, this study has indicated that there are no widely applied tools and methods which provide valid and representative assessments of the impacts of CSR for society. This has particular relevance given that the European Commission has redefined CSR – and public policy expectations – as ‘the responsibility of enterprises for their impacts on society’ with the final aim of ‘maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large [and] identifying, preventing and mitigating their possible adverse impacts’ (COM(2011) 681). The new definition therefore expands the scope of CSR from pure voluntariness to taking care of all the impacts a company has, while increasing positive and reducing negative effects on society. Taking care of a company’s impacts, without discerning between voluntary and mandatory activities, shifted the scope of CSR to fully overlap with the core business and therefore increases its relevance for enterprises but – if taken seriously – the responsibility of politics to keep an eye on companies’ CSR engagement and its impacts as well.

When the term ‘CSR’ is used in IMPACT it still refers to the old CSR definition of the EU Commission (voluntary & beyond compliance), as it was not possible for IMPACT to align its understanding of CSR to this change in the CSR definition: In 2011 empirical research already started and a definition change would have meant to change key aspects of the research. This however, does not make the research results less interesting or even less relevant. The research should inform politics about whether it can rely on voluntary activities as a means to achieve policy goals or whether other instruments have to be used. From perspective of IMPACT it therefore still made sense to focus on voluntary aspects of CSR (which still exist even when applying to the new definition, which just expanded but not abolished the old understanding): only by discerning between policy induced (mandatory) and other (voluntary) changes created by companies, an analysis is able to inform politics about what has to be changed.

This Executive Summary sets forth the key findings, insights and story lines to emerge from the IMPACT research study. It also formulates a range of conclusions, implications and recommendations for policy makers plus companies and managers, which should be of direct interest to other stakeholders (see Sections 3 & 4).

Taken objectively, a number of these raise important challenges to long-accepted beliefs and arguments in favour or defense of the traditional approach to CSR. They also suggest potential new ways forward which consign the "old" concept to the history bin.

Indeed, if accepted by key stakeholders, the recommendations of IMPACT may prove to be a watershed in the way that the business-government-society relationship in Europe is defined, measured and monitored in the years to come.

1.2 About the IMPACT Research Project

The advent of the financial crisis in 2008 has provoked heated debates over issues such as the accountability of banks, executive pay, unemployment and inequality in the intervening years. This has been mirrored by plummeting levels of trust from European citizens and voters in business and political institutions.

Unsurprisingly, a new debate about the responsibility of business to European society, and the real value of CSR activities, arose in parallel to the economic downturn. Seeking evidence-based analysis to supplant heated political arguments between stakeholders, the European Commission publicly invited research proposals to "empirically assess how CSR is, in practice, beneficial to the Lisbon and Gothenburg objectives and favour the development of better methodologies and tools to measure the impact of CSR activities at different levels:

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

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

Since its launch in 2010, the IMPACT Project ("Impact Measurement and Performance Analysis of CSR") has been the first systematic attempt to assess and measure the contribution of CSR to the social, economic and environmental goals of the European Union. Its consortium unites 17 leading universities, business schools, research institutes, think tanks, and membership network associations.

IMPACT has been the first large scale evidence-based assessment and analysis of CSR effects within companies, across industry sectors and regions, and at national and EU levels. In terms of its scope and duration, it has been the European Commission's largest ever research and knowledge development initiative on CSR, supported by € 2.6 million. As such, it is hoped that the release of its findings, insights and recommendations will signal a watershed moment in our approach to CSR as traditionally framed in management, policy and scientific study.

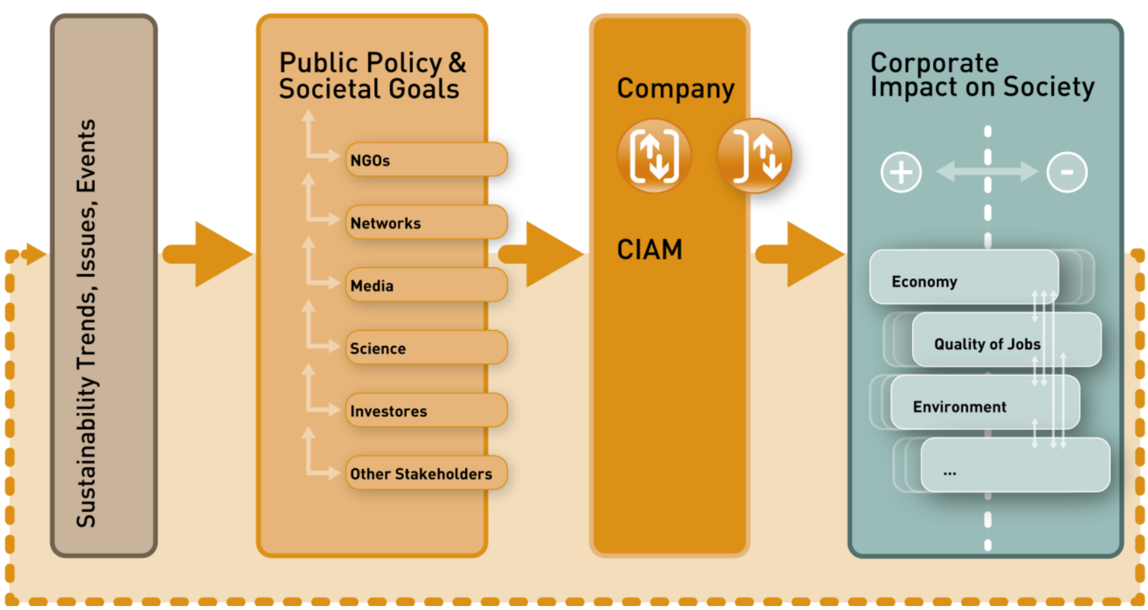
Research on CSR to date has mainly concentrated on the business case for CSR and the benefits for companies. In other cases it did not exceed individual case studies. What IMPACT has tried to do is to find evidence to answer searching questions: What benefits and impacts does CSR actually bring beyond company borders to the economy and society at large? How can managers, policy makers and stakeholders better measure and evaluate the impacts arising from CSR? What does this mean for smart mixes of public policies and corporate strategy?

The IMPACT project set out to evaluate current ways to assess impacts and to create new tools to measure the impacts of CSR at different levels across European companies operating in 5 sectors - Automotive, Retail, ICT (information and communication technology), Construction, and Textiles (Garment), in different regions of EU27.

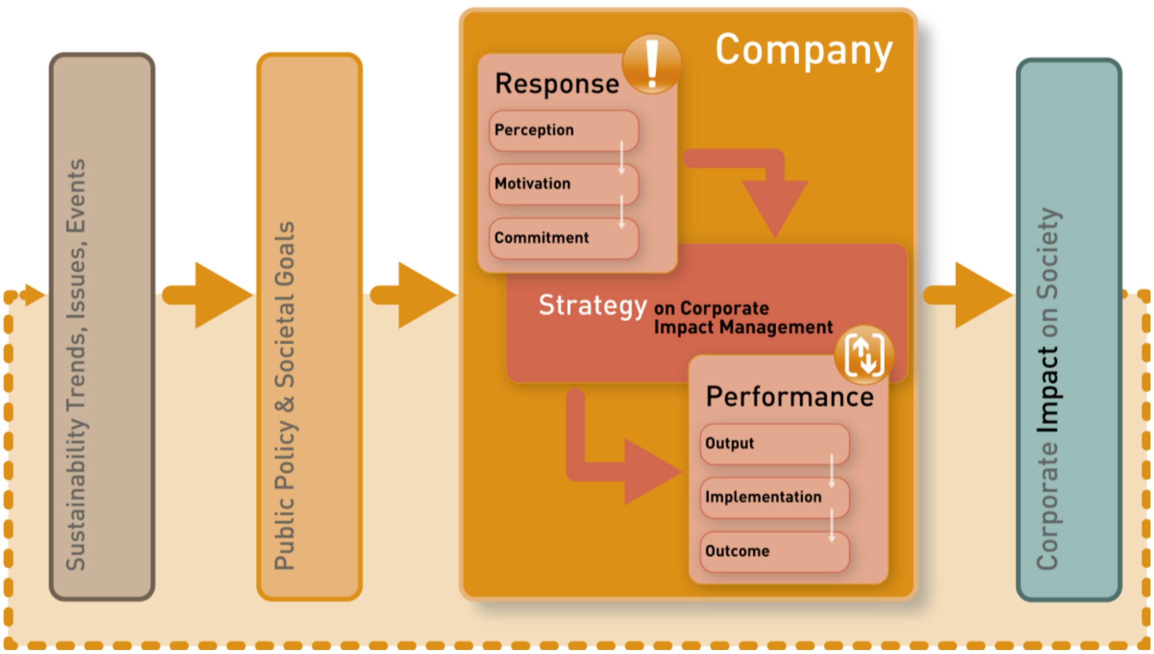
The outputs of its work form a comprehensive, unique contribution to the body of knowledge and facts available to policy makers and practitioners around the assessment, measurement and monitoring of the economic, societal and environmental impacts arising from CSR practices in Europe.

1.3 IMPACT Research Design and Main Objectives

The basic concept underpinning the IMPACT research design was an ideal process of how companies are expected to design, select, and execute CSR activities, and also set about assessing and measuring the impacts of these activities. This is represented in the model below:



The expectation was that companies perceive several sustainability trends, issues and events (or "TIEs") as relevant – ideally mediated through public policy or other societal goals, which would add the legitimacy of them having been recognized and prioritized as important for society at large. These sustainability issues are processed within the company. As a consequence of corporate action to tackle issues of societal relevance the corporate impact on society changes. It is important to note that not only companies' activities to tackle sustainability issues create an impact, but all the activities do so – either positive or negative. This means: there is no question about whether there are impacts of companies or not. The question rather is: do these impacts change (ideally improve) if companies implement activities to tackle the respective issue – and if yes, in how far?



In this process, different types of motivation (e.g. ethical, financial or other) then bring companies to commit themselves to tackle such issues. A logical next step would be to translate this commitment into a corporate strategy, also formulating certain targets.

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

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

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

The fundamental objectives of IMPACT were to:

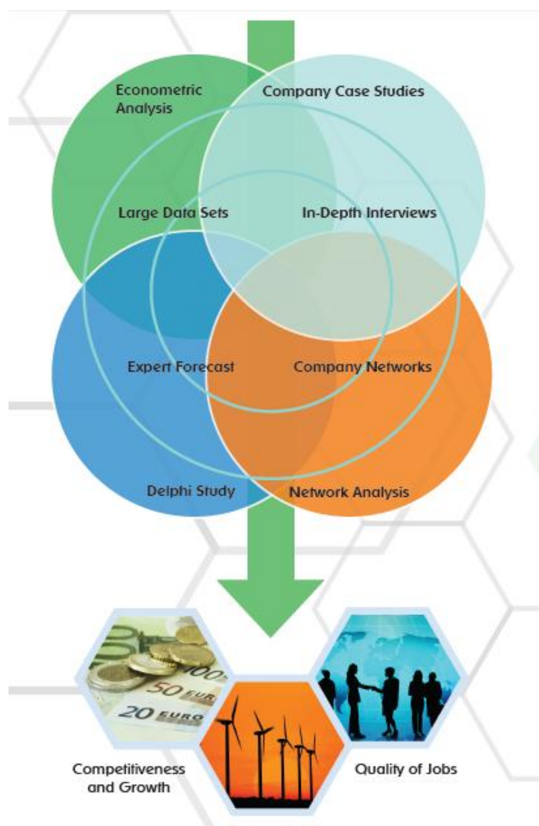
- Understand, measure and estimate CSR impacts on three main EU objectives: economy (competitiveness and growth), the environment, and quality of Jobs,
- Develop and validate tools and methods for a better measurement of CSR impacts,
- Unveil existing and source new panel data for the monitoring of CSR impact over time,
- Provide recommendations for different actors and decision makers and improve impact assessment and tools.

The research design and distinctive work packages of this ambitious interdisciplinary study,were shaped by a primary, overarching question: **"What are the impacts of CSR on the EU economy, society and environment?"**

Through an innovative blend of methodologies, models of inquiry and data analysis, IMPACT has therefore sought to derive new insights which explain CSR impacts.

In order to meet its aims, IMPACT uses a four stage research approach, employing four complementary empirical methods. The methods use different techniques to examine, measure and explain CSR impacts:

- **Econometric analysis:** based on the statistical analysis of large data sets drawn from existing data sets mainly from (CSR) rating agencies and own surveys among SMEs
- **Case studies:** to provide in-depth analysis of impacts looking out from companies
- **Analysis of company and industrial CSR networks:** exploring how impacts are mediated through networks
- **Delphi study among sector experts:** to capture the insights of European experts on CSR impacts, as well as to ideitify future priorities and issues, by conducting two rounds of online surveys among them



IMPACT also involved a huge volume of information analysis, including (but not limited to):

- Responses from 5.317 companies – mainly SMEs – to an IMPACT survey
- Data for 212 large companies drawn from Sustainalytics database, plus responses from an IMPACT survey targeting these MNEs
- Data for 14,000 observation points (meaning: sum of companies observed over the duration of the project) from Asset4
- Data on 2,000 mainly SMEs from Mannheim Innovation Panel ("MIP") supplemented with data from IMPACT-led telephone interviews;
- 19 in-depth company case studies: VW, Bosch, FIAT, Renault (Auto); Mango, H&M, Marimekko (Garment); Telefonica, KMD, Danish Telecom TDC, Nokia, Telenor Hungary (ICT); HOCHTIEF, Budimex, KESZ (Construction); Auchan Poland, Colruyt, Co-op, Waitrose (Retail)
- 5 network analyses: Partnership for Health (Retail); Clean Cloth Campaign Sweden (Garment); Working Group for Environmental Issues of the Federation of Finnish Technology Industries (ICT); Fondazione Sodalitas (cross-sector); Made in Green (Garment)
- Online consultation with over 500 CSR and sector experts across Europe

The results from all these empirical work packages have been synthesized in a final work package, using the method of triangulation. Triangulation aims at combining different empirical methods and a mix of qualitative and quantitative information / data. This mix of scientific methods helps overcome weaknesses of individual methods and combine their strengths. For example, while econometric analyses generate a lot of results in form of statistical relationships it does not tell very much about the mechanisms on how these relationships work. Therefore, additional information from in-depth case studies helps to fill those gaps.

2 HEADLINE FINDINGS

One of the fundamental challenges of a complex research project such as IMPACT is to create relevant, accessible, evidence-backed stories and messages which will frame debate and reflection after the project has ended.

With this objective in mind, the following "headlines" have been drafted as a proposed narrative framework. These should not be understood as main findings of empirical research – rather, they are a series of high level messages, statements, insights and conclusions which have arisen out of the study.

2.1.1 Companies perceive CSR as important

IMPACT revealed that **CSR is seen as a "must have"** for companies. Only in rare cases it is still seen as a basis for competitive advantage. Most SMEs said they consciously engage in CSR and almost half of them started CSR activities before the year 2000. Only **less than 10% of SMEs denied being active** on CSR.

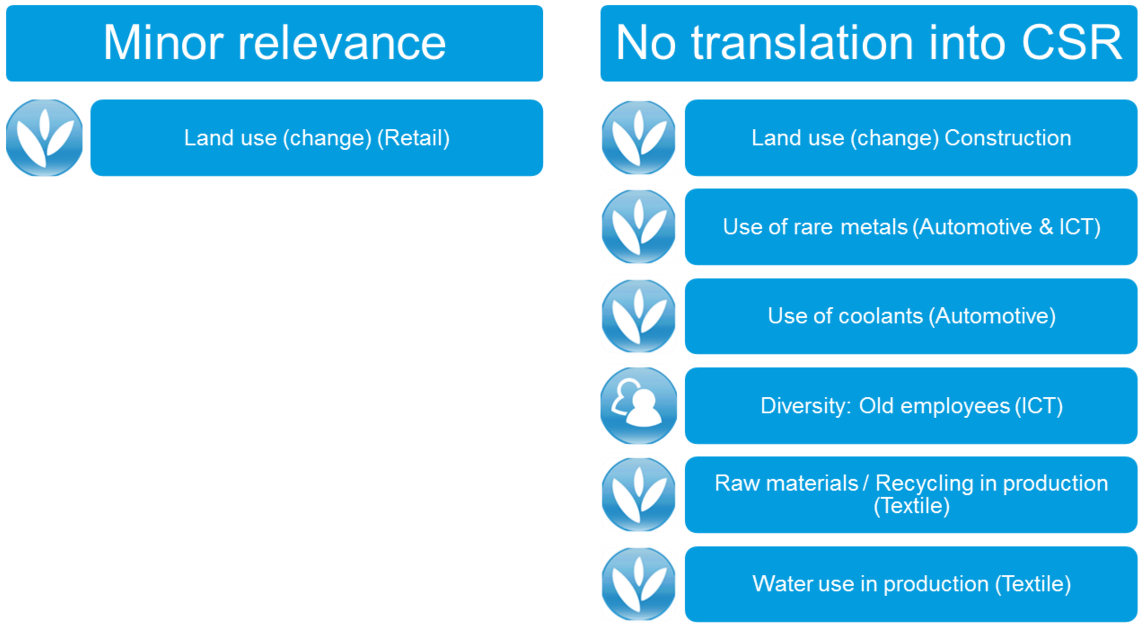
Thus CSR is not only relevant for large companies but for SMEs as well. For many companies CSR is regarded as part of their license to operate – something they must do instead of something they do to create competitive advantage.

2.1.2 The vast majority of issues relevant for sustainability is considered as being important by most companies

Even though CSR is commonly seen as a must have, this does not mean that a company's CSR activities integrate all of the trends, issues and events (**"TIEs"**) which have the greatest importance and materiality to core business. The IMPACT study invited companies to indicate whether they saw a set of 48 sector-specific issues as having relevance to them. The major guiding principle for the issue selection was that there had to be European policy goals for the respective issues and that they had to be relevant for the respective sector. **Out of these 48 sector specific issues, 47 were considered as being relevant** concerns by companies. The issues most actively being addressed in companies were:

- Climate change
- Use of raw materials
- Sector-specific issues of Quality of Jobs, e.g. health & safety

Only one issue of those suggested by IMPACT was perceived as being **of minor relevance** for companies while **awareness** of the relevance of an issue **did not translate into CSR activities** for six issues in the named sector (see figure below).



In summary, there is a widespread awareness of most of the CSR and sustainability issues identified by the IMPACT study, as well as consensus on potential relevance and materiality. Some impact areas have a longer history and have received more attention than others. This means some issues have received selective attention. However there are others receiving little or no attention by companies, despite the fact that they are perceived as being relevant.

2.1.3 Impact thinking is relatively poorly developed in companies & other organisations

Case studies and analyses of networks show that the **logic needed to consider and measure impacts, is not embedded in managerial thinking.** "Impact thinking" is relatively poorly developed in business, except in relation to the economic outcomes for the firm, and CSR impacts are no different from other areas of business practice. When managers and experts were asked whether it was important to know the impacts arising from activity X or Y, they tended to agree. But when asked what would be the pathway from an activity to its impact, and whether impacts are measured, they said that this was very difficult.

In addition there is widespread confusion between performance and impact and there is no clear and consistent understanding of what 'impacts for society' are. **There are no established and accepted methodologies and tools to measure and understand pathways of impacts for society** from companies or their CSR/ sustainability activities. This means it is not possible to trace the relationship between strategic decisions about CSR policies and activities, how they translate into outputs (programmes and policies) to which resources are allocated, and then become outcomes that create impacts. Thus, impacts of companies for society remain unclear and hidden from public scrutiny and policy.

Among the most frequent reasons for not measuring impact were:

- No clear understanding of performance & its relation to impact
- Lack of knowledge on pathways of impacts
- Lack of commonly agreed measurement methods
- High costs of measurement
- Companies do not see a need for measurement
- Companies do not see responsibility for measurement of impacts

However, even though there is no systematic approach on what and how to measure, some companies are seeking to measure some of their effects. The effects that are measured are mainly sector & issue specific. Others such as CO_2 and gender equality are considered across sectors. The research found that **many** companies **use some kind of Key Performance Indicators ("KPIs") and these were often embedded in some form of management information system. However:**

- Companies used **related but rarely identical** indicators
- Data collection is invariably decentralized – no uniform data compilation even within individual companies
- Indicators often referred to **different years than asked for in IMPACT to ensure comparability**
- Many companies **started measuring only recently** - indicators were only available for the recent past
- There is a **lack of information** on key questions related to performance (e.g. what is the scope of reporting, why some aspects of performance are reported but not others, etc.)
- When companies were allowed to fill in their **best estimates of performance, this largely increases data availability** (at least for Quality of Jobs)

Companies mainly collect data for their own purposes – there is no common standard or approach on which indicators to use. This means the comparability of data is very low – and data aggregation is not possible (i.e.: you cannot add up data from different companies in the same sector to provide a sector estimate).

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

Furthermore there is n**o systematic division** between intra-company (Outcomes) & effects on society (Impacts) of companies' activities to be found **in existing systems that are commonly**

used to assess the CSR of companies. (By way of example, rating agencies that assess CSR tend to measure managerial practices, such as policies and approaches to stakeholder engagement, rather than measuring impacts). Although these organizations set out to advise on the CSR and sustainability of companies, they do not apply an impact logic to company effects that are assessed.

2.1.4 CSR improves companies' environmental & Quality of Jobs outcomes & impacts

For SMEs there is clear evidence that CSR (or more precisely: the implementation of CSR activities) leads to improvements of environmental & QoJ Outcomes & Impacts. A large majority of SMEs realizing improvements in outcomes answered that these came about through voluntary actions. In this sense, companies which acknowledged that they implemented CSR activities had a higher probability of experiencing positive changes for related indicators over time than those not implementing activities accordingly. Furthermore the econometric analysis showed that implementation of CSR activities led to improved outcome or impact trends from 2007 – 2010.

In summary, CSR brings about some positive results for society and can be a useful tool for improving environmental & QoJ outcomes & impacts of companies. There are clear positive results for SMEs and some support, although no clear validation for all issues, for large companies.

However, the impacts that are attributable directly to what might be labeled CSR practices or activities, meaning those are voluntary activities, seem relatively minor when compared to the overall impact a company has on society. **Overall data trends (incl. improvements caused by CSR), which only showed slightly improving trends for all QoJ & environmental issues**, show that this does not lead to major changes in outcomes and impacts. It is also important to recognise that the IMPACT project began at the beginning of the 'credit crisis' which means that for many indicators the crisis might have caused some apparent improvements (e.g. reduction of CO_2 emissions) due to decreased economic activity.

2.1.5 Environmental & Quality of Jobs CSR effects on economic indicators depend on the issue

The project explored the relationships between environmental & QoJ CSR activities and economic performance.[1] Results show that **for CSR in general, the results seem to be neutral, but when CSR issues are considered issue by issue, differences emerge:**

- No general trend was found when looking at 'CSR' consisting of many issues:

[1] NOTE: depending on the analysis, results are only valid for large companies or German companies (mainly SMEs) – this means results are not generalizable but still provide insights in challenges of analyzing the business case of CSR

- CSR – defined as a construct consisting of increasing employees' environmental awareness, increasing safety at work, integrating disabled people, promoting gender equality, avoiding discrimination, integrating of foreigners, and more – only has neutral effects on return on sales ("ROS").

- But when looking at it issue by issue differences emerge:

  - CSR, defined as construct consisting of improved employee satisfaction and reduced staff turnover, has positive effects on ROS.

  - Improved gender equality of company boards improves profits but negatively affects growth in turnover

  - Policy on freedom of association (Output) improves profits, but the respective outcome (higher share of employees under collective bargaining) negatively affects turnover growth

Finally, there is no clear overall picture regarding relationships between CSR and the economic results of companies. The economic results are issue dependent and they differ depending on the economic dimension that is being considered. When CSR issues are combined, economic results get neutral; whereas when different CSR variables are considered one at a time, there are positive and negative relationships.

The study suggests a couple of insights in this regard:

1. It does not make sense to seek to assess the effect that CSR programmes consisting of multiple issues have on economic performance
2. It is preferable to try to measure the economic effects of activities around single issues
3. Tracing the relationship between CSR activities and the overall economic performance of the company is exceedingly hard to do given the number of individual issues and economic variables involved.

2.1.6 The management process matters

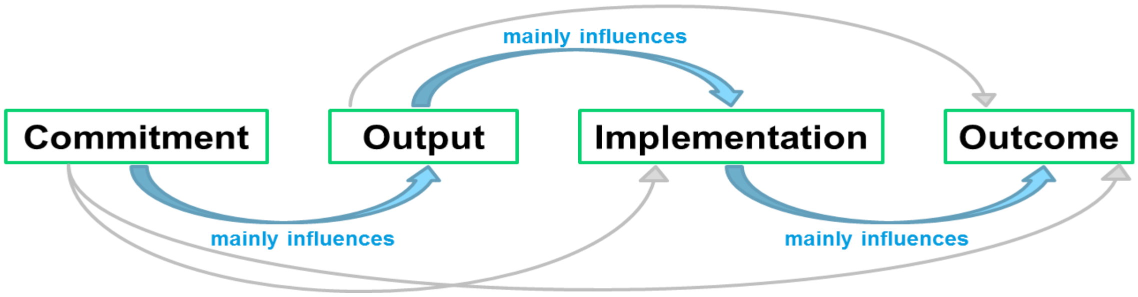
In the absence of any formalized or standardized approach to impacts the IMPACT project designed an ideal model for impact management (see above).This model visualizes how CSR gets managed in companies, from managerial 'perception' of sustainability trends, issues and events (ideally mediated through public policy goals) to 'impacts' for society.

Our research confirmed the assumption, that all the elements in the model are important and the absence of one will undermine the system as a whole:

- Commitment affects output, implementation & outcome

- Output affects implementation & outcome

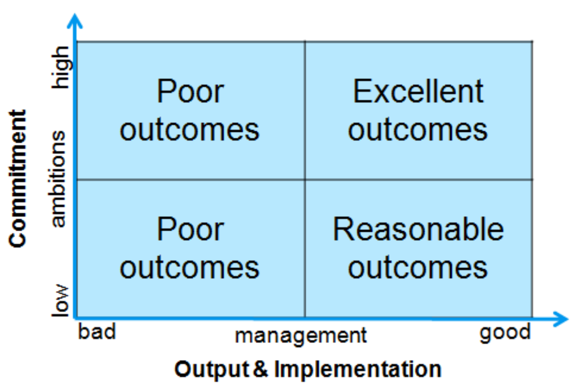
- Implementation affects outcome



However, the **most** and **largest** influences were observed when treating these steps as a causal chain: the largest influence from commitment was observed on output; the largest influence from output was observed on implementation; and implementation affected outcome and impact.

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

Last, but not least, the following matrix that **relates the ambition of CSR to its management** is helpful to understand the implications for outcomes. High ambition requires good management to yield excellent outcomes. Low ambition combined with bad management leads to poor outcomes. But management capability has a higher impact on outcomes than ambition.



2.1.7 Apart from CSR, company size, region & sector do play important roles in terms of outcomes and impacts

Company size, region of origin and sector seem to play roles in influencing outcomes and impacts. The actual influence that these variables play differs for different variables and from issue to issue – and in most cases, no overall conclusions can be drawn.

Company size:

- Both large and small firms are interested in improving environmental and quality of jobs performance, but large firms are more likely to adopt systematic programs and indicators.
- Large companies and SMEs motivation is driven by other factors (see following results)
- For SMEs there is more evidence that CSR commitment encourages CSR output, leading to CSR implementation and causing change on outcome and impact than for large companies.
- Within the categories of 'large companies' and 'SMEs' larger companies on average perform better on outcomes and impacts than smaller companies

Industry sector:

- Self-evidently, different sectors have different drivers for CSR given the materiality to core business models and industry dynamics
- There are no overall results on CSR implementation and how this affects outcomes and impacts. Results depend on the specific issue & sector.

Geographic region where the company is headquartered:

- Territorial differences in CSR performance and impact are not independent variables. Territorial characteristics can be explained by many factors and by several different conceptual frameworks such as, e.g. the types of capitalism, the role of the state, cultural and social determinants, etc.
- For Large Companies:
    - Mediterranean, Scandinavian & continental European companies outperform large Anglo-Saxon companies regarding their CSR Performance
- For SMEs – the results are more complex, in that:
    - On an aggregate level, Anglo-Saxon SMEs outperform SMEs from other regions regarding their CSR Performance
    - Looking at a more detailed level of analysis, differences become visible:
        - SMEs from CEE outperform SMEs from other European regions regarding CSR Output & Implementation
        - Anglo-Saxon SMEs outperform SMEs from other European regions regarding environmental outcomes & impacts
        - Mediterranean, Continental European & Scandinavian SMEs outperform SMEs from Anglo-Saxon and CEE regarding quality of jobs outcomes

2.1.8 The drivers for CSR performance

In the SME study & the case studies, companies were asked for their motives for engaging in CSR in general and for involvement in specific issues. For large companies financial motivation is the most important driver for doing CSR, while for SMEs it's the value driven / intrinsic motivation.

Looking at the most important drivers for **improving** CSR performance, these results very well fits together - the top four drivers, fostering CSR performance, are:

Large Companies	SMEs
•**Financial motivation**	•**Value driven motivation**
•Technological competition	•Pressure from NGOs & Media
•Mandatory reporting	•Time horizon
•Pressure from NGOs & Media	•Stakeholder responsiveness on CSR

Again, financial motivation for large companies and value driven motivation for SMEs are the most important drivers for improvements of CSR performance (in other words: **If** SMEs are value driven for doing CSR, on average they perform better on CSR than SMEs driven by other factors). However, as financial (large companies) and value driven (SMEs) motivation mediate most of the influence of other drivers, this major difference between SMEs and large companies is less important than could be expected: when looking at underlying factors that drive financial / value driven motivation, two of the most important drivers are identical for large companies and also for SMEs. These two drivers are "**stakeholder responsiveness on CSR**" (to be explained below) and "**pressure from NGOs & media**" (clearly visible in the table above).

The link between "stakeholder responsiveness on CSR" and large companies is not visible on the intermediate level but contained within the driver "**mandatory reporting**": IMPACT showed that there are different ways of how mandatory reporting influences the CSR performance of large companies.

It is however the case that mandatory reporting first of all increases stakeholders' responsiveness to CSR. Increased stakeholder responsiveness to CSR then improves the financial and strategic motivation to do CSR; and this finally leads to improvements in CSR performance.

From the evidence and data, it is therefore possible to conclude that stakeholder responsiveness is significantly important for large companies and for SMEs – and that one way of increasing the stakeholder responsiveness of large companies is mandatory reporting.

When looking at stakeholder responsiveness in more detail, there were some further differences between large companies and SMEs. Of those stakeholders we considered, the prioritization for improving CSR performance of SMEs is differently than for large firms – see below – but perhaps not surprisingly, given the traditional ownership and management models within smaller firms:

- Internal stakeholders - Director / owner
- Labour market - Own employees, Labour market
- Product market - Profit margin, turnover
- Capital market - Investors, Banks

Whereas for large companies, the results were:

- Labour market - Own employees, Labour market
- Capital market - Investors, Banks
- Internal stakeholders - Director / owner

What we can see is for example, that for SMEs internal stakeholders (director / owner) are more important than for large companies, while for large companies the capital market (investors and banks) is more important than for SMEs. The labour market was highly important for both types of companies. Translated into direct policy relevance this means it is more important to increase CSR responsiveness of directors and owners for SMEs while for large companies the responsiveness of investors and banks should be raised.

We then analysed who currently are the most sensitive stakeholders to CSR, because results above only show it improves companies' CSR performance **if** those stakeholders are or would be responsive to CSR. Large companies as well as SMEs mainly stated that their own employees and the labour market are most sensitive to CSR. On the one hand this matches well with other findings. However, it also means that other important stakeholders, like capital markets for large companies or director / owners for SMEs, seem not to be as responsive to CSR.

A different picture appears when looking at stakeholders' influence on the diffusion of **CSR:**

- Most influential are: Competitors within sector, purchasers, end consumers
- Least influential are: Trade unions, companies other sectors, suppliers, CSR networks , employees

Directly comparing these results again highlights interesting findings: while the labour market seems to be the most responsive to CSR, and thus it also seems to play an important role for fostering CSR performance of large companies and SMEs, **employees seem to be far less influential when it comes to the diffusion of CSR.**

From the network studies we know that CSR networks, again another type of stakeholder, can play important roles in CSR activities by companies. What role they actually play depends on the central purpose of the network and the nature of its activities:

- There are networks in which individual companies do not actively participate, but which push poor-performing companies to react and improve standards

- On the other hand, for some companies their active participation in CSR networks is seen as an indicator of the company's commitment to CSR and through that it stimulates performance

- CSR networks are not considered important for the diffusion of CSR (see above), but they are a source of knowledge and provide a reference point for individuals / companies to learn how to do CSR and enhance the quality of its implementation. They are less successful in persuading companies to become interested in CSR. It can therefore be said that networks:

  - Promote high standards of company and product performance

  - Store and develop knowledge of how to do CSR

  - Do, or provide support to do, what companies cannot do on their own

Overall, findings show that CSR Networks help make CSR management better informed and therefore contribute to outcomes. Among all stakeholders, directors/ owners are more relevant for SMEs. As for external ones, capital market is more important for large companies – but currently not among the most responsive stakeholders.

2.1.9 CSR is not seen as a public policy domain of great relevance

Findings show that networks are not set up in line with EU goals as expressed e.g. in the Lisbon & Gothenburg Strategies

- Even in cases where companies/networks indeed act in line with EU policy goals, there is no awareness that this is what they are doing

- EU policies are basically seen as part of the general background for network activities, but not of special relevance to what is done

In terms of public policies that influence environment, quality of jobs, and economy, policies that promote **CSR** are always among the **less or even least important types of public policy.** The study indicates that:

- National & EU regulations are most relevant to companies across the five sectors

- National regulation on QoJ & environment are especially important for the textile and retail sector

Those **public policies fostering CSR** the most/least are

- **Most:** Green public procurement ("GPP"), subsidies, tax incentives, reporting standards / obligations, socially responsible investment

- **Least:** CSR awards/best practices, cooperative instruments, private-public partnerships ("PPPs"), awareness raising

Overall networks / companies seem not to take into account 'meta-policies' formulating (sustainability) policy goals in their work. Although big concepts like sustainability might be seen as strategic, companies more normally take policy goals into account only when they translate into fairly concrete areas of objectives (e.g. minimum standards, etc.).

Although companies perceive CSR as important for doing business, it is not perceived as being a relevant public policy area that effectively tackles specific issues. Moreover, the 'harder' public policy instruments – such as GPP, reporting obligations, tax incentives, etc. – are seen as more effective in fostering CSR than 'softer' instruments that support CSR as an approach (through for example awards, campaigns, etc.)

But, evidence suggests that single policy instruments such as mandatory reporting do not necessarily result in better impacts for society on their own unless they explicitly focus on impacts. Where used, they should be supported by policies and actions that for example create a climate where the importance of impacts and know-how about impact measurement and management is understood.

2.1.10 Legal regulation and CSR are not necessarily in conflict

Even though CSR in general is not seen as public policy domain of great relevance (see above), politics has its role to play in fostering CSR.

Data from surveys shows, that **"meeting (future) government regulation" is among the less or even least important drivers for companies general engagement in CSR**. Only for SMEs legal motivation leads to general improvements of CSR Performance – and even there the influence is rather small.

However, we know from case studies that **legal regulation can be an important driving force at least for some of the issues**:

- In the textile & ICT sector, EU legislation (RoHS, WEEE, REACH) was named as the major driver for activities of companies to protect natural resources from pollution
- Existing EU & national legislation are drivers for activities on *climate change*
- In the retail sector, anticipated future legislation is a driver for activities on conservation of natural resources (mainly on food waste & packaging)
- Laws & regulation are drivers for activities on intrinsic job quality (esp. in ICT & textile sector)
- ILO standards, regulation & legal compliance are drivers for activities on inclusion & wages (esp. in Auto, construction & ICT)

While activities driven by regulation are not being assumed to be CSR anymore (at least according to the old definition of CSR applied in IMPACT – see above), IMPACT found that even dense regulation does not make CSR disappear:

We can conclude that **legal regulation is not a driver for the general engagement** of companies with **CSR**. But, legal regulation is an important driver for **some issues**. At the same time, where legal motivation is a, or even *the,* main driver for tackling issues, this does not mean that voluntary activities (CSR) do not play a role in these areas anymore. **It seems that support for CSR plus targeted legislation on an issue specific basis provides a better mix than each approach on its own.**

As a consequence, strong/dense (future) legislation & CSR can coexist and it even seems that only regulation can raise awareness of companies regarding some issues which are then being tackled with (additional) voluntary action.

2.1.11 Future influence of sectors and CSR are expected to grow

Findings from our experts' Delphi study show that in general, **sector effects on most sustainability issues are expected to grow & the influence of CSR to tackle those sector effects is expected to increase in relation to environmental concerns as well as for QoJ**.

- Sector effects on issues within the category *Conservation of natural resources* are expected to grow heavily – and much more than respective influence of CSR on these issues. This implies that addressing the issue only through CSR activities could not catch up with the general relevance of the topic.

- For *climate change* issues the effect of CSR is expected to grow heavily – and to a much higher extent than respective sector influence. This means, for the topic of climate change, CSR will gain importance and catch up with the general relevance of the topics.

  For the automotive sector experts mainly expect decreasing sector effects (environment) or effects of CSR to grow even more (QoJ).

3 Implications & Recommendations for Policy Makers

3.1 Lack of awareness of European policy priorities and directions

IMPACT explored how companies in Europe – both large and small – define and perceive corporate responsibility, in addition to the nature, structure of and motivation for organisational responses. As a key component in its inquiry, the study sought to understand how far these responses contribute to the achievement of European public policy goals, and thereby what type of issue areas defined the make-up of CSR activities.

The study found that in instances where companies do consider material sustainability issues for their sector, **they are rarely informed by the policy goals and agenda of the EU** in areas such as competition, environment and quality of jobs. There is a relatively poor understanding of European policy and especially the link made between growth, competitiveness, sustainability and social inclusion through innovation (cf. Lisbon and Gothenburg Strategies). There is therefore a weak link between EU 'policy', European policy on CSR, and company strategy and CSR practices across Europe.

3.2 Implementing the Commission's new definition

The European Commission's revised CSR definition ('the responsibility of enterprises for their impacts on society') abolishes the distinction between voluntary actions and compliance with existing law when companies address social or environmental issues. This is in line with current practice in many companies that employ sustainability performance measurement and reporting systems, where the distinction of effects resulting from actions "beyond compliance" has never been made.

However, the 2011 Communication also positions the responsibility of European business in the context of managing its impacts on society – both strategically and operationally, and in partnership and consultation with stakeholders. Three obvious concerns for policy makers emerge from the IMPACT research:

(i) At the company level, there is no evidence of a common understanding or definition of an enterprise's pathways of impacts and final impacts for society.

(ii) Impact measurement of this kind is complex, and non-linear; causality is hard to establish. It requires lots of time and offers uncertain outcomes.

(iii) There is no evidence of standardized methods, tools or approaches available to companies to support management systems and processes which would enable them to conduct the kind of impact assessment and management which is implied in the Commission's definition.

(iv) It is equally unclear where the boundaries of responsibility and accountability lie between the firm and society, and who has the legitimacy and capability to assess companies' claims about their impacts for society.

Given the impact-linked aspirations of the Commission, and the obstacles facing companies of all size to respond in practice, there is a huge chasm to be filled if the public policy objectives are to be met. It seems equally clear that policy makers have an important role to play in equipping European businesses to make progress.

In doing so, it would be best to avoid a return to heated historical disputes over the mandatory vs. voluntary status of CSR. In fact, as many actors (member states, companies etc.) have different understandings of what CSR actually is and we cannot trust that all these actors will easily take over the EU's new CSR definition, we suggest an adjustment in future policy language and frameworks which concentrates on:

- **Corporate Impact Assessment:** Identification and measurement of companies` external impacts on issues in the areas of society, environment, human rights, economy etc.
- **Corporate Impact Management:** Implementation of proactive strategies to enhance positive impacts, while preventing and mitigating adverse impacts, in decision making and operations

Given the interdependency of the two in order to achieve positive outcomes and impacts, the proposed future terminology would need to combine them:

CORPORATE IMPACT ASSESSMENT & MANAGEMENT ("CIAM")

3.3 CIAM in European Companies Today

The IMPACT study discovered the following:

- Companies are currently addressing social and environmental issues, but the intensity and scope of activities depend very much on the issue and other factors. There are for example some issues not addressed in some sectors which seem to be relevant for society.
- Current CSR activities mostly only lead to small changes of corporate performance and impacts. Such are not enough to reach policy goals and create change.
- There is little practice on systematic impact assessment and management, and little evidence on comprehensive corporate impact assessment – but there are some frontrunners offering positive insights.

- Measurement mostly does not systematically discern between performance inside the company and impacts on society and environment. There are few tools and no standards available for systematic impact assessment. As a result, little data on corporate outcomes and impacts is available so far.
- There are no incentives provided by state actors, the EU, or investors to systematically assess, measure and manage corporate impacts. There is no evidence of this being incorporated into the analytical frameworks of ratings agencies either.

The findings of the IMPACT research underline that simply doing more of current CSR practice will not be enough to meet the economic growth and competitiveness challenges facing the EU-27 going forward. Similarly, in order to achieve EU policy goals on the environment, an “efficiency improvement-only” approach in business will not be sufficient. Last but not least, if EU policy goals around employment and quality of jobs are to be attained, the quality of how issues are addressed by companies must be broadened and enhanced.

3.4 Benefits of Using CIAM to Reframe Impacts for Society

To do so, **does not mean that companies should cease to adress social and environmental issues beyond compliance**. Voluntary action should still be one of the tools to improve impacts. It rather emphasizes that sensing and managing social and environmental **impacts that are material to core business and society** – while acknowledging that core business generates both positive and negative impacts – is a permanent strategic challenge to be embedded across and throughout companies, and thus cannot be clearly divided between mandatory and voluntary activities.

Introducing the term **“Corporate Impact Assessment and Management” (“CIAM”)** sends important signals to key stakeholders. It resonates with business because it suggests a quantifiable, data-supported process which is not so different from current management systems.

It supports the distinction between impact and performance, which is little in evidence today. Additionally, it implies the modification of existing systems, rather than a new resource-intensive requirement for companies to “reinvent the wheel” in terms of measurement and benchmarking protocols.

The thinking and logic behind such a process may need to be radically different, given that corporate impacts take place within complex systems which are hard to map and decipher. Nonetheless, CIAM is a way of building acceptance in the managerial community that this is a feasible undertaking.

It provides greater focus for “smart” policy mixes and support for enterprise, through the development and dissemination of new instruments and methods. This would also give better alignment with existing impact assessment tools used by public policy bodies to assess the value to society of new policies and regulatory frameworks.

It also indicates to civil society and business stakeholders that this is a shift towards more robust, transparent, evidence-based approaches – thereby negating many of the accusations of "greenwashing" and "window dressing" leveled at CSR in the past.

3.5 General and specific recommendations

3.5.1 New knowledge creation

- Support regular analysis of the most material issues for society and pressures within industry sectors (taking sector- and region-specific dynamics into account), complemented by mapping which of these aspects are being tackled by CIAM.
- Identify reasons why certain issues are not tackled
    - Support networks, partnerships and other institutions which offer strategic capabilities to effect positive interventions; or
    - Identify relevant policy instruments in areas where government steering and leadership are deemed necessary.
- Support pilot projects, academic research and multi-actor collaborations which deepen the understanding of how to map corporate impact pathways and assess impacts for society over time.
- Engage with relevant professional organisations to create standardization in CIAM reporting.
- Fund an Independent Information Clearing House and Topic Centre on EU level on Corporate Impact Assessment and Management. On this last point, a number of tasks could be envisaged for such an entity:
    - Foster impact-oriented thinking & management in companies (MNEs & SMEs)
    - Foster impact-oriented thinking in professional training bodies (Chartered Institutes of Accountants, Financial Analysts, etc.)
    - Collect and share existing practices, in particular measurement tools
    - Identify and develop adequate CIAM indicators, where possible connecting to indicators already used by statistical offices, reporting standards and current practice in companies
    - Support the development of impact indicators in complex pathways of impacts and cross-issue impacts

- Identify useful scope of CIAM reporting: Where does company's responsibility to assess & measure impacts end? How could other institutions support the generation of additional levels of impact data?
- Provide information on tools and techniques for CIAM to companies (MNE and SME) and to other practitioners (Rating Agencies, NGOs, International Organisations, etc.)
- Organise workshops and web-based information formats on CIAM
- Identify and use synergy effects/experience/outcomes of methods and features of other Impact Assessment Tools (EIA, Legislative IA)
- Report to the Commission on developments in corporate impact assessments and provide recommendations for further policy action and research
- Convene leading academics and educators to develop CIAM-based teaching materials and modules for inclusion in business school and university programmes.

3.5.2 At the EU Level – Integration in existing policies and strategies

- Include CIAM in thematic strategies, action plans (e.g. Action Plan for Company Law and Corporate Governance, Environmental Action Plan) and the revision of 2020 strategy.
- Consider CIAM for pending legislation (e.g. within the proposed Directive regarding the disclosure of non-financial and diversity information by certain large companies and groups (COM/2013/0207 final - 2013/0110 (COD) */). This would also imply the encouragement of member states to include corporate impacts in proposed reporting schemes.
- Support the development of CIAM tools on sectoral and/or issue level e.g. when implementing the different activities foreseen in the renewed EU strategy 2011-14 for Corporate Social Responsibility
- Engage and support relevant business associations and NGOs to develop and pilot common methodologies on CIAM
- Encourage existing platforms and networks for responsible business to include CIAM into their agendas and work programmes
- Urge member states to include CIAM into their national CSR strategies (developing them further into CIAM strategies)
- Peer reviews of national CSR policies as foreseen in the strategy should include status, developments and continuous improvement in the field of CIAM

- CSR and CIAM policies should not only rely on soft instruments. IMPACT showed that these are commonly seen as irrelevant by companies.
- The policy instruments introduced by the COM and member states to foster CSR have been mapped and analysed in a number of reports (e.g. IMPACT Working paper No. 2, Bertelsmann, Adelphi). When further developing and implementing these instruments, they should include mechanisms to provide incentives for a more systematic impact orientation when managing external social and environmental issues and to provide frameworks for CIAM
- When further developing or introducing financial policy instruments (e.g. taxes and state aid policies), public policy agencies should actively consider the inclusion of incentives for more systematic impact orientation when managing social and environmental issues

4 IMPLICATIONS & RECOMMENDATIONS FOR COMPANIES & INDUSTRY

4.1 Key issues & challenges

Since the IMPACT study began in 2010, the European Commission has modified its definition of, and policy objectives linked to CSR (COM 2011, 681). In its new framework, the Commission emphasises that CSR is **the responsibility of enterprises for their impacts on society**.

To fully meet their social responsibility, enterprises "***should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders***".

These new public policy expectations redefine an important part of the social contract for business in Europe – at a time when EU citizens are increasingly skeptical of whether companies have a positive influence and impact on their society (Flash Eurobarometer 363, 2013).

It is important that European companies sense, understand, follow and – where it is materially and / or societal relevant – respond (positively) to these changes in their business context.

IMPACT analysed the extent to which companies and managers were aware of:

- The European Commission's policy goals on sustainability CSR and its links to sustainability and / or sustainable development
- CSR and its links to innovation, competitiveness or strategy
- The difference between 'performance' and 'impact'

IMPACT found that knowledge and awareness gaps were common around the first of these (EU Policy goals). It also found that managers and companies had no standardised ways of assessing the impacts of their CSR activities – if any. The study proposes that a CIAM approach, focusing on corporate impacts, is needed if responsibility is to be taken seriously – this approach has some parallels with management systems. But our study suggests that a minority of companies use management systems to help them manage responsibility issues. The experience of the IMPACT researches shows that impact thinking and approaches are not deployed in companies and other organisations (CSR networks, rating agencies etc.).

Encouragingly, a wide range of interviews and surveys confirms that many managers *are interested* in being able to trace the relationship(s) between a company's activities and its impacts for society. In the context of our analysis, these are referred to as **pathways of impact.**

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

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

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

There is another important challenge, however, which businesses will need to tackle internally if they are to align their activities with these new European public policy goals and societal expectations.

This is the development and embedding of **impact thinking** in companies. In other words, a company uses the positive impacts for society which it seeks to create and the negative impacts it wants to prevent or mitigate as the decision-making framework which determines and shape its strategy, commercial and non-commercial activities, resource allocation, etc. Within the context of impact thinking, it attains equal status alongside financial goals and returns on investment or capital employed as key factors in decision making.

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

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

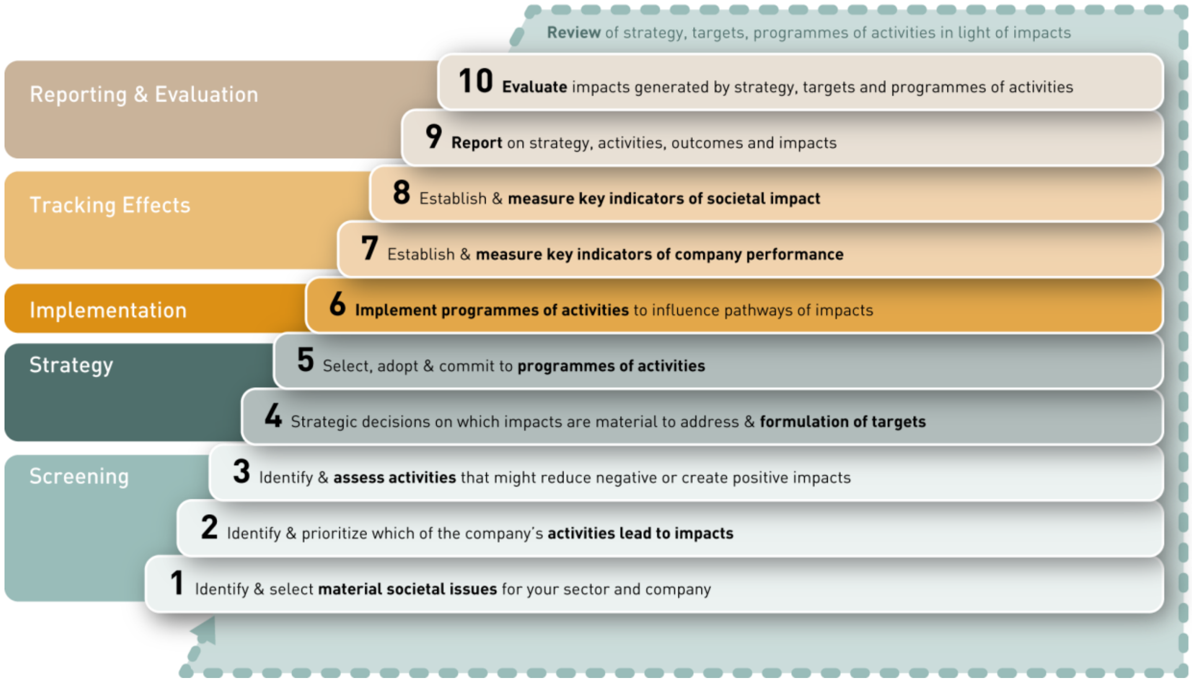
4.2 A 10 step approach to support impact thinking

Once a company has committed to impact thinking in its organisational culture and managerial decision making, the basic starting point for discussing its effects for society (effects on society & environment) are **pathways of impact**.

Thinking in terms of impact pathways means first identifying relevant issues for society, then prioritizing the issues in terms of materiality to core business, and then identifying the company's influence on those issues.

Drawing on its research findings and group insights, and acknowledging the lack of existing alternatives, the IMPACT project has developed the following 10 step approach to identifying and tackling responsibility issues and impact pathways:

10 Steps to Corporate Impact Assessment and Management (CIAM)



4.2.1 STEP 1: Identify and select material societal Issues for sector and company

- The company focuses not only on issues receiving high public & media attention, but on relevant / factually important issues for society
- There are several possibilities on how to identify such issues, e.g. using policy goals as orientation (as done by IMPACT), or drawing on scientific research & analysis
- Perhaps evidently, there are large variances in terms of characteristics and materiality in different industry sectors. These sector dynamics should be carefully considered, and helped to filter issues by level of importance. The guiding questions for managers to ask are, quite simply:
    - Is the issue influenced by the sector (e.g. risk, opportunity, regulation)?
    - Is the sector influenced by the issue?

4.2.2 STEP 2: Identify and prioritize company activities leading to impact

- After identifying sectoral issues, the crucial step for each company is to trace the pathways of impact on the / these issues for the company, and to decide on which to act.
- This process again splits up into three steps:

1. Mapping the status quo of the company's influence on the issue (through activities, products, processes, etc) vs. the issue's influence on the company (through risk, opportunity, regulation, etc)

2. Mapping who else influences the issue

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

- ***On Point 1:*** managers must keep in mind that impact pathways must **anticipate points of impact** – where and when impact can be measured and influenced by the company – as well as **integrate points of leverage** – where and when pathways can be influenced and changed. Identifying pathways of impact from the company to an issue is a complex task. The process for doing so should focus on:

  - Major pathways of impact, and

  - Pathways of impact that can be (indirectly or directly) influenced / changed by the company

- ***On Point 2:*** **companies must keep in mind that they do not act in isolation** around CSR trends, issues and events. Inevitably, other actors affect the same issues and pathways – whether commercial rivals or non-commercial agencies. In order to achieve impact for society, a company needs to collaborate with actors from parts of a system to improve interaction and influence current outcomes and impacts.

  Major actors within the system of influence on the issue have to be mapped to find out:

  - What significance does the company actually have within this system?

  - What other actors might be / have to be important allies on tackling the issue (e.g. for creating networks)?

- ***On Point 3:*** companies may have to choose between more than one Impact Pathway towards a given objective.

- Companies have varying levels of influence over Impact Pathways, depending on issue, sector and other factors. After identifying the major pathways, the company has to prioritize them in order to decide on which to act (first). In line with previous analysis, a company can apply a few core criteria to the prioritization of pathways, e.g.

  - Relevance for society

  - Potential scale of impact of a targeted intervention

  - Extent of the company's influence

  - The company's potential response / action time

  - Availability of tangible results and ability to measure them

- Additionally, some of these issues and / or pathways of impact might be interlinked: (positive) changes in one pathway or issue might lead to (negative) changes in other pathways or issues.
- Trade-offs between prioritized pathways have to be identified and solutions have to be found, e.g.
  - Preferring to invest resources in pathways with higher priority
  - Drawing on the opinions of external experts, key stakeholders, etc.

4.2.3 STEP 3: Identify and assess activities to increase or reduce positive and negative impacts

- Status quo analysis and prioritization of pathways (see Step 2 above) offer a basis for identifying potential activities aiming directly at the company's point of impact to improve impacts.
- In order to be able to decide on which activity to pursue and resource, a scoping analysis of potential change has to be done.

4.2.4 STEP 4: Take strategic decisions based on materiality, then identify objectives and targets

- On basis of the results of Steps 1 – 3, the company has to strategically decide on which issue to act. It does so based on societal needs in a specific business and/or geographic context. Its choice(s) are determined by:
  - Materiality to core business (risk, opportunity, urgency)
  - Innovation potential
  - Public policy frameworks and objectives
  - Firm's capacity to influence
  - Existing commitments / partnerships
- Additionally, the company decides which concrete *pathways* and especially the exact *points of impact* it wants to tackle / create (in case of positive impacts).
- Impact pathways enable companies (and potentially key partners / stakeholders) to orient themselves towards specific impact objectives. Impact pathways can also be used to influence the choice of scenarios, contingencies, action plans and outcome/impact indicators.

- The decision making process regarding which *impact pathways* to tackle is not linear, but closely related to the prioritization of pathways (Step 2) and the selection of activities (see Step 6). Therefore the whole process is iterative and the different steps influence each other.
- On the basis of the decision on which issue to act and available activities and their potential to influence impacts of the issue (Step 3), targets can be formulated.

4.2.5 STEP 5: Select, adopt and commit to programmes of activity

- First, a company will seek to create a map of the current internal system within which the chosen impact objectives will be pursued, managed and measured, taking into account:
    - Levels of awareness
    - Existing company policy
    - Control processes / functions / capabilities ("PFCs")
    - Coordination PFCs
    - Action and implementation PFCs
    - Assessment and measurement PFCs (see also Steps 7 + 8)
- If a company intends or wishes to engage external actors in tackling the select issue, it should create a map of the external system (Step 2) within which the chosen impact will be pursued. Such a map would include:
    - Key actors / agents
    - Lines of influence
    - Direct and indirect causal chains and links
    - Interdependencies
- Activities to reach the aims, formulated in targets (Step 4), have to be adopted accordingly. Again, much more factors than mentioned above will influence companies' decisions on which activities to adopt, e.g.
    - Feasibility / enforceability
    - Cost-benefit assessment

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

4.2.6 STEP 6: Implement programmes of activity to influence impacts

- Implementing activities, demands investment of resources over time – to design, to deliver, and to collect evidence of real impact (see also Step 8 + 9).
- Outcome & impact become a function of how well companies manage and focus their investments and commitment (Step 5) and implementation accordingly.
- On basis of Steps 1 – 5, a company already knows:
  - Which issues are generally relevant and should be tackled
  - The pathways of impact through which the company affects the issue
  - Which pathways to act on
  - Which activities to use

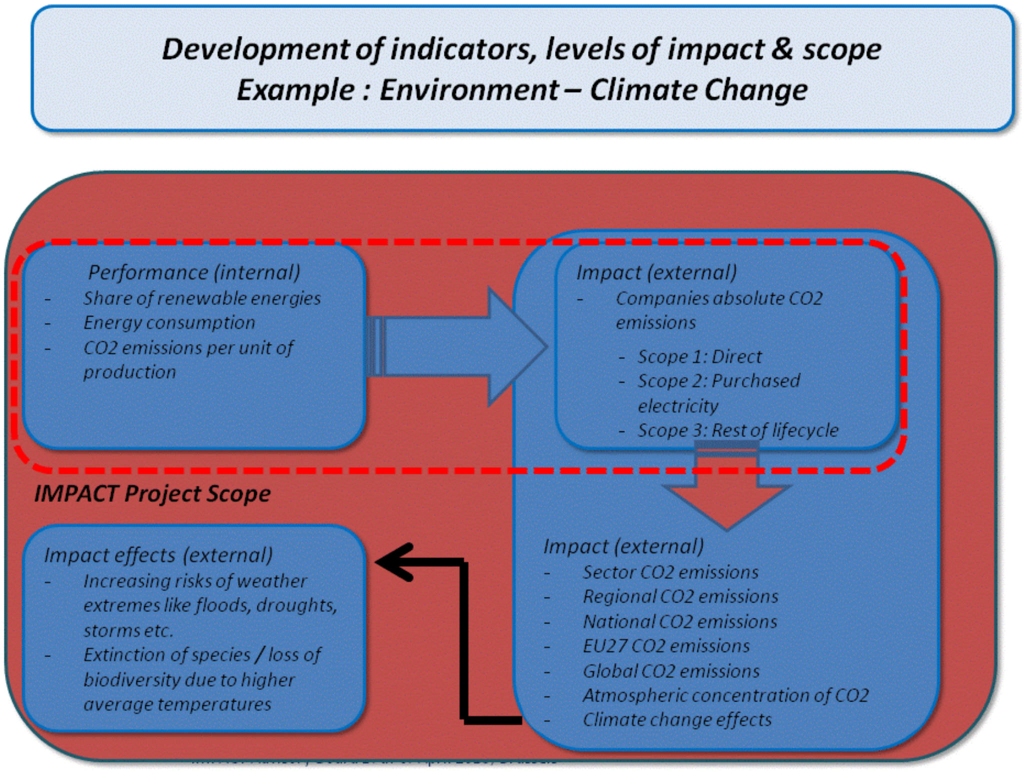
  However, without tracking & measuring internal & external effects no reliable answers on companies' general effects for society and / or the effects of CSR for society and their causes can be provided.

4.2.7 STEP 7: Establish and measure key indicators of company performance

- Outcome is part of the company's performance and therefore located on company level. (Note: with "outcome" we mean company internal effects due to the implementation of activities aimed at tackling certain issues.)
- **Indicators have to be differentiated from those measuring impact!**
- One way of creating these to measure the company's internal effects (outcomes) of activities is to use mainly **relative indicators**, which helpfully:
  - Display pure effects of intra company changes / developments
  - Neutralize effects from economic development

4.2.8 STEP 8: Establish and measure key indicators of impacts for society

- The end goal is to deliver ***impact*** which is verified by evidence over time, not just performance improvement in the short-term. This needs to be traced both internally and externally – but not by the company alone. The graphic below presents an overview of impact assessment for a given issue at multiple levels – in this case, climate change:



- Impact is located on the level of society: social & environmental effects (external to the company) due to implementation of activities aimed at tackling certain issues.
- The company must also take into consideration different levels of impacts:
  - There is not only 'the' impact for a certain issue, but a chain of impacts
  - **1st** level impacts can still be related to a single company, whereas 2nd level impacts might be regional or sector impacts – the aggregation of the impacts from multiple companies.
  - Lower levels of impact still measure basic effects, whereas higher levels of impact measure (indirect) effects further down the chain – e.g. a 1st level impact = a decreasing amount of raw material use by company X; whereas a 5th level impact = reduced extraction of raw materials in country Y; and a 6th level impact = reduced water pollution related to the use of chemicals for raw material extraction
  - The exact chain of impacts depends on the issue.
- The higher the impact level, the more complex it is to measure.
- The higher the impact level, the harder it is to prove causality.

- For each chain of impacts, there is a level where assessing or measuring impacts will become to complex to be done by companies:
  - Causal chains are unknown
  - Calculation / measurement too complicated
- With each specific issue, it has to be clarified at which point the responsibility of the company ends & which other actor supports or even does the assessment / measurement of the company's data on outcomes and impacts.
- The company must also take further complexities into account:
  - Some issues might have several impact indicators – e.g. increasing raw material efficiency might a) reduce production waste, and b) reduce the total amount of raw materials used
  - In some cases an impact indicator for one issue might be a suitable (absolute) performance indicator for another issue – e.g. when specifically discussing raw material use, the total amount of production waste might only be used as performance indicator (impact indicator when discussing waste)
- IMPACT's basic guidelines for indicator development are:
  - To set the application level as low as possible - e.g. national level better than global level
  - Avoid seeking data on a highly aggregated level, as this hampers the identification of causalities & therefore potential solutions
  - Keep indicators as simple as possible – the more complex they are, the less likely it is that the data will be available!

4.2.9 STEP 9: Report on strategy, activities, outcomes and impacts

- An essential part of company action is to be transparent about the material issues it seeks to tackle and influence. The company should be open in sharing with stakeholders its rationale behind identifying and prioritizing pathways of impact, and the approaches and interventions it intends to deliver to achieve impact.
- Publication of outcome & impact data reveals whether engagement is successful.

4.2.10 STEP 10: Evaluate impacts generated by strategy and programmes of activity (against targets)

- This implies an evolving design based on continuous improvement, integration of new trends & factors, e.g.:
    - An ongoing revision of mapping (Step 2) ensures that relevant company internal and context changes are taken into account.
    - Measuring & tracking outcome and impact changes/ effects over time will lead to insights on whether activities implemented improve outcomes and impacts of the respective issues/ pathways of impacts.
- With this knowledge, strategies, targets & programmes on activities should be evaluated regularly to ensure target achievement
- Fulfilling all ten steps does not mean the process is once and forever done. The evaluation has to provide input for a review of issue, impact and pathway selection. Maybe new issues become relevant. After solving one issue another could be tackled next; if the evaluation finds that outcomes and impacts do not change as a result of implementing activities it has to be rethought which activities should be implemented and how, etc. The 10 steps are a constant approach that has to be managed as an ongoing process.

4.2.11 Summary

With this 10 Step Approach (CIAM), relevant issues for society and *pathways of impact* within companies can be identified, tracked and steered. For steering pathways of impact, companies have to translate their knowledge into action, e.g. put a strategy in place, agree on programmes of activities, dedicate resources and proceed with their implementation.

Integrating the identification of relevant issues for society & pathways of impacts into the managerial practice of a company, with the aim to take care of such pathways, to avoid & minimize negative impacts and to create & increase positive impacts, is what we call *impact thinking.*

5 Conclusion

The IMPACT research suggests that companies regard **CSR practice** as a necessity. Yet the study also indicates that firms have a fairly uneven view of what CSR involves, and whether it plays a strategic function within the company (beyond the idea that there should be some evident commitment to CSR).

There are **no established and accepted methodologies** to measure societal impacts from companies or their CSR/sustainability activities. In the absence of a widely deployed impact logic among companies and managers and no accepted impact measurement methodologies so the societal impacts of companies remain unclear and hidden from public scrutiny and policy.

While some companies are responsive to GRI and the Global Compact reporting guidelines, and are concerned about their position with rating agencies and sustainability indices, these schema **pay no or little explicit attention to the impacts for society arising from CSR** and sustainability practices (although GRI's G4 Guidelines are seen as moving in this general direction).

In the case of sustainability indices it is rather curious that these do not seem to measure the sustainability of a company's activities in terms of its positive and negative impacts on the environment. Unfortunately the scope of IMPACT did not allow for an in-depth study of this domain – and as such, there may well be examples and cases which challenge this finding.

Furthermore, where outcomes and impacts are measured, **there is no convincing evidence that there are significant improvements over time large enough to create change and reach major policy goals.**

For the IMPACT team, it is therefore obvious, that **CSR alone cannot be 'the' single solution to environmental, economic or social problems. It can only contribute a small piece to a response which has to be broader, multi-faceted, well managed and more strategic for the firm** (e.g. as part of a policy mix, or a company strategy shaped by impact thinking plus public policy objectives within a specific operating environment).

IMPACT also showed that the **responsibility of companies needs to be analysed in terms of impacts** – both within the firm and by key stakeholders. However, impact thinking is relatively poorly developed in business.

Impact thinking is a variant of the approach found in management systems – it seeks to trace and measure how activities lead to consequences, just as management systems seek to bring environmental or social information into decision making in a systematic way. Hence the evidence-based concern from the research that **structured management systems and approaches to impact management are not widely deployed within companies and managerial teams.**

The IMPACT analysis also shows that there is **no practice in companies to discern effects stemming from voluntary activities** (CSR in the sense of the former definition by the EU Commission) and **other company activities** (e.g. caused by regulation). The main obstacle is that data is not collected in ways that discern between different types of activities addressing the same issue, or different motivations for different activities.

And IMPACT does not recommend doing so in the future. The **focus of corporate assessments and management should be on impacts and how they can be achieved**. Whether impacts were achieved purely by voluntary activities, or in combination with activities or changes due to legal compliance, is not essential when it comes to the question of how to contribute most effectively towards sustainable development. All societal actors should focus on impact assessment and management – IMPACT therefore suggests to use an approach called “Corporate Impact Assessment & Management” (CIAM).

In instances where companies do consider sustainability issues, **they are rarely informed by the policy goals and agenda of the EU** in areas such as competition, environment and quality of jobs. While the EC combines these ideas in its agendas for Europe, they are rarely seen or understood that way by companies.

Indeed there is a relatively poor understanding of EC policy and especially the link made between growth, competitiveness, sustainability and social inclusion through innovation as developed in the four pillars of the Lisbon and Gothenburg Strategies. There is therefore **a weak link between EU ‘policy’, EU policy on CSR, and company strategy and CSR practices across Europe**.

In parallel, the study suggests that **policy support for generic CSR** – even when focused more on impacts – **does not on its own replace classic policy instruments** like command and control policies, economic instruments nor policies focused on specific target areas (e.g. REACH, WEE, ROHS). Depending on the issue, CSR can foster the implementation of such policies, can contribute to the development of better instruments, can help to manage issues strategically beyond mere compliance to law.

On the other hand, networks seem to have a capacity for influence. **Where there are networks or clusters** of companies and other actors active on CSR and sustainability at a local level, **CSR practice seems to have the potential to be more explicit and strategic.**

These networks and clusters play an important mediating role in company CSR and sustainability practices and seem to have a future role in the development and application of impact approach and logic in companies.

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