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ACCOUNT 4Green Eco

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Deliverable 2.2
Materials and resources of Module 2
Sustainability information production and regulation

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Executive summary

Work Package 2 (WP2) aims to produce high-quality and structured learning materials and resources on sustainability accounting. These materials and resources WP2 will be implemented in the online learning platform to populate the course syllabus on sustainability accounting. The materials are structured into three modules, each covering key sustainability accounting topics to train platform users on how to produce effective sustainability information.

The goal of **Deliverable 2.2 (D2.2)** is to produce the materials and resources of Module 2. This module focuses on the **production of sustainability accounting**. It will explore what sustainability information organisations must produce to comply with the requirements set by the European Union, as well as to learn how to elaborate metrics to assess social and environmental impacts. Specifically, the two units that integrate Module 2 are:

- **Unit 2.1. Sustainability reporting regulation**
- **Unit 2.2. Social and environmental impact measurement**

Each Unit consists of theoretical content, a set of small activities to foster users' engagement, case studies, short video pills on key concepts, a final evaluation test, key references and additional materials for consultation. All materials are produced in English. Their design has been guided by the orientation provided in D3.1 to ensure their adequacy to be implemented in the online learning platform and to exploit the functionality it provides for the learning process.

Each Unit has been produced as independent, yet theoretically connected, learning items that lecturers can use separately outside the learning environment, should they wish. Therefore, each Unit is provided as an independent element after this executive summary.

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Module 2

Sustainability information production and regulation

Unit 2.1

SUSTAINABILITY REPORTING REGULATION

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

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List of acronyms

- CDSB – Climate Change Disclosure Standards Board
- CSRD – Corporate Sustainability Reporting Directive
- EFRAG – European Financial Reporting Advisory Group
- ESRS – European Sustainability Reporting Standards
- IRO – Impacts, risks and opportunities
- ISSB – International Sustainability Standards Board
- NFRD – Non-Financial Reporting Directive
- MoU – Memorandum of Understanding
- SASB – Sustainability Accounting Standards Board
- TCFD – Task Force on Climate-Related Financial Disclosure

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About this unit

This unit aims to develop a solid foundation for **sustainability reporting regulation at the European Union level**. It builds on the fundamental knowledge of Unit 1.2 Sustainability reporting landscape and expands into reporting regulations. The core topics covered include sustainability reporting directives: Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD, the EU Taxonomy, the European Sustainability Reporting Standards (ESRS) and their interoperability.

While section 1 expands the definition of sustainability reporting from Unit 1.2, section 2 introduces sustainability reporting regulation and indicates the **historical developments of European NFRD and CSRD**. Definitions are provided for multiple reporting regulations.

Section 3 covers a broader discussion highlighting the **implementation, contents, and structures of NFRD and CSRD**. The discussions covered the critical points on NFRD's deficiencies, which led to its emergence. Thus, comparative changes are shown to enhance the knowledge of the transition from NFRD to CSRD. Section 4 explores the EU Taxonomy by indicating its contents, regulations, eligible and aligned activities, and disclosure requirements.

Section 5 describes ESRS and IFRS guidelines for preparing sustainability reports by showing their contents and structures. Section 6 introduces **interoperability** to explain the advantages and complexities of harmonisation between ESRS, IFRS, and GRI.

This unit focuses on the role of regulation as an instrument to foster sustainability to understand:

- The **main sustainability reporting mandates** set by the European Union regulation.
- The **sustainability reporting standards** emerging from the European Union mandate.
- The **interoperability of the European Union requirements** with other reporting standards.

If you are interested in sustainability reporting directives and standards to enhance accountability and disclosure practices, this unit will build your solid foundation for that.

Intended learning outcomes and competences

At the end of this unit, you should be able to:

- Describe the historical developments of sustainability reporting regulations.
- Define multiple terminologies of sustainability reporting regulations.
- Demonstrate the fundamental knowledge of NFRD and CSRD.
- Evaluate the NFRD and CSRD and their transitions.
- Apply practical disclosure criteria of the EU Taxonomy.
- Synthesise the implementation of the ESRS.
- Understand the ongoing interoperability between the ESRS and other standards.

1. Sustainability Reporting: A Preamble

Before introducing the topic of sustainability reporting regulation, we will recap the definition of sustainability reporting from Unit 1.2 and discuss how they connect with the notion of ESG.

1.1. Sustainability Reporting

Sustainability reporting is a comprehensive process that involves producing reports about how companies manage the social, environmental, and economic aspects of their operations. These reports also cover the corporate governance structures that facilitate these efforts. They achieve this by outlining the priorities, policies, and actions and detailing their operations' positive and negative impacts on these areas. The culmination of this reporting process is a sustainability report, which may also be called a corporate social responsibility report (CSR report), business civic report, non-financial report, and other terms. While financial statements and accounts are typically included in these reports, they are often presented as separate documents that cover the same reporting period (Tregidga & Laine, 2021).

Although sustainability reporting began as a voluntary activity, **increasing governmental attention** to this topic encourages a closer alignment between sustainability and financial reporting. Many legislations implemented globally, particularly in the European Union, advocate for sustainability reporting to be seen as equally significant as financial reporting. In addition, regulation acknowledges the interconnectedness between both reporting pillars (Deloitte, 2017). Therefore, this module explores these regulatory practices to understand their developments and implications.

1.2. ESG and sustainability reporting

ESG is an acronym that stands for **Environmental, Social, and Governance**. Businesses worldwide now see ESG factors and sustainability as crucial concerns. ESG criteria evaluate a company's influence on these areas. On the other hand, sustainability refers to the ability to sustain or survive, specifically emphasising the interaction between environmental, social, and economic elements. Although there is some overlap between the two phrases, they have distinct ranges and objectives (Deloitte, 2023).

ESG can be conceptualised as a **subset of sustainability** that focuses on the relevance of environmental, social and governance topics for financial performance and risk management. The primary objective of this framework is to provide stakeholders and investors with a structure to evaluate a company's influence on society and the environment, together with its corporate governance procedures. Institutional investors include ESG indicators and considerations in their investment decisions, alongside standard financial measurements, while engaging in ESG investing (Deloitte, 2023).

The number of ESG grading firms that allocate ESG scores is rising. Emerging and developing reporting formats are improving the clarity and uniformity of ESG information that corporations disclose to the public, referred to as ESG disclosure. While ESG disclosure is not mandatory, it has become a standard expectation for important stakeholders, such as investors. ESG aspects have gained significance among investors and stakeholders in recent years as they strive to allocate funds towards enterprises that favourably influence society and the environment. The emergence of sustainability reporting regulations would also influence how investors' oriented ESG topics are reported (Deloitte, 2021).

Activity: Can you define sustainability and ESG reporting? (see "Unit 2.1 Activity 1")

1.3. Mandatory vs voluntary reporting: An open debate

Although sustainability reporting emerged as a voluntary practice, regulation that mandate companies to publish sustainability information is growing significantly, especially in the European Union.

> **Voluntary reporting** refers to disclosing information, usually via yearly reports, as a way for firms to comply with external requests for adherence to socially acceptable norms, sometimes instead of taking concrete steps. On the other hand, **mandatory reporting** refers to corporations complying with legal obligations established by regulatory authorities (Lozzelli & Velasco, 2023).

The continuous discussion over voluntary vs mandatory reporting has spanned many years. Accounting experts agree that voluntary disclosure is often deficient, imprecise, prejudiced, and subjective since it depends on management's intentions. Moreover, the extent of voluntary disclosure might differ greatly across firms, thus posing challenges for establishing comparisons (Korca et al., 2021).

Regarding sustainability, there is evidence that self-reported social and environmental data often needs more thorough information, making it inadequate. The dissemination of sustainability information has become essential to corporate transparency in modern business practices. Nevertheless, whether firms should maintain authority over such disclosures or whether higher institutional organisations should regulate them is a subject of continuous discussion (Korca et al., 2021).

Before the enactment of EU regulation on sustainability reporting, several European countries, such as Spain, France, Portugal, Finland, Sweden, and Denmark, modified their financial accounting legislation to comply with the European recommendation of fostering transparency on environmental matters. Consequently, organisations must include environmental disclosures in their financial statements. The amount and standard of disclosure improved, especially when sharing negative news, despite a significant degree of noncompliance (about 84%). A notable increase in environmental disclosure was noted (Lozzelli & Velasco, 2023).

Overall, the **debate is ongoing** in both academic and practitioner fields. The balance between two contrasting sides has yet to be achieved.

Activity: Should sustainability reporting be regulated? (see "Unit 2.1 Activity 2")

1.4. Introducing sustainability reporting regulation

The EU regulation mandates large corporations and publicly traded enterprises to produce periodic reports about their social and environmental risks and how their actions affect people and the environment. The publication of these documents facilitates assessing firms' sustainability performance to investors, civil society groups, customers, and other stakeholders (EY, 2021).

> The most recent regulatory development at the EU level is the **Corporate Sustainability Reporting Directive (CSRD)**, that became effective on January 5, 2023. It updates the previous Non-Financial Reporting Directive of 2014 and reinforces additional regulations mandating companies to publish other social and environmental data. Consequent to the CSRD, large corporations and publicly listed small and medium-sized enterprises (SMEs) must disclose a sustainability report on how they manage their sustainability-related impacts, risks and opportunities. Non-European Union enterprises must also provide an annual sustainability report if they earn more than EUR 150 million on the EU market (European Parliament, 2022).

Sustainability reporting regulations aim to ensure that corporations **provide clear and consistent information** about their environmental, social, and governance (ESG) activities and effects. They also offer a broader risk management framework to build business resilience. By enhancing accountability and transparency, regulations provide scopes for gaining a competitive edge by fulfilling growing demands for responsible business (EY, 2021).

The EU sustainability reporting regulation seeks to guarantee that investors and other interested parties have the necessary access to information to evaluate firms' influence on society and the environment. Additionally, it will enable investors to assess the financial risks and opportunities arising from climate change and other sustainability issues. Ultimately, harmonising information to be submitted will reduce reporting costs for corporations in the medium to long term (Eller, 2023).

After introducing sustainability regulation and its fundamental purposes, the following sections will unpack regulatory jargon and explore its multiple components. By covering these contents, you can understand how contemporary development occurs in the diverse and broader world of sustainability reporting. Notably, you will get fundamental knowledge of the EU sustainability reporting-related directives to assist firms in complying with regulatory frameworks and contribute to enhanced stakeholder engagement.

Case study: Voluntary vs mandatory sustainability reporting (see "Unit 2.1 Case Study 1")

2. The emergence of sustainability reporting regulation

2.1. Historical context

The **Non-Financial Reporting Directive (NFRD)**, approved by the European Parliament and Council of the EU in 2014, was the foundation for the EU sustainability reporting mandate. As of the 2017 fiscal year, the NFRD required big EU-based public interest businesses with more than 500 workers to share non-financial information, such as diversity information. The NFRD was followed by other EU sustainability disclosure rules, such as the Sustainable Finance Disclosure Regulation (SFDR), which obliges organizations operating in financial markets and financial advisers to give specific information on the sustainability risks of financial products, and the Taxonomy Regulation, which sets up a classification of sustainable economic activities so that companies assess the extent of their activities that are considered sustainable (European Commission, 2023a).

As mentioned in the previous section, the most relevant and recent regulatory development at the EU level is the **Corporate Sustainability Reporting Directive (CSRD)**, approved in November 2022. From the financial year 2024 on, the CSRD replaces the NFRD. In addition to broadening the scope of companies that must report on sustainability, the CSRD adds **more detailed reporting requirements**, such as:

- Following the European Sustainability Reporting Standards (ESRS) when producing their sustainability reports or the sustainability information included in their management reports. The European Commission established the first set of ESRS as delegated acts in July 2023 (European Commission, 2023a).
- Requiring external assurance of sustainability information
- Digitally labelling the sustainability reported information.

In parallel to these changes, the International Financial Reporting Standards (IFRS) Foundation announced at the 26th UN Climate Change Conference in November 2021 (COP26) the creation of the **International Sustainability Standards Board (ISSB)**, which will work on developing the IFRS sustainability disclosure standards. The IFRS Foundation will merge with the Value Reporting Foundation (VRF) and the Climate Disclosure Standards Board (CDSB). The ISSB released general rules in June 2023 for sharing financial information related to sustainability (IFRS S1) and information related to climate change (IFRS S2) (European Commission, 2023a) (the previous unit of the course offered more information on these standards).

Activity: Can you identify the developments of sustainability regulation? (see "Unit 2.1 Activity 3")

2.2. The multiverse of sustainability reporting

This section offers a brief recap and introduction to the multiverse of diverse terminologies that have emerged from the evolution of sustainability reporting regulation, which will be covered more in-depth in the remaining section of the course.

The Non-Financial Reporting Directive (NFRD)

The **2014/95/EU Non-Financial Reporting Directive (NFRD)**, approved in 2014, requires certain large companies to disclose information on environmental, social, and governance (ESG) matters in their annual reports (European Commission, 2023a). The NFRD aims to improve transparency and accountability by ensuring companies provide stakeholders with relevant and comparable information about their sustainability performance and impacts.

The key features of the NFRD are:

- **Scope:** The NFRD applies to large public-interest entities with more than 500 employees, including listed companies, banks, insurance companies, and other entities designated by EU member states (European Commission, 2023a).
- **Disclosure requirements:** Under the NFRD, companies must disclose information on various non-financial topics, including environmental performance, social responsibility, employee matters, respect for human rights, anti-corruption, and diversity on company boards (European Commission, 2023a).
- **Materiality principle:** The NFRD emphasises the principle of materiality (explained in the previous unit of this course), requiring companies to disclose information that is relevant, significant, and likely to influence stakeholders' decisions. Companies are expected to prioritise disclosures based on the impact of ESG issues on their business operations and stakeholder interests (European Commission, 2023a).
- **Multiple reporting frameworks:** While the NFRD does not prescribe specific reporting frameworks, it encourages companies to use internationally recognised standards and guidelines, such as the Global Reporting Initiative (GRI) and the UN Guiding Principles on Business and Human Rights, to inform their reporting practices (European Commission, 2023a).

EU member states had until December 2016 to transpose the NFRD to their national legislations.

The NFRD seeks to promote sustainability, responsible business practices, and long-term value creation by enhancing transparency, accountability, and stakeholder engagement (European Commission, 2023a). It aligns with broader efforts to integrate sustainability considerations into corporate decision-making processes and investment

strategies, contributing to sustainable development objectives within the EU and beyond.

The Corporate Sustainability Reporting Directive (CSRD)

The **2022/2464/EU Corporate Sustainability Reporting Directive (CSRD)** is a new legislative initiative that replaces and expands the existing Non-Financial Reporting Directive (NFRD) to enhance sustainability reporting by increasing the requirements for companies operating within the EU.

The key features of the CSRD are (European Commission, 2023a):

- **Expanding the scope:** The CSRD extends reporting obligations to a broader range of companies, including all large firms, listed small and medium-sized enterprises (SMEs), and subsidiaries of multinational groups operating in the EU.
- **Improving the quality and comparability of reporting:** The CSRD aims to enhance sustainability reporting quality, reliability, and comparability by harmonising reporting standards and requiring companies to use common and mandatory reporting standards: The European Sustainability Reporting Standards (ESRS).
- **Integrating sustainability information into financial reporting:** The CSRD seeks to integrate sustainability information into companies' annual financial reports, ensuring stakeholders have a comprehensive view of a company's performance and risks.
- **Double materiality:** The CSRD adopts a double materiality approach, which compels companies to report their impacts on society and the environment and how social and environmental factors affect firms' financial risks and opportunities.
- **Enhancing assurance and oversight:** The CSRD mandates firms within its scope to have their sustainability information assured by a third independent party and strengthens oversight mechanisms to ensure compliance with reporting obligations.
- **Promoting digitalisation and accessibility:** The directive aims to leverage digital technologies to facilitate reporting, improve information accessibility, and enhance stakeholder engagement.
- **Compliance and enforcement:** EU member states are responsible for implementing and enforcing the NFRD within their jurisdictions. The CSRD obliges member states to set sanctions, penalties, or other enforcement measures if firms fail to comply with the directive requirements (European Commission, 2023a).

EU member states must transpose the CSRD to their national legislation before July 2024.

The CSRD is part of the EU's broader efforts to promote sustainable finance, enhance corporate transparency, and support the transition to a more sustainable and resilient economy. It aligns with global initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainable Development Goals (SDGs), reflecting the EU's commitment to advancing sustainability objectives at the corporate level.

The European Sustainability Reporting Standards (ESRS)

Entities falling under the scope of the Corporate Sustainability Reporting Directive (CSRD) will be required to adhere to the **European Sustainability Reporting Standards (ESRS)**. These standards are formulated by the European Financial Reporting Advisory Group (EFRAG), an autonomous entity that brings together diverse stakeholders.

The ESRS are designed on a modular basis. ESRS 1 "General Requirements" establishes overarching principles for compliance with ESRS and does not stipulate specific disclosure mandates. Meanwhile, ESRS 2 "General Disclosures" outlines fundamental information that must be disclosed regardless of the sustainability aspect under consideration (EFRAG, 2023b). ESRS 1 and ESRS 2 are transversal standards that all companies subject to the CSRD. The remaining standards define disclosure requirements and data points that cover specific environmental, social and governance topics, the disclosure of which is to a firm's materiality assessment.

The European Financial Reporting Advisory Group (EFRAG)

The **European Financial Reporting Advisory Group (EFRAG)** is a private organisation established in 2001 under Belgian law (EFRAG, 2023a). EFRAG's primary role is to provide technical expertise and advice to the European Commission on developing International Financial Reporting Standards (IFRS) and their endorsement for use within the European Union (EU). EFRAG also contributes to the development of accounting standards by providing input and feedback to the International Accounting Standards Board (IASB). EFRAG is the body appointed by the European Commission to develop the European Sustainability Reporting Standards (ESRS) that firms under the Corporate Sustainability Reporting Directive (CSRD) must apply to produce sustainability information.

The International Sustainability Standards Board (ISSB) and the Sustainability Accounting Standards Board (SASB)

The **International Sustainability Standards Board (ISSB**) has been established as a body that depends on the International Financial Reporting Standards (IFRS) to develop global sustainability reporting standards (IFRS, 2023). These standards aim to provide a unified framework for reporting environmental, social, and governance (ESG) information to improve the consistency, comparability, and reliability of sustainability reporting, much like IFRS has done for financial reporting (IFRS, 2023).

The **Sustainability Accounting Standards Board (SASB)** is a non-profit organisation that develops sustainability accounting standards for use by publicly listed companies (mainly US-based) in disclosing material ESG (Environmental, Social, and Governance) information to investors (SASB, 2023). SASB standards help companies identify, manage, and communicate financial material sustainability information to investors in a standardised and decision-useful format. The standards cover various industries and are tailored to each industry's unique sustainability risks and opportunities. Companies are increasingly using SASB standards to enhance their ESG reporting and investors to integrate ESG factors into investment decision-making processes. Although it emerged and operates independently, the SASB has been consolidated within the ISSB.

In contrast to the ESRS, which are mandatory for companies within the scope of the CSRD, the ISSB and SASB, like the GRI (all of them covered in the previous unit), are voluntary.

The Climate Disclosure Standards Board (CDSB)

The **Climate Disclosure Standards Board (CDSB)** is an international organisation that develops and promotes global frameworks for companies to disclose environmental information in their financial reports (CDSB, 2022). CDSB encourages companies to disclose climate-related information in a standardised and decision-useful manner, like financial information. The organisation provides guidance, tools, and resources to help companies integrate climate-related considerations into their mainstream financial reporting processes.

CDSB's main objectives are:

- **Developing reporting frameworks:** CDSB has developed the Climate Change Reporting Framework, which guides companies on disclosing climate-related information in their financial reports (CDSB, 2022). The framework is designed to be compatible with existing financial reporting standards, such as International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP).
- **Advocacy and outreach:** CDSB advocates for companies, investors, regulators, and other stakeholders worldwide to adopt its reporting frameworks. The organisation also raises awareness of the importance of climate-related disclosure and the benefits of integrating environmental information into mainstream financial reporting (CDSB, 2022).
- **Capacity building:** CDSB provides training, workshops, and resources to help companies understand and implement their reporting frameworks. The organisation also offers guidance on effectively communicating climate-related information to investors and other stakeholders (CDSB, 2022).
- **Collaboration and partnerships:** CDSB collaborates with other organisations, such as the Task Force on Climate-related Financial Disclosures (TCFD) and the Global Reporting Initiative (GRI), to promote

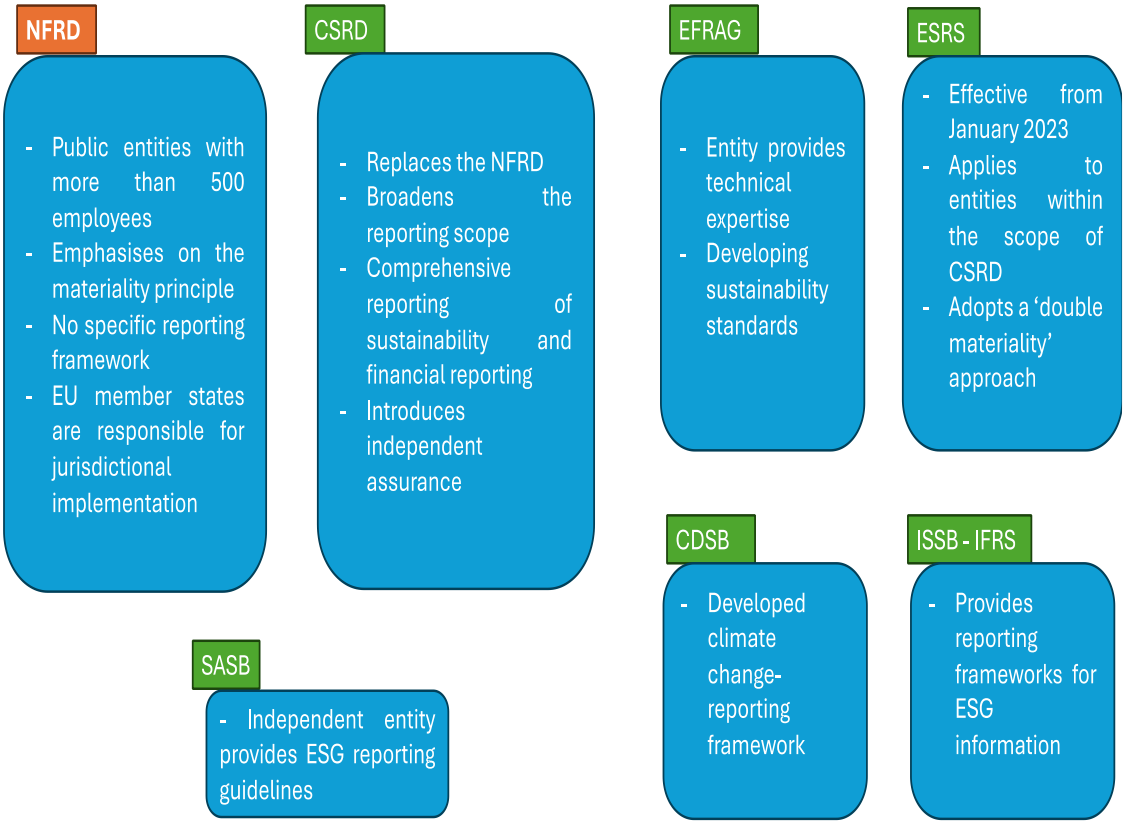
harmonisation and alignment of reporting standards and frameworks. By working with other stakeholders, CDSB aims to create a more consistent and transparent reporting landscape for climate-related information (CDSB, 2022).

CDSB is crucial in advancing climate-related disclosure and helping companies integrate environmental information into their financial reporting processes. By providing guidance, tools, and resources, CDSB supports companies in effectively communicating their climate-related risks, opportunities, and impacts to investors and other stakeholders.

An overlook of the multiverse of sustainability reporting

This figure offers a summary of the terminologies that we have covered in this section.

Figure 1. Sustainability Reporting Terminologies.



Source: Own elaboration.

After becoming familiar with multiple terminologies related to sustainability reporting regulations, we will explore the main aspects of the key regulatory referents

on sustainability reporting at the EU level in the following sections: Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD).

Activity: Can you define the NFRD and the CSRD? (see "Unit 2.1 Activity 4")

3. EU sustainability reporting directives

3.1. The Non-Financial Reporting Directive (NFRD)

In September 2014, the European Union (EU) implemented the **2014/95/EU Non-Financial Reporting Directive (NFRD)**, which modified the Accounting Directive. The NFRD was the first relevant sustainability reporting regulation milestone at the EU level. The objective of the NFRD was to enhance the relevance, consistency, and comparability of information disclosed by certain large companies and groups across the Union regarding nonfinancial and diversity topics. Additionally, it aimed to promote the transition towards a sustainable global economy (European Commission, 2023a).

> The NFRD mandated **large firms** (including parent companies of groups) that are considered **public interest entities (PIEs)** and have an average **of over 500 employees** (on a consolidated basis for groups) to disclose nonfinancial and diversity information annually. The NFRD expanded the range of a firm's management report as this was the document that should provide the non-financial information covering the progress, achievements, status, and consequences of corporate activities related to, at minimum, the following topics: the environment, social and employee affairs, human rights, corruption, and bribery. Furthermore, the NFRD extended the coverage of the corporate governance statement, as outlined in Article 20 of the Accounting Directive, to include diversity information for EU firms listed on an EU-regulated market (European Commission, 2023a). The NFRD was first implemented for financial years beginning on 1 January 2017 or within the calendar year 2017.

Each member state was required to transpose the NFRD into their national law. Article 4 of the NFRD allowed member states considerable flexibility in carrying out this transposition. The European Commission produced further nonbinding reporting recommendations in 2017 and 2019. The 2017 guidelines focused on the technique for reporting nonfinancial information, while the 2019 guidelines included a supplement on reporting climate-related information. The recommendations explained the notion of double materiality, highlighting the need for firms to consider financial materiality and its effects on people and the environment when determining what to include in their reports (European Commission, 2023a).

However, the NFRD offered considerable flexibility in its enforcement (European Parliament, 2022). It does not mandate using a specific non-financial reporting standard or framework or impose detailed disclosure requirements such as sector-specific

indicator lists. Consequently, it grants companies significant leeway to disclose pertinent information as they see fit. Companies could also to choose to include the non-financial statement within their management report or, under certain circumstances, prepare a separate report (European Commission, 2023a).

It is important to highlight that the NFRD required companies to disclose information "to the extent necessary for an understanding of the development, performance, position, and impact of [the company's] activities." This requirement entails disclosing not only how sustainability issues might affect the company ("outside-in risks") but also how the company influences society and the environment ("inside-out risks"), known as double materiality. However, implementing this concept has proven challenging, with many stakeholders contending that the directive **lacks an adequate definition of materiality**, as evidenced by the outcomes of various consultations (European Parliament, 2022).

Activity: What are the key aspects of the NFRD? (see "Unit 2.1 Activity 5")

3.2. Corporate Sustainability Reporting Directive (CSRD)

The emergence of the Corporate Sustainability Reporting Directive (CSRD)

The NFRD had **notable deficiencies**, leading to wider calls to modify it. The main criticism focused on its shortcomings in terms of comparability, consistency, and trustworthiness of the information it mandates and its restricted coverage of enterprises. These deficiencies have facilitated a significant overhaul of the directive. Although implementing the NFRD in 2014 marked a significant advancement toward greater transparency and accountability in addressing social and environmental concerns, stakeholders, particularly investors and civil society organisations, advocate for more extensive and higher-quality company disclosures regarding their social and environmental performance and impacts. Additionally, a global trend exists with diverse organisations and stakeholders calling for a new regulatory framework for non-financial reporting (PricewaterhouseCoopers, 2023).

The impact assessment published by the Commission in January 2020 highlighted a lack of sufficient publicly available information regarding the impact of non-financial and sustainability issues on companies and the reciprocal impact of companies on society and the environment. Additionally, companies faced unnecessary costs in reporting non-financial information and encounter uncertainty and complexity in determining what, where, and how to report such information. Financial sector companies contend with complexity from disparate disclosure requirements across various EU legislative frameworks. Furthermore, companies face pressure to address additional demands for non-financial information from sustainability rating agencies, data providers, and civil society, regardless of their compliance with the current NFRD (PricewaterhouseCoopers, 2021).

The European Commission proposed the development of a new directive to overcome these shortcomings in April 2021: **2022/2464/EU Corporate Sustainability Reporting Directive (CSRD)**. The directive revised the NFRD with the goal of (European Parliament, 2022):

- **Ensuring investors can access sufficient non-financial** information from companies to consider sustainability-related risks, opportunities, and impacts in their investment decisions.
- Guaranteeing that civil society organisations, trade unions, and other stakeholders can **access adequate non-financial information** from companies to hold them accountable for their societal and environmental impacts.
- **Reduce the unnecessary burden** on businesses associated with non-financial reporting requirements.

In June 2022, a temporary agreement was reached about the new requirements. The CSRD was approved in November 2022 and officially published in the Official Journal of the EU in December 2022. In February 2025, the EU approved the Omnibus proposal that seeks to reduce and simplify the requirements set by the CSRD, including the ESRS. This proposal is yet under discussion and its eventual impact on the mandatory requirements is uncertain. The content that follows is based on the CSRD requirements prior to the Omnibus proposal.

Activity: What aspects related to the NFRD should the CSRD improve? (see "Unit 2.1 Activity 6")

From the NFRD to the CSRD

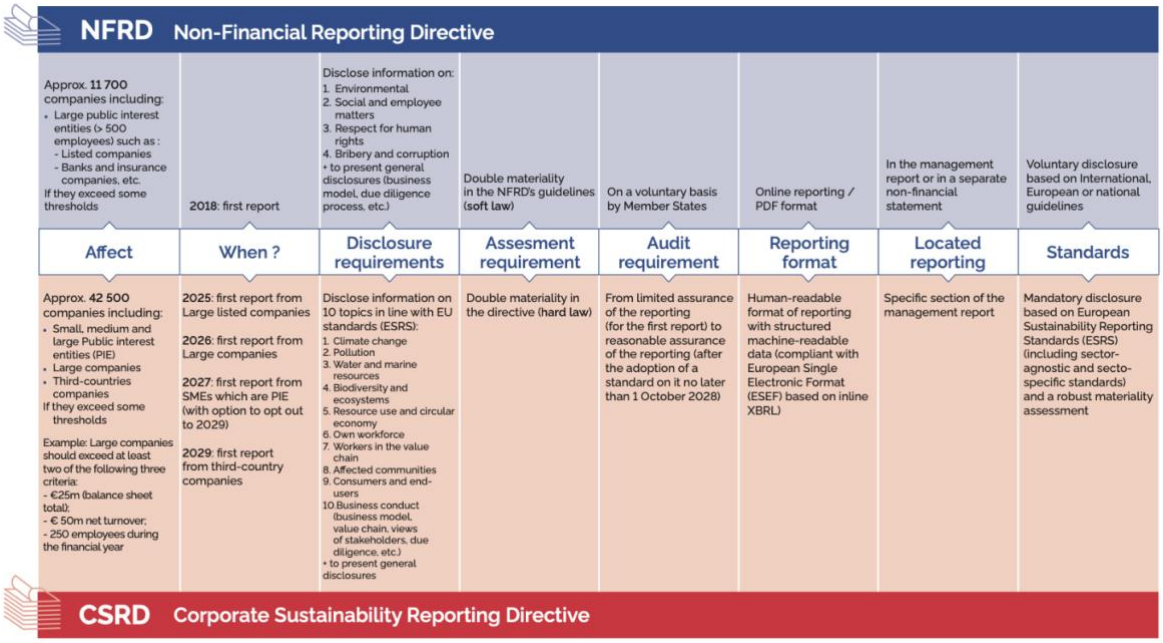
The Corporate Sustainability Reporting Directive (CSRD) introduce new requirements to face the shortcomings of the Non-Financial Reporting Directive (NFRS). The **main modifications** are:

- The **expansion of the companies** falling within the scope
- The **enlargement of the reporting obligations** pertaining to a company's value chain
- Application of the **double materiality** concept to produce sustainability information
- The obligation to follow the **European Sustainability Reporting Standards (ESRS)** as reporting framework to produce sustainability information
- Prerequisites for the incorporation of sustainability information in the **management report**
- **Mandatory assurance** of the reported information by a third-independent professional party.
- The **digital tagging** of the reported information

- Establishment of **punitive measures and sanctions** applicable to statutory auditors and firms in case of non-compliance.

The CSRD assigns the responsibility of creating sustainability reporting standards to the European Commission. The European Commission has requested the technical guidance from the European Financial Reporting Advisory Group (EFRAG), that has become the de-facto body responsible for developing the ESRS (which will be studied in-depth in the following sections).

Figure 2. NFRD to CSRD.



Source: Adamson (2024).

The **implementation of the CSRD** has been designed in a phased-in approach (KPMG Global, 2024):

- Firms obligated to comply with the NFRD must publish their first CSRD report in 2025 covering the financial year 2024.
- Other large firms beyond the scope of the NFRD must publish their first CSRD report in 2026 covering the financial year 2025.
- Small and medium-sized enterprises (SMEs) listed on EU-regulated markets, small and noncomplex credit institutions, and captive (re)insurance undertakings must publish their first CSRD report in 2027 covering the financial year 2026. These firms will have the option to opt-out for two additional years. Microenterprises are excluded from this requirement.
- EU branches and subsidiaries of non-EU firms with a net turnover of €150 million within the EU during the last two years and have either a large or listed EU subsidiary or an EU branch with a net turnover of at least EUR 40 million must publish their first CSRD report in 2028 covering the financial year 2027.

Activity: What are the requirements of the CSRD? (see "Unit 2.1 Activity 7")

Double materiality

The CSRD provides more clarity on the notion of **double materiality**. As explained in the previous unit on the sustainability reporting landscape, the notion of double materiality integrates two views:

- **Financial materiality** (outside-in approach) refers to the external viewpoint on how sustainability concerns affect a company's financial risks and opportunities.
- **Impact materiality** (inside-out approach) offers an inside viewpoint on the company's effects on the society and environment.

The CSRD mandates that organisations evaluate each materiality viewpoint independently and disclose information that is material from both views and material from just one perspective (KPMG, 2023).

Double materiality refers to the need to consider both the impacts that companies have on society and the environment (impact materiality) and the impacts that society and the environment have on companies (financial materiality).

Activity: What materiality does the CSRD address? (see "Unit 2.1 Activity 8")

Mandated disclosures

The reporting substance is expanded in comparison to the NFRD. Specifically, the CSRD requires companies to **cover the following elements** in their sustainability reports (European Commission, 2023a):

- An explanation of the company's **business model and strategy**, specifically about sustainability concerns.
- The time-bound **sustainability goals**, notably on reducing greenhouse gas emissions; a detailed account of the progress towards achieving these goals; and whether these objectives are established based on scientific evidence.
- A description of the function of **administrative, managerial, and supervisory entities** in addressing sustainability issues and their knowledge, abilities, or resources required to effectively carry out this duty.
- An outline of the company's **sustainability policy**.
- Details on current **sustainability-linked incentive** programmes available to administrative, managerial, and supervisory body members.
- An explanation of the **due diligence procedures**, the main negative effects that already exist or may arise in the company's operations and across its

'value chain,' efforts made to detect and monitor these effects, and measures taken to reduce these negative impacts.

- An explanation of **sustainability-related hazards** and the methods used to mitigate these hazards.
- **Relevant indicators** on sustainability impacts, risks and opportunities.

Furthermore, it is important for organisations to provide details about crucial intangible assets, which are non-physical resources that are essential to the business model and contribute significantly to the generation of value.

The CSRD emphasises the need to disclose the company's **entire value chain**, which includes its operations, business relationships, and the supply chain. It also mandates that if there are any gaps in information about the value chain within the first three years of implementation, companies must disclose their efforts, reasons, and plans for obtaining the missing information (European Commission, 2023a).

The CSRD mandates implementing the **European Sustainability Reporting Standards (ESRS)**, which are determined by delegated actions and technical assistance given by the EFRAG. The adoption of these delegated actions is to occur sequentially. In July 2023, the European Commission enacted a delegated act to establish standards that shall be applied by companies, regardless of their industry. Additional delegated acts will be approved to establish particular reporting criteria for specific sectors, appropriate standards for small and medium-sized enterprises (SMEs) listed on the stock exchange, and standards for firms from non-EU countries that fall within the Corporate Sustainability Reporting Directive (CSRD) scope (European Commission, 2023a).

Activity: What does the CSRD mandate companies to report? (see "Unit 2.1 Activity 9")

Format and assurance

According to the CSRD, sustainability information must be included in the **management report**. Additionally, creating and organising sustainability data in an electronic reporting structure that allows **digital tagging** is also mandatory (European Commission, 2023a).

As explained before, the CSRD obliged companies to have their sustainability information **assured by a third-independent part**. The CSRD mandates a level of assurance restricted to the company's sustainability reporting scope. This includes ensuring compliance with reporting standards, the methodology used to identify the reported information, the markup of sustainability information, and the reporting obligations outlined in Article 8 of the Taxonomy Regulation, which will be explained later in this unit. The assurance service must be provided by a professional that meets specific criteria in terms of knowledge, experience, training, independence, etc.

The CSRD mandates **limited assurance** (i.e. checking specific information to see whether there are material errors) during the first years of the CSRD. By 2028, the

assurance requirements will increase as there will be a shift towards **reasonable assurance** (i.e. checking that the information has been adequately reported when compared to suitable criteria).

Activity: What elements characterize the format and assurance of sustainability information under the CSRD? (see "Unit 2.1 Activity 10")

Transitional developments

The transition from the Non-Financial Reporting Directive (NFRD) to the Corporate Sustainability Reporting Directive (CSRD) represents an evolution in the EU regulatory framework for corporate sustainability reporting. As explained before, the CSRD builds upon the foundation laid by the NFRD while introducing key changes and enhancements to strengthen sustainability reporting requirements for companies operating within the EU (KPMG, 2023).

As a summary, the **key aspects** of the transition from NFRD to CSRD are:

- **Scope expansion:** The CSRD expands the scope of companies subject to sustainability reporting requirements. While the NFRD primarily applied to large public-interest entities with over 500 employees, the CSRD extends reporting obligations to additional categories of companies, including smaller listed companies, large private companies, and subsidiaries of multinational groups (European Commission, 2023a).
- **Harmonisation of reporting standards:** The CSRD introduces European Sustainability Reporting Standards (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG). These standards aim to harmonise sustainability reporting practices across the EU and provide a consistent framework for companies to disclose material environmental, social, and governance (ESG) information (European Commission, 2023a).
- **Double materiality-based reporting:** Like the NFRD, the CSRD emphasises the principle of double materiality when producing sustainability information. However, the CSRD emphasises materiality assessments and encourages companies to align their reporting with the European Green Deal and other sustainability objectives (European Commission, 2023a).
- **Integrated reporting:** The CSRD encourages integrated reporting by integrating sustainability information into companies' annual financial reports. This aligns with broader efforts to promote integrated thinking and decision-making by companies, ensuring that sustainability considerations are integrated into their core business strategies and operations (European Commission, 2023a).
- **Enhanced transparency and accountability:** The CSRD aims to enhance transparency and accountability by requiring companies to disclose more comprehensive and standardised information on sustainability risks, opportunities, and impacts. This enables stakeholders, including investors,

policymakers, and the public, to better understand and assess companies' sustainability performance and contributions to sustainable development goals (European Commission, 2023a).

The transition from NFRD to CSRD represents a significant step in advancing corporate sustainability reporting practices within the EU. By strengthening reporting requirements, harmonising reporting standards, and promoting integrated reporting, the CSRD aims to drive the transition to a more sustainable and resilient economy while enhancing transparency, accountability, and stakeholder trust in corporate reporting. The next table highlights the **key changes between the NFRD and CSRD** for a succinct understanding (KPMG Global, 2024).

Table 1: Impacts and Key Changes of CSRD.

	NFRD	CSRD
Timeline	Fiscal year 2018	January 2024: Reporting entities already subject to the NFRD report in 2025 on 2024 data January 2025: Large reporting entities not currently subject to the NFRD report in 2026 on 2025 data January 2026: Listed SMEs, small and non-complex credit institutions and captive insurance entities report in 2027 on 2026 data January 2027: Non-EU firms: in 2028 on 2027 data
Affected firms	Large public interest entities with > 500 employees Public interest entities are: Listed companies, Banks and Insurance companies	All (listed or non-listed) large companies (two of three criteria met): > 250 employees and/or > €40M Turnover and/or > €20M Total Assets Note: small and medium listed companies get an extra 3 years to comply. Non-EU firms with listed or with significant operations within the EU
No. of affected firms	EU: 11,600	49,000 Covering > 75% of total EU companies' turnover
Assurance	Non-mandatory (for most countries) In some countries part of legal audit requirements	Mandatory – limited level of assurance including: Integration in Auditor's Report Involvement of key audit partner Scope to include EU Taxonomy information and process to identify key relevant information

Source: Adapted from KPMG (2023).

Video: What are the main sustainability reporting requirements set by the European Union? (Link)

Activity: What are the changes introduced by the CSRD? (see "Unit 2.1 Activity 11")

Case study: Complying with sustainability reporting regulation (see "Unit 2.1 Case Study 2")

4. The European Sustainability Reporting Standards

4.1. The evolution of the European Financial Reporting Advisory Group (EFRAG)

The **European Financial Reporting Advisory Group (EFRAG)** is the body responsible for providing technical advice to the European Commission to develop the European Sustainability Reporting Standards (ESRS) that firms within the scope of the Corporate Sustainability Reporting Directive (CSRD) must apply to produce sustainability information.

Since its establishment, the EFRAG has evolved significantly to become a key player in developing and endorsing financial reporting standards within the European Union (EU). The **main aspects that have characterized the EFRAG's evolution** are:

- **Establishment:** EFRAG was established in 2001 as a private association under Belgian law. Its primary role was to provide technical expertise and advice to the European Commission on endorsing International Financial Reporting Standards (IFRS) for use within the EU.
- **Endorsement process:** EFRAG's initial focus was evaluating and endorsing IFRS issued by the International Accounting Standards Board (IASB) for use within the EU (EFRAG, 2023a). EFRAG conducted extensive due process activities, including public consultations and stakeholder engagements, to assess the suitability of IFRS for adoption in the EU.
- **Enhanced governance**: Over time, EFRAG has enhanced its governance structure to ensure transparency, independence, and accountability in its decision-making processes. This included the establishment of governance bodies such as the EFRAG Board, the EFRAG Technical Expert Group (TEG), and various working groups (EFRAG, 2023a).
- **Expansion of activities:** EFRAG's activities have expanded beyond the endorsement of IFRS to include other areas of financial reporting, such as developing European Sustainability Reporting Standards (ESRS) for non-financial reporting (EFRAG, 2023a). EFRAG has also been involved in providing input to the IASB on the development of new accounting standards and interpretations.

- **Collaboration and partnerships:** EFRAG collaborates with various stakeholders, including standard-setting bodies, regulators, professional organisations, and industry groups, to promote convergence and harmonisation of financial reporting standards. To advance its objectives, EFRAG has also established partnerships with international organisations such as the International Financial Reporting Standards (IFRS) Foundation and the Sustainability Accounting Standards Board (SASB) (EFRAG, 2023a).
- **Adaptation to regulatory changes:** EFRAG has adapted its activities and processes in response to changes in the regulatory environment, such as revising the EU Accounting Directive and introducing new regulations related to non-financial reporting, sustainability, and corporate governance (EFRAG, 2023a).

EFRAG has evolved into a reputable and influential organisation in financial reporting within the EU. Its role has expanded to encompass not only the endorsement of International Financial Reporting Standards (IFRS), but also the development of ESRS and broader contributions to the development of high-quality financial reporting standards that meet the needs of European stakeholders.

4.2. The development of the European Sustainability Reporting Standards (ESRS)

The process to develop the European Sustainability Reporting Standards

Before the enactment of the Corporate Sustainability Reporting Directive (CSRD), the European Commission adopted a legislative proposal for this directive in April 2021. The proposal established that firms mandated to publish sustainability information must report using a double materiality perspective in accordance with the **European Sustainability Reporting Standards (ESRS)**, which the European Commission adopts as delegated acts. The European Financial Reporting Advisory Group (EFRAG) was designated as the European Commission's technical adviser for creating the draft ESRS in accordance with the proposed CSRD (EFRAG SRB, 2023).

By 2021, the EFRAG carried out **preliminary tasks** to create the ESRS. First, the EFRAG created a project task force to undertake the job of developing potential EU nonfinancial reporting standards (PTF-NFRS). The findings of the PTF-NFRS were then condensed into a final report, which put out recommendations for the creation of EU sustainability reporting standards. The European Commission has recommended that EFRAG implement the necessary governance changes and begin the technical work on developing EU sustainability reporting standards in accordance with the ideas put out by Jean-Paul Gauzès and the PTF-NFRS. As a result, the PTF-NFRS has been rebranded as the Project Task Force on European Sustainability Reporting Standards (PTF-ESRS) (EFRAG SRB, 2023).

EFRAG commenced a consultation in June 2021 about establishing EU sustainability reporting requirements. In March 2022, EFRAG's General Assembly accepted the final version of the due process processes. These processes provide a clear framework for the concepts and supervision involved in preparing draft standards and establishing agendas and standards. As part of the reorganisation of its governance structure, the EGRAG established a **Sustainability Reporting Board (SRB)** in March 2022. The SRB is responsible for all EFRAG sustainability reporting matters, including technical advice to the European Commission on draft EU sustainability reporting standards. It comprises members representing European stakeholder organisations, national organisations, and civil society (EFRAG SRB, 2023).

The PTF-ESRS released a **preliminary version of the ESRS** in April 2022 and commenced a public consultation, allowing comments to be submitted until early August 2022. In November 2022, the EEFRAG Strategic Review Board (SRB) approved the **first set of ESRS** and sent it to the European Commission. This delegated act underwent a two-month examination period, during which it could be objected to by either the European Parliament or the Council of the EU (EFRAG, 2023b), before the European Commission formally adopted it in **July 2023**.

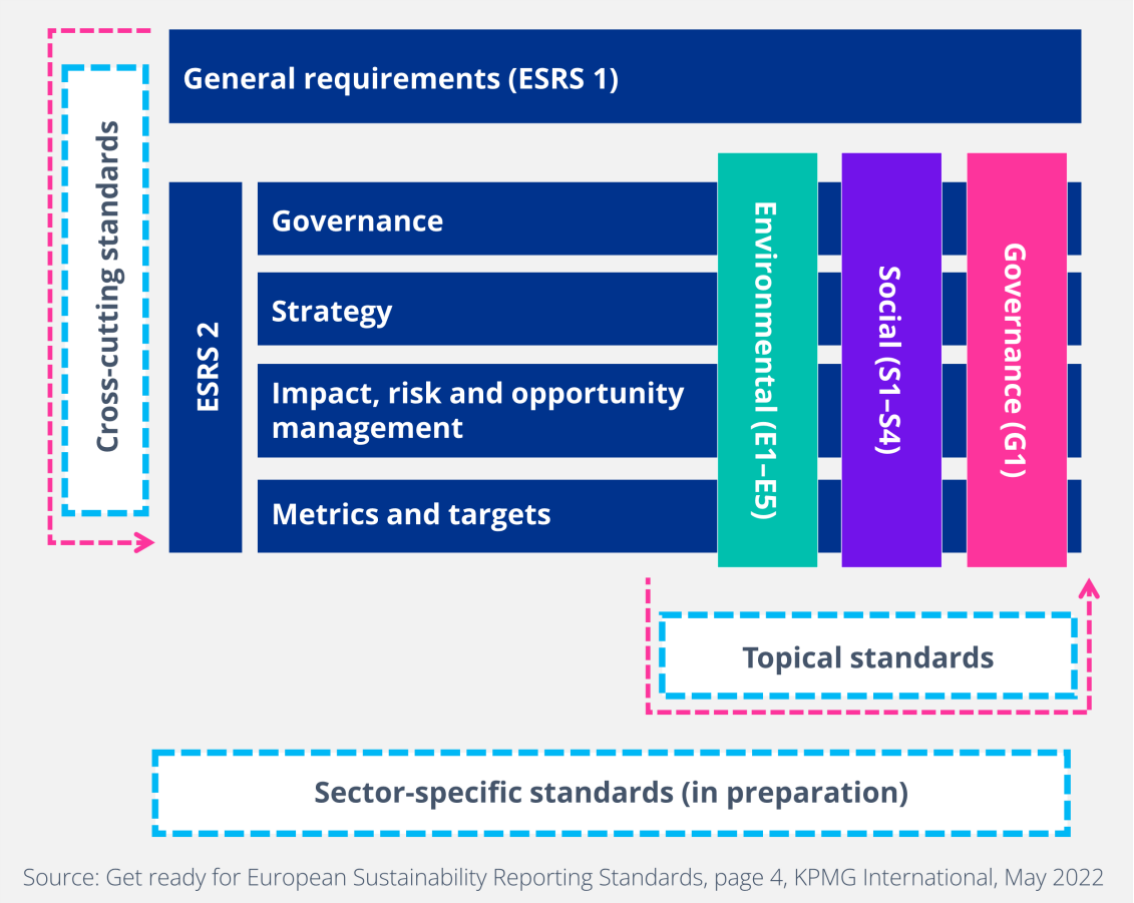
The structure of the European Sustainability Reporting Standards

The ESRS have been designed as a modular structure that comprises three types of standards:

- **Cross-cutting standards:** overarching standards that all firms must apply.
- **Topical standards:** standards on specific topics that are potentially material for all companies, depending on their materiality analysis.
- **Sector-specific standards:** standards on topics that can be material for a specific industry.

The **first set of ESRS**, which were already approved by the European Commission in July 2023 comprises the cross-cutting standards (ESRS 1 and ESRS 2) and topical standards (ESRS E1 to E5, ESRS S1 to S4, ESRS G1). The standards in this first sect are sector-agnostic as they are not specific to any particular sector and apply to enterprises in any industry. The following figure provides a graphic overview of the ESRS' structure.

Figure 3. Mapping of the ESRS.



Source: KPMG Global (2024).

The **cross-cutting standards** consist of overarching reporting requirements (ESRS 1) and general disclosures (ESRS 2).

- **ESRS 1 General Principles** prescribes the mandatory concepts and principles to be applied in accordance with Directive 2022/2464. Companies must disclose all relevant information on their sustainability-related impacts, risks and opportunities identified through a doble materiality analysis. It also defines the qualitative characteristics that the information reported must comply with, as well as key concepts for the development of the sustainability report.
- **ESRS 2 General Disclosures** includes the cross-cutting disclosure requirements. These requirements refer to the general characteristics of the organization and the general description of its business model, but also to specific aspects related to the scope of the value chain, the limits of the

report, the uncertainty in the estimation of the reported data, as well as possible changes in the preparation and presentation of the information or the existence of errors in previous periods. Additionally, it states firms must report on their materiality assessment as the first step for disclosing sustainability issues based on the topical standards.

The **topical standards** provide disclosure criteria for significant sustainability subjects and are categorised into environmental (ESRS E1 to E5), social (ESRS S1 to S4), and governance (ESRS G1) issues. As explained above, ESRS 2 mandates corporations to provide comprehensive details about their materiality assessment methodology for sustainability concerns, as well as the material consequences, risks, and opportunities. Suppose a particular sustainability issue is determined to be significant (based on the concept of double materiality) by the firm. In that case, information must be disclosed in accordance with the relevant topical standard for that issue.

To alleviate the reporting workload for enterprises, certain disclosure obligations in the first set of the ESRS set will be gradually implemented.

In addition to the cross-cutting, topical and sector-specific standards, the EFRAG is developing **additional sets of ESRS for specific companies** (EFRAG, 2023b):

- **Standards for listed SMEs:** The CSRD requests these standards to be simpler than the full ESRS set for large companies and proportionate to SMEs' capacity to report, as well as to the scale and complexity of their activities. They include at least requirements on sustainability matters, including a set of targeted metrics to assess how companies measure their performance, and how they identify, manage, and engage on the impact and risks of their activities. Reporting standards for listed SMEs are under development and should be adopted to be applicable for the fiscal year 2026, with the possibility of asking for a two-year "opt-out" option (a delay). They will apply to listed SMEs on regulated markets, including small listed non-complex credit institutions, and captive insurance or reinsurance companies.
- **Voluntary standard (for SMEs):** These standards can be used on a voluntary basis for SMEs, which are not listed on regulated markets. Non-listed SMEs are outside the scope of the CSRD. These standards will, therefore, have no legal authority. Their structure differs from that of the other ESRS, and no assurance of the data is required. A materiality assessment is nonetheless incorporated. Voluntary standards are more basic, focusing on specific narratives on the company's own policies, actions and targets, as well as information on lenders, investors and clients.
- **Standards for third-country companies:** These standards specify the information to be included in the sustainability report of third-country companies generating an annual net turnover of EUR 150 million in the EU and that have at least one subsidiary or branch in the EU with significant

operations within the EU. These standards should be adopted by June 2026 and to be applied in fiscal year 2028. They will only address the sustainability performance of companies, focusing on their impacts (EFRAG, 2023b).

In addition, the CSRD provides the European Commission with the possibility to allow third-country companies within the scope of the CSRD, or non-EU parent companies of EU subsidiaries (such as those based in the US or the UK), to use sustainability standards equivalent to the ESRS. In that case, the European Commission will need to grant an equivalence status to those jurisdictions first (EFRAG, 2023b).

It is important to be aware that the **ESRS interface with other EU sustainability disclosure regulations**. ESRS 2 includes a comprehensive list that aligns disclosures based on standards with specific data needs of the Sustainable Finance Disclosure Regulation (SFDR) and the disclosures of requested by the Banking Authority Supervisory Pillar 3 disclosures. Also, the standards consistently refer to the Taxonomy Regulation wherever disclosure obligations are involved.

To help firms in applying the ESRS, the EFRAG established a Q&A portal to address technical inquiries on their implementation (EFRAG, 2023b).

Activity: What do you know about the development of the ESRS? (see "Unit 2.1 Activity 12")

4.3. The first set of European Sustainability Reporting Standards (ESRS)

Some initial guidance

Before exploring the cross-cutting and topical standards of the first set of ESRS, it is important to understand **several terminologies** that characterize how their content is structured. Specifically, we should consider:

- **Terms defined in the glossary** appear in bold italics, except when a defined term is used more than once in the same paragraph.
- Each **disclosure requirement** consists of one or more distinct datapoints. The term "datapoint" may also refer to an explanatory sub-element of a disclosure requirement.
- In addition to disclosure requirements, most ESRS also contain **implementation requirements,** which support the disclosure requirements and have the same authority as other parts of an ESRS.
- The ESRS differentiate between two degrees of mandatory reporting. When the term ***"shall disclose"*** is used, the defined datapoint is considered mandatory, while ***"may disclose"*** indicates that disclosure is voluntary and is suggested to encourage good practice. Likewise, the NEIS uses the term ***"shall consider"*** when referring to issues, resources or methodologies that the company is expected to use in the development of a specific disclosure, if relevant.

The content of the first set of ESRS

The first set of ESRS is structured into two cross-cutting standards and ten topical standards covering environmental, social and governance issues. The main purpose of each of these ESRS are (EFRAG, 2023b):

Cross cutting standards

- **ESRS 1 General Principles:** This Standard aims to delineate the fundamental prerequisites that entities must adhere to when generating and exhibiting sustainability-associated data in accordance with the Accounting Directive, as modified by the Corporate Sustainability Reporting Directive (CSRD).
- **ESRS 2 General Disclosures:** The disclosure standards outlined in this ESRS are sector agnostic, meaning they apply to all enterprises regardless of their industry and cross-cut across all sustainability-related themes. This ESRS covers the reporting areas specified in ESRS 1 General Requirements section 1.2 Cross-Cutting Standards and reporting areas.

Environmental topical standards

- **ESRS E1 Climate Change:** The purpose of this Standard is to establish Disclosure Requirements that will allow consumers of sustainability statements to comprehend: (a) the undertaking's contribution to global warming, including any actual or potential negative effects; (b) the undertaking's past, present, and future mitigation efforts in accordance with the Paris Agreement (or an updated international agreement on climate change) and limiting global warming to 1.5°C; (c) the undertaking's plans and ability to modify its business model(s) in order to transition to a sustainable economy, limit global warming to 1.5°C, and mitigate or prevent actual or potential negative impacts; (d) any additional actions the undertaking takes and the outcome of those actions; (e) the nature, type, and extent of the undertaking's material risks and opportunities arising from the undertaking's impacts and dependencies on climate change, as well as how the undertaking manages them; and (f) the financial effects on the undertaking over the short-, medium-, and long-term time horizons of risks and opportunities arising from the undertaking's impacts and dependencies on climate change.
- **ESRS E2 Pollution:** The purpose of this Standard is to define Disclosure Requirements that will help users of the sustainability statements comprehend (a) the actual or potential material positive and negative impacts of the undertaking on air, water, and soil pollution; (b) any steps taken, and the outcome of such actions, to prevent or mitigate actual or potential material negative impacts.
- **ESRS E3 Water and Marine Resources:** This Standard aims to define Disclosure Requirements that will help users of the sustainability statements comprehend: (a) the undertaking's impact on water and marine resources,

including any material positive and negative actual or potential impacts; (b) any actions taken and the outcome of those actions to protect water and marine resources, including water consumption reduction; and to prevent or mitigate material actual or potential negative impacts.

- **ESRS E4 Biodiversity and Ecosystems:** This Standard's goal is to define Disclosure Requirements that will help users of the sustainability statements comprehend: (a) the actual and potential material positive and negative impacts that the undertaking may have on biodiversity and ecosystems; (b) any steps that may have been taken, as well as the outcomes of those actions, to prevent or mitigate such impacts and to safeguard and restore biodiversity and ecosystems.
- **ESRS E5 Resource Use and Circular Economy:** This Standard's goal is to lay forth disclosure requirements that will help readers of the sustainability statements comprehend: the project's material positive and negative actual or projected effects on resource use, including the depletion of non-renewable resources and the regenerative creation of renewable resources (referred to as "resource use and circular economy" in this ESRS).

Social topical standards

- **ESRS S1 Own Workforce:** This Standard aims to define disclosure requirements that will help users of the sustainability statements comprehend: (a) the actual or potential material positive and negative impacts that the undertaking may have on its own workforce; (b) any steps taken, and the outcomes of those actions, to prevent, mitigate, or remedy actual or potential adverse impacts.
- **ESRS S2 Workers in the Value Chain:** This Standard aims to define disclosure requirements that will help users of the sustainability statements comprehend material effects on value chain workers that the undertaking causes or contributes to, as well as material impacts that are directly linked to the undertaking's own operations, products, or services through its business relationships and related material risks and opportunities. These include: (a) how the undertaking affects workers in its value chain, in terms of material positive and negative actual or potential impacts; (b) any actions taken, and the outcome of such actions, to prevent, mitigate, or remediate actual or potential negative impacts.
- **ESRS S3 Affected Communities:** The goal of this Standard is to define disclosure requirements that will help readers of the sustainability statements comprehend the following: (a) how the undertaking affects communities in areas where risks are most likely to be present and severe, in terms of material positive and negative actual or potential impacts; (b) any actions taken, and the outcome of such actions, to prevent, mitigate, or remediate actual or potential negative impacts.

- **ESRS S4 Consumers and End-Users:** This Standard aims to define disclosure requirements that will help readers of the sustainability statements comprehend the material effects that the undertaking causes or contributes to, as well as the material effects that are directly connected to the undertaking's operations, products, or services through its business relationships and the associated material risks and opportunities. These include (a) the undertaking's effects on the consumers and/or end-users of its products and/or services (referred to in this Standard as "consumers and end-users") in terms of material positive and negative actual or potential impacts.

Governance topical standards

- **ESRS G1 Business Conduct:** This Standard aims to define disclosure criteria that will help readers of the enterprise's sustainability statements comprehend the strategy and approach, as well as the processes and procedures, and the performance of the undertaking with regard to business conduct.

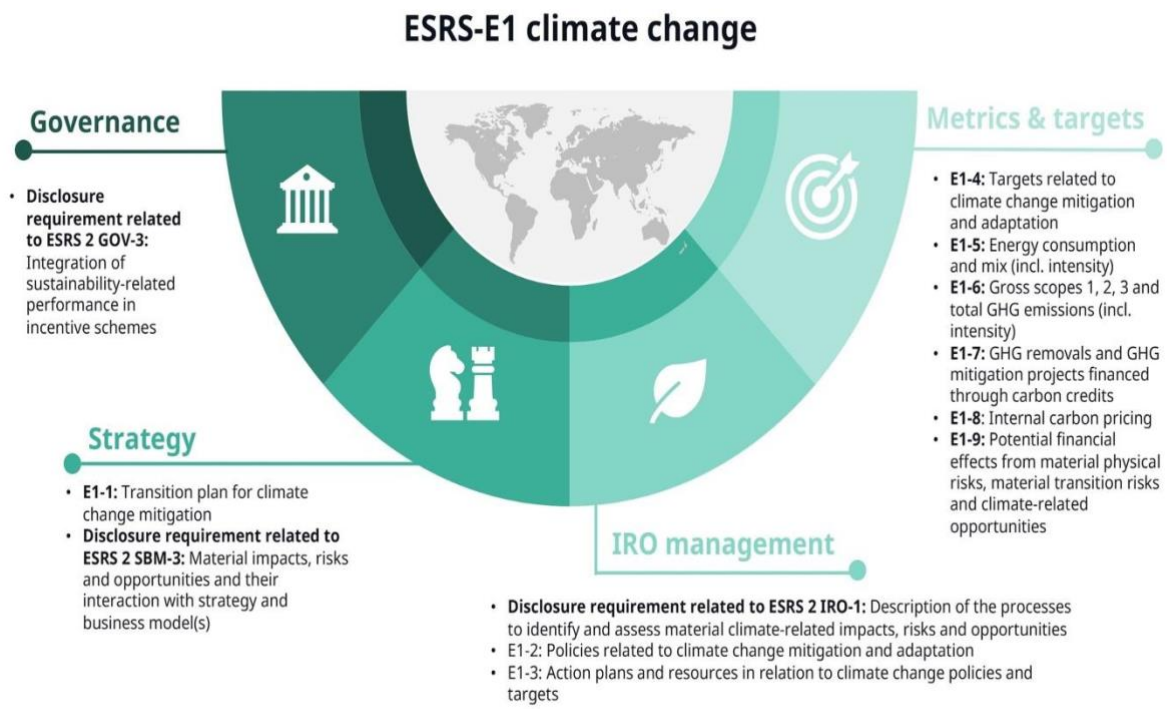
An example of a topical standard: ESRS E1 – Climate change

Let's take **ESRS E1 Climate Change** as an example of how the disclosure requirements of the topical ESRS are organized.

For each of the issues addressed by ESRS E1, disclosure requirements are categorized into **four reporting areas**. These reporting areas are tailored to the specific casuistry of the topics or subtopics addressed in each topical standard.

- **Governance:** Information on the governance processes, controls and procedures used to control, manage and monitor impacts, risks and opportunities.
- **Strategy:** Information on how the company's strategy and business model interact with its material impacts, risks, and opportunities, including how the company addresses these aspects.
- **Impact, risk and opportunity (IRO) management:** Information about the process, policies and actions by which the company identifies, evaluates and manages impacts, risks and opportunities.
- **Metrics and targets:** Information on the company's performance, including the targets it has set and progress toward achieving them.

Figure 4. ESRS E1 Navigating Map.



Source: BSI (2023).

The following briefs the disclosure requirements, metrics and targets of the climate change standard (EFRAG, 2023b):

Governance

- **ESRS 2 GOV-3** – Integration of sustainability-related performance in incentive schemes

Strategy

- **E1-1** – Transition plan for climate change mitigation
- **ESRS 2 SBM-3** – Material impacts, risks and opportunities and their interaction with strategy and business model

IRO management

- **ESRS 2 IRO-1** – Description of the processes to identify and assess material climate-related impacts, risks and opportunities
- **E1-2** – Policies related to climate change mitigation and adaptation
- **E1-3** – Actions and resources in relation to climate change policies

Metrics and Targets

- **E1-4** – Targets related to climate change mitigation and adaptation
- **E1-5** – Energy consumption and mix
- **E1-6** – Gross Scopes 1, 2, 3 and Total GHG emissions

- **E1-7** – GHG removals and GHG mitigation projects financed through carbon credits
- **E1-8** – Internal carbon pricing
- **E1-9** – Anticipated financial effects from material physical and transition risks and potential climate-related opportunities

Activity: What is the content of the first set of ESRS? (see "Unit 2.1 Activity 13")

4.4. EFRAG and SMEs

As explained in the previous section, the European Financial Reporting Advisory Group (EFRAG) must also produce **mandatory standards for listed small and medium-sized enterprises (SMEs)** within the scope of the Corporate Sustainability Reporting Directive (CSRD), as well as **voluntary standards for SMEs not mandated** to publish sustainability information. These standards aim to alleviate the reporting obligations for SMEs by tailoring the requirements to the intricacy of their operations (Böckem, 2024). In January 2024, EFRAG released two preliminary guidelines drafts to gather feedback on sustainable reporting by SMEs.

- The first draft includes the mandatory guidelines for sustainability reporting ESRS LSME (draft), which must be followed starting from 1 January 2026 (or by 1 January 2028, considering the two-year opt-out period). The standard consists of three main sections: 'General requirements', 'General disclosures', and 'Policies, actions, and objectives'. Additionally, three sections are dedicated explicitly to topical metrics: 'Environment', 'Social', and 'Business behaviour' (Böckem, 2024).
- The second draft introduces a proposed standard for all other SMEs who want to publish sustainability reports voluntarily. This standard, ESRS VSME (draft), is structured into three parts: a 'Basic Module' and two additional modules called 'Narrative Policies, Actions and Targets (PAT)' and 'Business Partners'. The purpose of this optional reporting standard is to assist non-listed SMEs in uniformly fulfilling the information needs of banks, investors, and their downstream value chains (Böckem, 2024).

Activity: How does the EFRAG support SMEs produce sustainability information? (see "Unit 2.1 Activity 14")

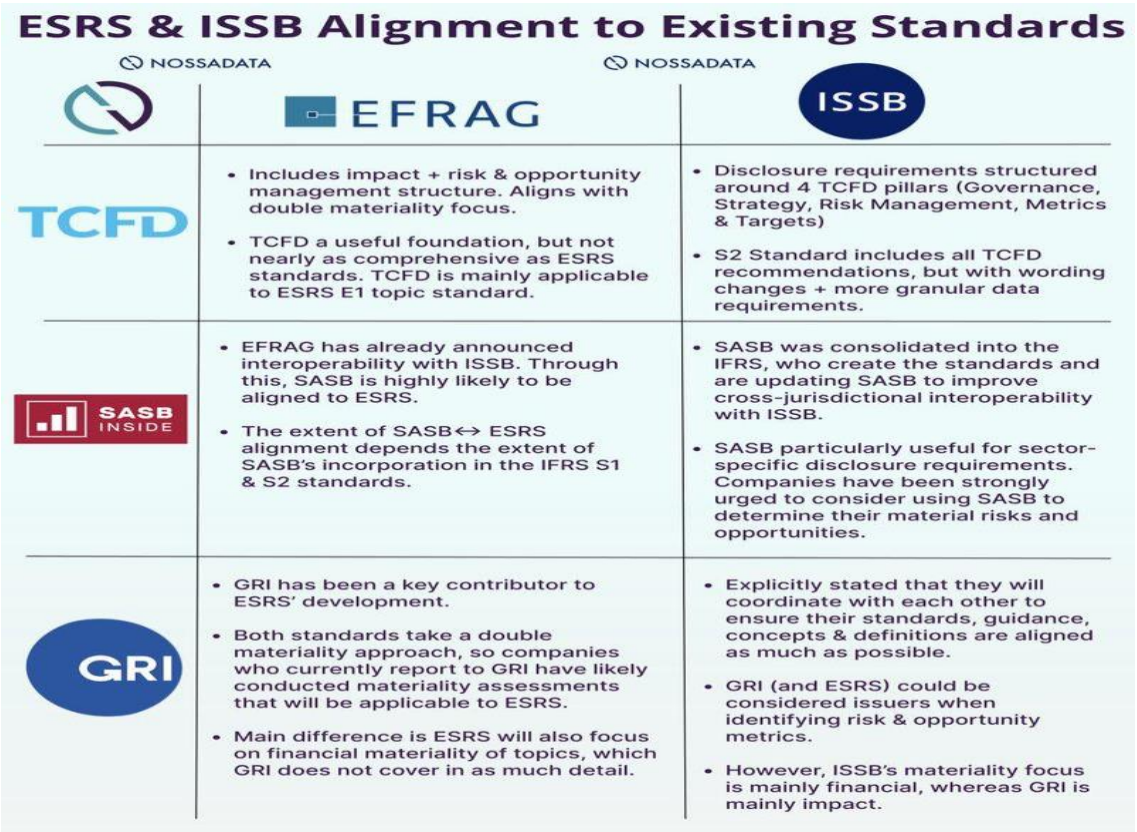
5. The interoperability of the European Sustainability Reporting Standards

5.1. The challenging interoperability in the sustainability reporting landscape

The sustainability reporting environment is currently characterised by its **complexity**, as organisations need help to cope with the many sustainability reporting frameworks and standards. Due to this complexity, several difficulties emerged in terms of the internal processes that firms have to implement to prepare sustainability reports and the difficulty of gathering pertinent data (Nossa Data, 2023). Additionally, comparing data among companies that used various standards is challenging for report users.

Nowadays, there are **three key global baseline sustainability reporting standards**: the Global Reporting Initiative (GRI), the International Sustainability Standards Board (ISSB) (both studied in the previous units) and the European Sustainability Reporting Standards (ESRS) (studied in this unit). Companies are required to report on certain metrics and obligations associated with each standard, making it harder for readers to understand the reports and contributing to firms' uncertainty (Nossa Data, 2023).

Figure 5. ESRS interoperability with other standards.



Source: Nossa Data (2023).

The previous point shows the need for the **interoperability between the three standards**. Particularly, at the EU level, it becomes crucial to enable the interoperability between the ESRS and the ISSB, and between the ESRS and the GRI. Questions may arise about how the alignment occurs, its effectiveness, the skills and competencies practitioners require, and whether harmonisation will work to foster sustainability.

Interoperability addresses the difficulties of using different frameworks by creating **compatibility and harmonisation** amongst standards. As corporations continue to manage voluntary and mandated disclosures in the coming years, the capacity for voluntary and mandatory requirements to work together becomes crucial for success. Interoperability may decrease the monetary expenses associated with regulation adherence (Nossa Data, 2023).

In this section, we focus on the interoperability relevant for those companies required to follow the ESRS:

- **The interoperability between the ESRS and the ISSB**
- **The interoperability between the ESRS and the GRI**

5.2. Interoperability ESRS – ISSB

As explained in the previous unit, the **International Sustainability Standards Board (ISSB)** has produced two sustainability reporting standards: IFRS S1 and IFRS S2. To map the interoperability between these standards and the European Sustainability Reporting Standards (ESRS), it is paramount to consider (EFRAG SRB, 2023):

- IFRS S2 requires **financial institutions** to furnish supplementary data about greenhouse gas emissions classified as category 15 or emissions related to their investments. However, while providing information on its scope 3 GHG emissions, financial institutions "shall consider the GHG Accounting and Reporting Standard for the Financial Industry (PCAF)," according to ESRS E1. Currently, financed emissions are not similarly disclosed in ESRS E1. Nonetheless, mechanisms for reporting sponsored emissions are anticipated to be included in future sector-specific ESRS regulations.
- IFRS S2 mandates disclosure of the **GHG emissions target's net or gross status**. The entities must specify how they intend to use carbon credits to offset greenhouse gas emissions and meet any net objectives for greenhouse gas emissions. On the other hand, GHG emission reduction objectives under ESRS E1 are only defined as gross targets; they cannot be met by adding GHG removals, carbon credits, or avoided emissions. E1, however, admits the use of carbon credits for claims of neutrality and calls for certain disclosures in the event that the enterprise has made public claims of GHG neutrality via the use of carbon credits. Climate-related objectives are meant to be reduction targets, according to ESRS, whereas net targets are known as neutrality claims.

5.3. Interoperability ESRS – GRI

After a successful collaboration between EFRAG and **Global Reporting Initiative (GRI)** for the past three years, these organisations signed a new Memorandum of Understanding (MoU) has been signed. The MoU confirms the advantages of aligning the European Sustainability Reporting Standards (ESRS) and the GRI Standards and commits both organisations to further cooperation in providing technical assistance to companies in their reporting efforts (GRI, 2023).

As a consequence of their collaborative effort in creating the ESRS, EFRAG and GRI recognised that they have successfully achieved a significant degree of compatibility between the ESRS and the GRI Standards, specifically on those indicators and datapoints that relate to **impact materiality**. The statement of interoperability provides an Interoperability Index that serves as a mapping instrument that facilitates the comprehension of the shared characteristics between the two sustainability reporting standards and their effects (GRI, 2023).

The Index illustrates the connection between the ESRS and GRI disclosures, making reporting **"with reference" to the GRI Standards** easier (GRI, 2023). Due to the significant degree of interoperability attained, organisations that report under ESRS may be regarded as reporting "with reference" to the GRI Standards (as defined in GRI 1: Foundation 2021).

During the materiality assessment, an ESRS reporter may determine that certain matters and disclosures that are not explicitly covered by the ESRS but are recognised as deviations from the GRI Standards can be reported in the ESRS sustainability statement as entity-specific disclosures (GRI, 2023).

The Index also assists ESRS reporters who wish to report in accordance with the GRI Standards (as defined in GRI 1: Foundation 2021). In such cases, they would need to include the additional GRI requirements not addressed by the ESRS in their sustainability statement, following the guidelines stated in ESRS 1 paragraph 114 (GRI, 2023).

EFRAG and GRI are collaborating on developing a digital correspondence table to enhance the compatibility of the ESRS and GRI Standards, hence streamlining reporting procedures. Disclosures categorised using the ESRS digital taxonomy and the GRI digital taxonomy may be cross-referenced to simplify the digital reporting process for the preparer (GRI, 2023).

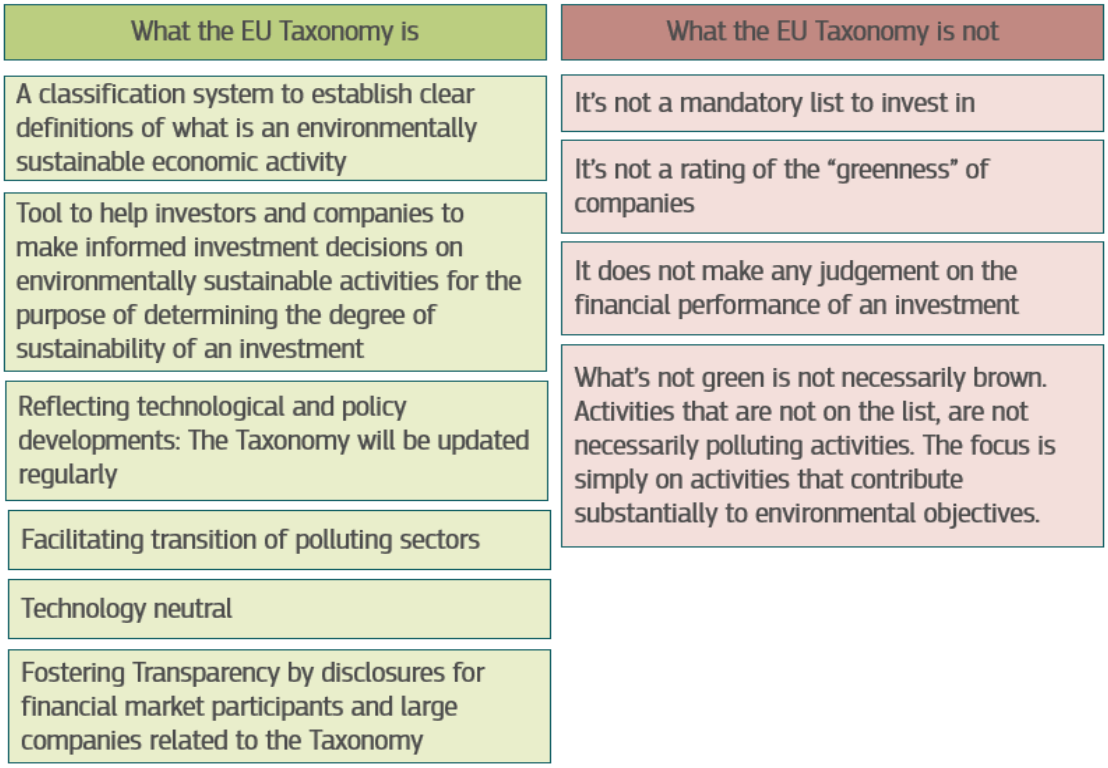
Activity: What is the level of interoperability between the ESRS and the other global sustainability reporting standards? (see "Unit 2.1 Activity 15")

6. The EU Taxonomy Regulation

6.1. The EU Taxonomy: An Introduction

The Taxonomy Regulation provides a **classification system** developed by the European Union (EU) to establish a common framework for identifying **economic activities that contribute to sustainable objectives** (European Commission, 2023b). The EU adopted the Taxonomy Regulation in June 2020 as part of the European Green Deal, which aims to make the EU's economy more sustainable and climate-neutral by 2050 (European Commission, 2023b).

Figure 6. The EU Taxonomy.



Source: European Commission (2023b).

Through this classification, the EU seeks to evaluate the extent to which companies operate in economic activities that can be considered sustainable. In so doing, the EU Taxonomy aims to serve the following purposes (European Commission, 2023b):

- **Provide clarity:** The Taxonomy aims to clarify and transparently define which economic activities can be considered environmentally sustainable. It establishes clear criteria for determining whether an economic activity contributes to one of six environmental objectives: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

- **Facilitate investment:** The Taxonomy aims to facilitate investment in environmentally sustainable activities and projects by providing a common language for sustainable finance. It helps investors identify sustainable investment opportunities, reduce risks, and allocate capital more effectively towards sustainable development goals.
- **Prevent greenwashing:** The Taxonomy helps prevent greenwashing by establishing clear and science-based criteria for determining the environmental sustainability of economic activities. It provides a standardised framework for companies to disclose their environmental performance and for investors to assess the sustainability of their investments.
- **Drive transition:** The Taxonomy intends to drive the transition to a more sustainable and resilient economy by encouraging companies to align their business activities with environmental objectives and mobilising private capital towards sustainable investments. It supports the EU's broader efforts to achieve climate neutrality and sustainable development goals.

Overall, the EU Taxonomy is vital for promoting **sustainable finance** and driving the transition to a **greener EU economy**. It aims to create a more transparent, resilient, and sustainable financial system to contribute to the EU's environmental and climate objectives.

Compared to EU directives that Member States have to transpose to their national legislation, with a certain level of flexibility as long as they set the minimum requirements, the Taxonomy is an EU regulation, which means that they are automatically adopted into national legislations without the possibility of making changes compared to the EU regulatory text. Starting from January 2022, companies falling under the Taxonomy Regulation are required to comply with their obligations, which are gradually implemented, as explained next.

Activity: What is the EU Taxonomy for? (see "Unit 2.1 Activity 16")

6.2. Eligible and aligned activities

The Taxonomy Regulation offers a classification system to determine the economic activities that can be considered sustainable. Although the EU aims to set both environmental and social objectives that guide such classification, as of now only the first type have been defined.

- Climate change mitigation
- Climate change adaptation
- Responsible use and safeguarding of water and marine resources
- Shift towards a circular economy
- Environmental measures aimed at reducing and managing pollution
- The conservation and rehabilitation of biodiversity and ecosystems

For each of these objectives, the Taxonomy provides a list of activities that are **eligible to significantly contribute** to any of these goals (European Commission, 2023b). Nevertheless, being a Taxonomy-eligible activity does not necessarily mean that it can be considered sustainable. To be classified as sustainable, an activity might be considered **Taxonomy-aligned**, which implies that it must comply with additional criteria set by the regulation. Hence, it is crucial to comprehend the distinction between these categories (non-eligible, eligible, aligned and non-aligned) to assess the extent of the company's association with sustainability accurately (European Commission, 2023b). In the following, we will briefly explain the distinction between being eligible and being aligned.

Non-eligible activity

Ineligible activity refers to an economic activity that the EU deems **incapable of significantly contributing** to an environmental objective. As a result, such activity is not included in the list of activities defined by the EU (European Commission, 2023b). Therefore, a non-eligible activity cannot be considered as aligned.

Eligible activity

Eligible activity refers to economic activity that the European Union **deems capable of significantly contributing** to at least one environmental objective, as it is included in the list of activities defined by the EU. There are two sorts of activities that are considered eligible (European Commission, 2023b): aligned activities and non-aligned activities.

Aligned activity

An aligned activity refers to an **eligible activity** that meets the following **three criteria**:

- The activity must significantly **contribute to fulfilling** at least one of the six environmental objectives (SC criteria).
- The activity has **no substantial negative impact** on attaining the six environmental objectives (DNSH criteria).
- The activity is conducted with **minimal social safeguards** by adhering to the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights.

For example, the requirement of 'substantial contribution' necessitates a 'significant positive impact on the environment, considering the entire life cycle'. Similarly, to fulfil any of the six environmental objectives, it is necessary to avoid causing 'significant harm', as defined for each objective. The technical screening criteria that each eligible economic activity must fulfil to meet points 1 and 2 above are described in the delegated acts enacted by the European Commission (European Commission, 2023b).

According to the European Commission, the Taxonomy Regulation is a 'living document' that will undergo continuous development and adaptation. The technical screening criteria will undergo periodical reviews to include advancements in technology. In addition, the EU offers administrative assistance via a taxonomy compass, taxonomy calculator, and taxonomy FAQs (European Commission, 2023b).

Non-aligned activity

Non-aligned activity refers to any **eligible activity** that does **not meet the three criteria** to be classified as such. The EU sets specific criteria for each environmental target to assess whether an activity fulfils the technical requirements of making a significant contribution to the objective and avoiding considerable damage (European Commission, 2023b).

Eligibility vs alignment

Gaps between eligibility and alignment may also create **challenges for assessing sustainability criteria**. This can be illustrated by the survey report published by EY (2024). According to the survey results, corporations must provide information to achieve alignment. There were substantial disparities between eligibility and alignment in two sectors, namely mobility and construction, with a difference of 45 to 50 percentage points. Various disparities mainly arise from the wide range of enterprises in multiple areas, all required to satisfy the same standards. Conversely, industries such as health, biotechnology, chemicals, and consumer items had an average taxonomy-aligned turnover of 0%. This is primarily due to the limited coverage of the Climate Delegated Act on certain businesses. Consequently, several firms in these industries could only disclose qualifying revenue associated with peripheral operations, sometimes needing more proof to evaluate conformity.

The **EU Taxonomy Compass** offers a graphical depiction of the components of the EU Taxonomy. The objective is to enhance the accessibility of the EU Taxonomy's contents for diverse users. Users may use this feature to verify the inclusion of activities in the EU Taxonomy, specifically those suitable for taxonomy classification. Additionally, users can determine the significant contribution of these activities towards specific goals and understand the criteria that must be fulfilled for activities to be regarded as aligned with the Taxonomy. It is crucial to acknowledge that an economic activity can only be deemed Taxonomy-aligned if it also fulfils the basic protections, which refer to social norms. The primary objective of the EU Taxonomy Compass is to facilitate the seamless incorporation of the criteria into corporate databases and other information technology systems (EU Taxonomy, 2023).

Activity: What type of activities does the EU Taxonomy consider? (see "Unit 2.1 Activity 17")

6.3. The Taxonomy's disclosure requirements

As mentioned above, the Taxonomy Regulation offer a classification to identify whether or not a company's economic activities can be considered sustainable. The aim to facilitate that investors and other stakeholders can assess the extent to which corporate activities contribute to the achievement of a number of sustainability-related objectives and to make decisions accordingly. To achieve this goal, the Taxonomy Regulation obliges companies within its scope to **publish information on their degree of alignment** with those activities considered sustainable.

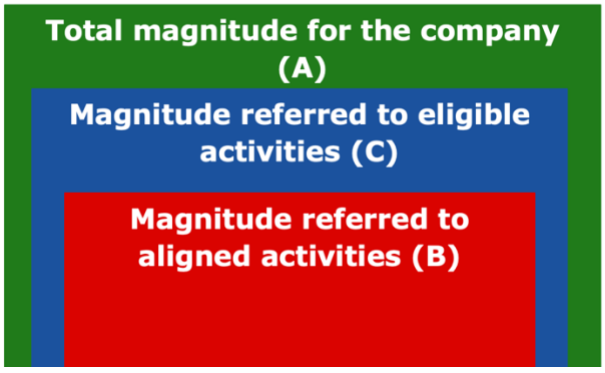
The Taxonomy outlines the specific sustainability disclosure standards in article 8. This article applies to companies that are required to publish a non-financial report under the NFRD (currently) or a sustainability report under the CSRD (once transposed). These companies must report on how their economic activities align with the Taxonomy to assess their contribution to the established objectives. To do this, it mandates these firms to provide information on the degree to which their operations are linked to the sustainable activities defined by the Taxonomy (European Commission, 2023b).

A separate delegated act delineates the specific disclosures that firms must produce to inform about the extent to which their activities can be considered sustainable (European Commission, 2023b). Non-financial companies are required to provide three **key performance indicators** (KPIs):

- **Turnover:** The percentage of revenue generated from sustainable activities.
- **CapEx:** The percentage share of investment in fixed assets allocated to sustainable activities.
- **OpEx:** The percentage of operational costs that are associated with sustainable activities.

The Taxonomy mandates the disclosure of these indicators according to eligible and aligned activities. The next figure summarizes the intuitive idea behind the calculation of these indicators:

Figure 7. Calculation of the Taxonomy's indicators.



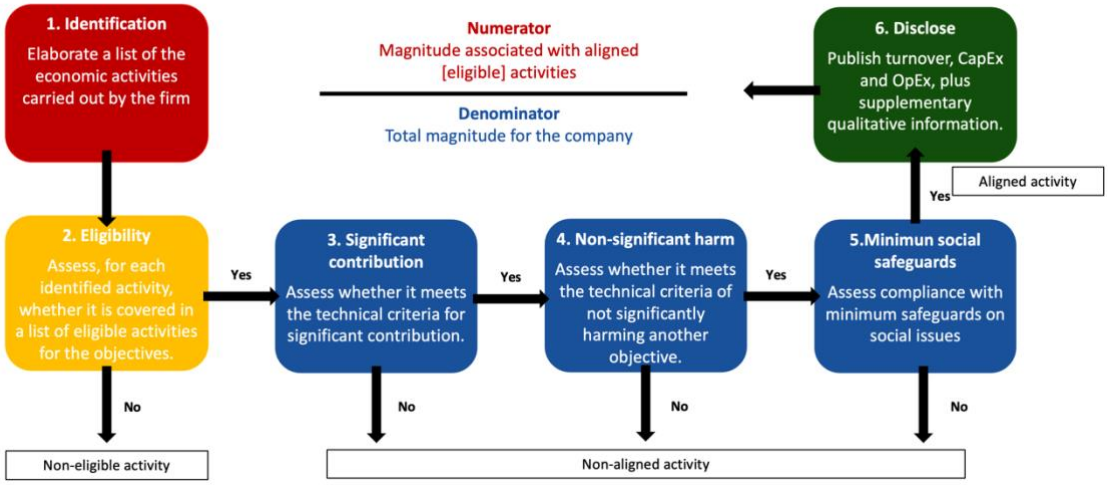
$$\text{Indicator[eligibility]} = \frac{\mathbf{B}\ [\mathbf{C}]}{\mathbf{A}}$$

Source: Own elaboration.

Additionally, firms must provide **qualitative information** that complements the KPIs to understand the basis for their calculation (elements included/excluded from the numerators and denominators), as well as to understand the company's context.

The following figure graphically summarizes the steps that a firm needs to follow to evaluate whether its economic activities are or not aligned or eligible:

Figure 8. Process to comply with the EU Taxonomy.



Source: Own elaboration.

It is important to note that the Taxonomy's disclosure requirements apply to firms subject to the NFRD/CSRD. Therefore, the number of organisations impacted will expand as Member States implement the new CSRD.

The Taxonomy sets the application deadlines for non-financial entities as follows:

- Starting on January 1, 2024: the Taxonomy's eligibility regarding the six environmental objectives must be disclosed.
- Starting on January 1, 2025: it is mandatory to declare the alignment of the taxonomy with the six environmental objectives.

The **EU Taxonomy Calculator** is an interactive and instructional tool designed to assist users in comprehending and complying with the reporting requirements specified in the Disclosures Delegated Act, as outlined in Article 8 of the Taxonomy Regulation. The EU Taxonomy Calculator offers users a demonstration of the various procedures a non-financial entity must follow to complete the templates in the Disclosures Delegated Act. This is done to determine their eligibility (1) and alignment (2) with the Taxonomy and calculate their KPI). Currently, the EU Taxonomy Calculator is only accessible for computing the turnover, CapEx, and OpEx KPIs of non-financial businesses with the specific aim of Climate Change Mitigation (EU Taxonomy, 2023).

Finally, it is important to consider that the Taxonomy has a specific development for **financial institutions** and the timeline for their implementation is different from that of non-financial companies.

Video: What is the EU Taxonomy Regulation? (Link)

Activity: What are the disclosure requirements of the EU Taxonomy? (see "Unit 2.1 Activity 18")

7. Concluding notes

This unit provides the fundamental notions behind the **EU sustainability reporting regulations and standards**. A detailed definition of multiple terminologies has been provided to equip learners with a solid understanding of the rationale and significance of sustainability reporting regulations and how they have emerged. The unit developed the emergence of sustainability reporting regulation, notably the Non-Financial Reporting Directive (NFRD), the Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy.

The unit crucially familiarises learners with the regulatory landscape of sustainability reporting by introducing the requirements of **the NFRD and the CSRD**. Learners could apply these contexts to interpret the impacts and upcoming challenges companies face. Most significantly, deficiencies in NFRD could be highlighted to show their updated knowledge of CSRD. The detailed explorations into contents, structures, and implementations of CSRD would equip participants with a practical understanding of the implications of regulations. Further explorations into the **EU Taxonomy Regulation** would strengthen their practical knowledge of applying eligible and aligned activities and regulatory disclosure requirements.

Additionally, the unit covered the **European Sustainability Reporting Standards (ESRS)**. Learners could highlight key disclosure requirements, targets, and metrics of these standards. The unit also provided some key ideas about the **interoperability** between the ESRS and the other global baseline sustainability reporting standards: the Global Reporting Initiative (GRI) Standards and the International Sustainability Standards Board (ISSB).

Activity: Final Test (see "Unit 2.1 Activity 19")

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Additional materials

1.1. Sustainability Reporting

- Resource: KPMG 2022 Survey of sustainability reporting
  https://assets.kpmg.com/content/dam/kpmg/sg/pdf/2022/10/ssr-small-steps-big-shifts.pdf

1.2. ESG and sustainability reporting

- Video: The Difference Between ESG and Sustainability | Shenelle Perera | THRIVE Research
  https://www.youtube.com/watch?v=ZK9LVz8A-hQ

1.3. Mandatory vs voluntary reporting: An open debate

- Webpage: Carrot and Sticks
  https://www.carrotsandsticks.net/

1.4. Introducing sustainability reporting regulation

- Article: Hummel, K. & Jobst, D. (2024). Hummel, K., & Jobst, D. (2024). An overview of corporate sustainability reporting legislation in the European Union. *Accounting in Europe*, 1-36.
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2.1. Historical context

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2.2. The multiverse of sustainability reporting

- Resource: IFRS Foundation completes consolidation of CDSB from CDP - CDP.
  https://www.cdp.net/fr/articles/governments/ifrs-foundation-completes-consolidation-of-cdsb-from-cdp
- Webpage: International Sustainability Standards Board
  https://www.ifrs.org/groups/international-sustainability-standards-board/
- Webpage: IFRS Foundation
  https://www.ifrs.org/
- Webpage: Climate Disclosure Standards Board
  https://www.cdsb.net/

3.1. The Non-Financial Reporting Directive (NFRD)

- Resource: Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups Text with EEA relevance
  https://eur-lex.europa.eu/eli/dir/2014/95/oj
- Resource: EU Study on the non-financial reporting directive
  https://op.europa.eu/en/publication-detail/-/publication/1ef8fe0e-98e1-11eb-b85c-01aa75ed71a1/language-en

3.2. Corporate Sustainability Reporting Directive (CSRD)

- Resource: Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (Text with EEA relevance)
  https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022L2464

4.1. The evolution of the European Financial Reporting Advisory Group (EFRAG)

- Resource: EFRAG. (2021). Current non-financial reporting formats and practices.
  https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEFRAG%2520PTF-NFRS_A6_FINAL.pdf

4.2. The first set of European Sustainability Reporting Standards (ESRS)

- Resource: Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards
  https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32023R2772

4.3. EFRAG and SMEs

- Resource: ESRS LSME (ESRS for Listed SMEs)
  https://www.efrag.org/en/projects/esrs-lsme-esrs-for-listed-smes/exposure-draft-consultation
- Resource: Voluntary reporting standard for SMEs (VSME)
  https://www.efrag.org/en/projects/voluntary-reporting-standard-for-smes-vsme/exposure-draft-consultation

5.2. Interoperability ESRS – ISSB

- Resource: ESRS–ISSB Standards – Interoperability guidance

https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/esrs-issb-standards-interoperability-guidance.pdf

- Resource: IFRS - European Commission, EFRAG and ISSB confirm high degree of climate-disclosure alignment. https://www.ifrs.org/news-and-events/news/2023/07/european-comission-efrag-issb-confirm-high-degree-of-climate-disclosure-alignment/
- Resource: IFRS S1 General Sustainability-related Disclosures https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/#published-documents
- Resource: IFRS S2 Climate-related Disclosures https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/#published-documents

5.3. Interoperability ESRS – GRI

- Resource: GRI-ESRS Interoperability Index (draft) https://www.globalreporting.org/media/z2vmxbks/gri-standards-and-esrs-draft-interoperability-index_20231130-final.pdf
- Webpage: EFRAG and GRI enhance collaboration with deeper ties https://www.globalreporting.org/news/news-center/efrag-and-gri-enhance-collaboration-with-deeper-ties/

6.1. The EU Taxonomy: An Introduction

- Resource: Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852

6.2. Eligible and aligned activities

- Resource: Commission Delegated Regulation (EU) 2023/2485 of 27 June 2023 amending Delegated Regulation (EU) 2021/2139 establishing additional technical screening criteria for determining the conditions under which certain economic activities qualify as contributing substantially to climate change mitigation or climate change adaptation and for determining whether those activities cause no significant harm to any of the other environmental objectives https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023R2485
- Resource: Commission Delegated Regulation (EU) 2023/2486 of 27 June 2023 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine

resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Commission Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities
https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32023R2486

- Resource: EU Taxonomy Compass
https://ec.europa.eu/sustainable-finance-taxonomy/taxonomy-compass

6.3. The Taxonomy's disclosure requirements

- Resource: Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation
https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2178
- Resource: EU Taxonomy Calculator
https://ec.europa.eu/sustainable-finance-taxonomy/wizard
- Resource: PwC study: EU Taxonomy Reporting 2024
https://blogs.pwc.de/en/sustainability/article/244301/pwc-study-eu-taxonomy-reporting-2024/

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Unit 2.1
Sustainability reporting regulation

ACTIVITIES

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UNIT 2.1

ACTIVITY 1

COMPLETE THE PHRASES

SUSTAINABILITY REPORTING REGULATION

2022-1-ES01-KA220-HED-000089844

Title	Can you define sustainability and ESG reporting?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.1 Sustainability reporting regulation
Heading/subheading where it should appear	1. Sustainability reporting: A preamble/ 1.2 ESG and sustainability reporting

1. Activity 1

- The user has to select the correct words to complete the phrases correctly.

Text

Sustainability reporting is **broader** in scope, covering economic, environmental, and social aspects of a company's operations. In contrast, ESG reporting focuses explicitly on **environmental**, social, and **governance** factors that are material to **financial** performance and **risk** management. ESG reporting is often a subset of sustainability reporting, with a more explicit emphasis on financial relevance for **investors**.

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ACTIVITY 2

COMPLETE THE PHRASES

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	Pros and cons of two disclosure modes?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1. Sustainability reporting regulation
Heading/subheading after which it should appear	1. Sustainability Reporting: A Preamble/ 1.3 Mandatory vs Voluntary Reporting: An Academic Debate

2. Activity 2

- The user has to select the correct words to complete the phrases correctly.

Text

Sustainability reporting regulation is subject to a continuous **debate** on whether companies should be **free** to decide whether and how they produce **sustainability** information. Before the approval of regulations on sustainability reporting, some EU countries introduced the obligation to disclose environmental information in **financial** statements. However, **compliance** with these mandates has been low.

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ACTIVITY 3

QUIZ

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	Can you identify the developments of sustainability regulation?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.1 Sustainability reporting regulation
Heading/subheading where it should appear	2. The emergence of sustainability reporting regulations / 2.1 Historical contexts

3. Activity 3

- The user will have 60 seconds to answer each question. Your score depends on the number of correct answers and the time you have left once you score all the questions on the quiz. Therefore, the goal is to choose the correct option as quickly as possible.

Question 1

When will the Corporate Sustainability Reporting Directive (CSRD) formally replace the Non-Financial Reporting Directive (NFRD)?

a. 2022
b. 2024
c. 2026
d. 2028

Question 2

When did the International Financial Reporting Standards (IFRS) Foundation announce the formation of the International Sustainability Standards Board (ISSB)?

a. The Paris Agreement in 2015
b. The 26th UN Climate Change Conference in 2021
c. The approval of the Corporate Sustainability Reporting Directive (CSRD) in 2022
d. The approval of the Non-Financial Reporting Directive in 2022

Question 3

What regulation mandates companies to follow the European Sustainability Reporting Standards (ESRS)?

a. The Corporate Sustainability Reporting Directive (CSRD)
b. The Non-Financial Reporting Directive
c. The Sustainable Finance Disclosure Regulation (SFDR)
d. The Taxonomy Regulation

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UNIT 2.1

ACTIVITY 4

DOUBLE OR NOTHING

Sustainability Accounting Learning Platform
for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	Can you define the NFRD and the CSRD?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.1 Sustainability reporting regulation
Heading/subheading after which it should appear	2. The emergence of sustainability reporting regulations / 2.2 Definitions of terminologies/ An overlook of the multiverse of sustainability reporting

4. Activity 4

Question 1

In which region was Non-Financial Reporting Directive developed?

a. North America
b. **European Union**
c. Asia-Pacific
d. Member countries of the Organisation for Economic Co-operation and Development (OECD)

Question 2

Which of the following companies are subject to the Non-Financial Reporting Directive?

a. All listed companies
b. All banks and insurance companies
c. **Public-interest entities with more than 500 employees**
d. Subsidiaries of multinational groups operating in the EU

Question 3

Which of the following companies are included within the expanded scope of the Corporate Sustainability Reporting Directive compared to the Non-Financial Reporting Directive?

a. **Listed SMEs**
b. Listed large companies
c. All SMEs
d. All companies, regardless of their size and listing status

Question 4

Which of the following option does not refer to one of the key features of the enhanced purpose of CSRD?

a. Enhancing assurance
b. Double materiality
c. **Multiple reporting frameworks**
d. Compliance and enforcement

Question 5

Which type of materiality does the CSRD adopt?

a. Impact materiality
b. Financial materiality
c. **Double materiality**

d. Dynamic materiality

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ACTIVITY 5

FIND THE WORD

Sustainability Accounting Learning Platform
for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What are the key aspects of the NFRD?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1. Sustainability reporting regulation
Heading/subheading after which it should appear	3. EU sustainability reporting directives / 3.1. Non-Financial Reporting Directive (NFRD)

5. Activity 5

- The user must read the description of the concept and indicate the word behind the concept. To do so, the user must select the letters that make up the word before the time runs out.

Word 1

Characteristic of the transposition of the Non-Financial Reporting Directive.

Flexibility

Word 2

Corporate statement there the NFRD required firms to include diversity information.

Governance

Word 3

Characteristic of the information that the NFRD sought to increase.

Relevance

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ACTIVITY 6

PAIRS

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What aspects related to the NFRD should the CSRD improve?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1. Sustainability reporting regulation
Heading/subheading after which it should appear	3. Sustainability reporting directive/ 3.2. Corporate Sustainability Reporting Directive (CSRD) / The need of the Corporate Sustainability Reporting Directive (CSRD)

6. Activity 6

Statement: What aspects related to the NFRD should improve?

Pair 1

Word: Comparability

Image**:** A4GE U1.2 A6.1_image

Time**:** 15 seconds

Pair 2

Word: Consistency

Image**:** A4GE U1.2 A6.2_image

Time**:** 15 seconds

Pair 3

Word: Quality

Image**:** A4GE U1.2 A6.3_image

Time**:** 15 seconds

Pair 4

Word: Materiality

Image**:** A4GE U1.2 A6.4_image

Time**:** 15 seconds

Pair 5

Word: Complexity

Image**:** A4GE U1.2 A6.5_image

Time**:** 15 seconds

Pair 6

Word: Costs

Image**:** A4GE U1.2 A6.6_image

Time**:** 15 seconds

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ACTIVITY 7

DOUBLE OR NOTHING

Sustainability Accounting Learning Platform
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2022-1-ES01-KA220-HED-000089844

Title	What are the requirements of the CSRD?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1 Sustainability reporting regulation
Heading/subheading after which it should appear	3. Sustainability reporting directive/ 3.2. Corporate Sustainability Reporting Directive (CSRD) / From the NFRD to the CSRD

7. Activity 7

Question 1 (correct answer in bold green)

Which option does not refer to one of the main changes of the CSRD compared to the NFRD?

a. The digital tagging of the reported information
b. The use of the Global Reporting Initiative (GRI) Sustainability Reporting Standards
c. The mandatory assurance of the reported information

Question 2 (correct answer in bold green)

Which of the following companies are excluded from the scope of the CSRD?

a. Non-listed SMEs
b. Listed SMEs
c. Non-EU firms

Question 3 (correct answer in bold green)

Which firms must publish their first CSRD sustainability report in 2025 covering the financial year 2024?

a. All large firms
b. Large firms subject to the NFRD
c. Listed SMEs

Question 4 (correct answer in bold green)

Which organization provides technical guidance to the European Commission on the European Sustainability Reporting Standards (ESRS)?

a. International Financial Reporting Standards (IFRS) Foundation
b. Global Reporting Initiative
c. European Financial Reporting Advisory Group (EFRAG)

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ACTIVITY 8

ENIGMA

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What materiality does the CSRD address?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1. Sustainability reporting regulation
Heading/subheading after which it should appear	3. Sustainability reporting directive/ 3.2. Corporate Sustainability Reporting Directive (CSRD) / Double materiality

8. Activity 8

Question 1

What materiality does the CSRD require companies to apply when producing sustainability information?

Double

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ACTIVITY 9

QUIZ

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What does the CSRD mandate companies to report?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1 Sustainability reporting regulation
Heading/subheading after which it should appear	3. Sustainability reporting directive/ 3.2. Corporate Sustainability Reporting Directive (CSRD) / Mandated disclosures

9. Activity 9

- The user will have 60 seconds to answer all the questions. Your score depends on the number of correct answers and the time you have left once you score all the questions on the quiz. Therefore, the goal is to choose the correct option as quickly as possible.

Question 1 (correct answer in bold green)

Which option does not refer to specific content that firms must covered under the CSRD?

a. Sustainability-related liabilities
b. Business model and strategy
c. Sustainability-related hazards

Question 2 (correct answer in bold green)

What aspects of due diligence procedures are addressed in the CSRD?

a. Non-current assets
b. Existing negative effects
c. Value-added assessments

Question 3 (correct answer in bold green)

Which type of assets does the CSRD pay special attention to?

a. Current assets
b. Intangible assets
c. Financial assets

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ACTIVITY 10

WORD SEARCH

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What elements characterize the format and assurance of sustainability information under the CSRD?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1 Sustainability reporting regulation
Heading/subheading after which it should appear	3. Sustainability reporting directive/ 3.2. Corporate Sustainability Reporting Directive (CSRD) / Format and assurance

10. Activity 10

Statement (no longer than 170 characters)

Find the words that relate to the format and assurance requirements set by the CSRD.

Words (between 2 to 12 character long)

1. Limited
2. Reasonable
3. Digital
4. Independence

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ACTIVITY 11

HIDDEN WORD

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What are the changes introduced by the CSRD?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1 Sustainability reporting regulation
Heading/subheading after which it should appear	3. Sustainability reporting directive/ 3.2. Corporate Sustainability Reporting Directive (CSRD) / Transitional developments

11. Activity 11

- The user must select the letters that he/she believes make up the word that answers the question asked.

Question 1

Acronym of the Directive that the Corporate Sustainability Reporting Directive updates.

NFRD

Question 2

Practice of checking the content of sustainability reports that is mandated by the CSRD.

Assurance

Question 3

Reporting resulting from combining sustainability information and financial reports promoted by the CSRD.

Integrated

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ACTIVITY 12

ROULETTE

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What do you know about the development of the ESRS?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1. Sustainability reporting regulation
Heading/subheading after which it should appear	4. The European Sustainability Reporting standards / 4.2. The development of the European Sustainability Reporting Standards / The structure of the European Sustainability Reporting Standards

12. Activity 12

Question 1 (correct answer in bold green)

What body was created by the EFRAG as part of the restructuring of its governance to provide technical advice on sustainability reporting?

a. The International Sustainability Standards Board (ISSB)
b. The Sustainability Reporting Board (SRB)
c. The Global Reporting Initiative Board (GRIB)

Question 2 (correct answer in bold green)

When did the European Commission formally adopt the first set of European Sustainability Reporting Standards?

a. June 2021
b. November 2022
c. July 2023

Question 3 (correct answer in bold green)

Which type of European Sustainability Reporting Standards are overarching standards that all firms must apply?

a. Cross-cutting standards
b. Topical standards
c. Sector-specific standards

Question 4 (correct answer in bold green)

Which type of European Sustainability Reporting Standards are standards on specific topics that are potentially material for all companies, depending on their materiality analysis?

a. Cross-cutting standards
b. Topical standards
c. Sector-specific standards

Question 5 (correct answer in bold green)

Which type of European Sustainability Reporting Standards are standards on topics that can be material for a specific industry?

a. Cross-cutting standards
b. Topical standards
c. Sector-specific standards

Question 6 (correct answer in bold green)

Which type of European Sustainability Reporting Standards are expected to be simpler than those for large companies?

a. Cross-cutting standards
b. Standards for listed SMEs
c. Standards for third-country companies

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ACTIVITY 13

ENIGMA

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What is the content of the first set of ESRS?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1. Sustainability reporting regulation
Heading/subheading after which it should appear	4. The European Sustainability Reporting standards / 4.2. The development of the European Sustainability Reporting Standards / The structure of the European Sustainability Reporting Standards / An example of a topical standard: ESRS E1 – Climate change

13. Activity 13

Question 1

Question or sentence: Word used in the European Sustainability Reporting Standards that introduces datapoints that are mandatory.

Shall.

Question 2

Question or sentence: Term that refers to the letter "I" of the reporting arena of IRO management.

Impact.

Question 3

Question or sentence: Topical standards that comprises the European Sustainability Reporting Standards ESRS S1 to ESRS S4.

Social.

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ACTIVITY 14

HIDDEN WORD

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	How does the EFRAG support SMEs produce sustainability information?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1. Sustainability reporting regulation
Heading/subheading after which it should appear	4. The European Sustainability Reporting standards / 4.4. EFRAG and SMEs

14. Activity 14

Question 1

Number of sections that comprises the mandatory sustainability reporting guidelines for SMEs (ESRS LSME).

Three

Question 2

Topic covered by the mandatory sustainability reporting guidelines for SMEs (ESRS LSME).

Social

Question 3

Type of SMEs mandated to follow the mandatory sustainability reporting guidelines for SMEs (ESRS LSME).

Listed

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ACTIVITY 15

SORT LETTERS

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What is the level of interoperability between the ESRS and the other global sustainability reporting standards?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1. Sustainability reporting regulation
Heading/subheading after which it should appear	5. The interoperability of the European Sustainability Reporting Standards / 5.3. Interoperability ESRS – GRI

15. Activity 15

Question 1

What does the interoperability between sustainability reporting standards seek to reduce?

Complexity

Maximum time to solve the question: 60 seconds

Question 2

Which environmental topic is important for the interoperability between the European Sustainability Reporting Standards (ESRS) and the International Sustainability Standards Board (ISSB) standards?

Emissions

Maximum time to solve the question: 60 seconds

Question 3

Which type of materiality is central in the interoperability between the European Sustainability Reporting Standards (ESRS) and the Global Reporting Initiative (GRI) Standards?

Impact

Maximum time to solve the question: 60 seconds

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ACTIVITY 16

COMPLETE THE PHRASES

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What is the EU Taxonomy for?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1. Sustainability reporting regulation
Heading/subheading after which it should appear	6. The EU Taxonomy/ 6.1 The EU Taxonomy: An Introduction

16. Activity 16

- The user has to select the correct words to complete the phrases correctly.

Text

The EU Taxonomy is designed to serve multiple purposes. It aims to clarify the **economic** activities that are considered **sustainable**. It facilitates the concerns of **investors** about sustainable investments. The science-based metrics prevent **greenwashing**. It also drives the transition to a sustainable and **resilient** economy.

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ACTIVITY 17

FIND THE WORD

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What type of activities does the EU Taxonomy consider?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1. Sustainability reporting regulation
Heading/subheading after which it should appear	4. The EU Taxonomy / 4.2 Eligible and aligned activities

17. Activity 17

Word 1

Activity that is considered sustainable according to the EU Taxonomy.

Aligned

Word 2

Activity that has the potential to significant contribute to an EU Taxonomy's sustainable objective.

Eligible

Word 3

Activity that is eligible but that does not meet the criteria be considered sustainable according to the EU Taxonomy.

Non-aligned

Word 4

Type of the minimum safeguards that an eligible activity must meet to be classified as aligned.

Social

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ACTIVITY 18

DOUBLE OR NOTHING

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What are the disclosure requirements of the EU Taxonomy?
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1. Sustainability reporting regulation
Heading/subheading after which it should appear	4. The EU Taxonomy/4.4 The Taxonomy's disclosure requirements

18. Activity 18

Question 1 (correct answer in bold green)

Which firms are required to provide the indicators mandated by the Taxonomy?

a. All firms, regardless of their size.
b. **Firms mandated to publish a non-financial or sustainability report by the EU Directive.**
c. Listed EU companies with significant operations outside the EU.

Question 2 (correct answer in bold green)

What indicator related to capital expenditures does the Taxonomy require non-financial firms to disclose?

a. Capex: the return on investment from sustainable activities.
b. Capex: the share of profits generated from sustainable activities.
c. **Capex: the percentage share of investment in fixed assets allocated to sustainable activities.**

Question 3 (correct answer in bold green)

What indicator related to operational expenditures does the Taxonomy require non-financial firms to disclose?

a. Opex: the operational profits yielded from sustainable activities.
b. Opex: the return on investment from sustainable activities.
c. **Opex: the percentage of operational costs associated with sustainable activities.**

Question 4 (correct answer in bold green)

What indicator related to turnover does the Taxonomy require non-financial firms to disclose?

a. Turnover: the operational expenditures associated with sustainable activities.
b. **Turnover: the percentage of generated revenues from sustainable activities.**
c. Turnover: investors' value added from sustainable activities.

Question 5 (correct answer in bold green)

For which type of entities does the Taxonomy have a specific development and implementation timeline?

a. Listed companies.
b. **Financial institutions.**
c. SMEs.

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ACTIVITY 19

QUIZ

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	Final test
Module	Module 2. Sustainability information production and regulation
Unit	Unit 2.1. Sustainability reporting regulation
Heading/subheading after which it should appear	7. Concluding notes

19. Activity 19

- The user will have 60 seconds to answer all the questions. The score you get depends on the number of correct answers and the time you have left once you have answered all the questions in the quiz. Therefore, the goal is to choose the correct option as quickly as possible.

Question 1

What is the most recent European Union (EU) sustainability reporting regulation that mandates large firms, listed firms and non-EU firms with significant in the EU to publish a sustainability report?

a. Sustainability Information Directive (SID).
b. Corporate Social Responsibility Directive (CSRD).
c. Non-Financial Reporting Directive (NFRD).
d. Corporate Sustainability Reporting Directive (CSRD).

Question 2

When did the European Union adopt the Non-Financial Reporting Directive (NFRD)?

a. 2010.
b. 2014.
c. 2017.
d. 2020.

Question 3

Which companies were required to disclose non-financial information under the Non-Financial Reporting Directive (NFRD)?

a. All companies, regardless of size.
b. Small and medium-sized enterprises (SMEs).
c. Large public-interest entities with over 500 employees.
d. Only companies listed on stock exchanges.

Question 4

What non-financial matters must firms report under the Non-Financial Reporting Directive (NFRD)?

a. Only environmental.
b. Only social and employee.
c. Only environmental, social and employee.
d. Environmental, social, and employee, human rights, anti-corruption, and bribery.

Question 5

Which option does not refer to one of the goals of the Corporate Sustainability Reporting Directive (CSRD)?

a. Ensuring investors can access sufficient non-financial information.
b. Simplifying the financial reporting requirements for companies.
c. Guaranteeing that civil society organisations, trade unions, and other stakeholders can access adequate non-financial information.
d. Reducing the unnecessary burden on businesses associated with non-financial reporting requirements.

Question 6

7. What key elements are required in the sustainability reporting according to the CSRD?

a. Financial forecasts.
b. Business model and strategy about sustainability concerns.
c. Stock market reactions and trends.
d. Customer satisfaction questionnaires.

Question 7

How often must companies publish their sustainability reports under the Corporate Sustainability Reporting Directive (CSRD)?

a. Every six months.
b. Every year.
c. Every two years.
d. Every five years.

Question 8

How long is the opt-out period for listed SMEs to comply with the Corporate Sustainability Reporting Directive (CSRD)?

a. One year.
b. Two years.
c. Three years.
d. Four years.

Question 9

Which option refers to one of the key modifications introduced by the Corporate Sustainability Reporting Directive (CSRD)?

a. Reducing reporting requirements.
b. Removing the obligation for large companies to report.
c. Introducing mandatory sustainability reporting standards.
d. Lowering the threshold size for reporting.

Question 10

Which concept refers to the harmonisation and alignment of the information requirements between sustainability reporting standards?

a. Intercompatibility.
b. Interalignment.
c. Interapplicability.
d. Interoperability.

Question 11

With which two global sustainability reporting standard setters is the European Financial Reporting Advisory Group (EFRAG) working to achieve interoperability with the European Sustainability Reporting Standards (ESRS)?

a. European Securities and Markets Authority (ESMA) and Global Reporting Initiative (GRI).
b. European Securities and Markets Authority (ESMA) and International Sustainability Standards Board (ISSB).
c. Global Reporting Initiative (GRI) and International Sustainability Standards Board (ISSB).
d. International Sustainability Standards Board (ISSB) and Organisation for Economic Cooperation and Development (OECD).

Question 12

What requirements does the Corporate Sustainability Reporting Directive (CSRD) Commission set to ensure the quality and reliability of sustainability information?

a. Setting more challenging reporting deadlines.
b. Mandating the assurance of reported information.
c. Increasing the reporting frequency.
d. Providing financial incentives for reporting.

Question 13

What is the overarching goal behind the sustainability reporting regulation in the context of the European Union's sustainability agenda?

a. Fight tax evasion.
b. Increase the administrative burden on companies.
c. Contribute to the transition to a more sustainable and inclusive economy.
d. Reduce transparency and accountability.

Question 14

Which option refers to one of the criteria that an activity must fulfil to be considered aligned according to the Taxonomy?

a. Creating a significant positive impact to all environmental objectives.
b. Avoiding causing significant harm to other environmental objectives.
c. Creating positive impacts on environmental value chains.
d. Absence of substantial positive impacts to environmental goals.

Question 15

Which of the following statements is true regarding the incorporation of the EU Taxonomy into Member States' legislations?

a. They can adjust it through its transposition.
b. They must define aligned and non-aligned activities for their national context.
c. They adopt the Taxonomy as defined by the EU, without making any changes.
d. They must do nothing because the Taxonomy applies only to non-EU firms.

Question 16

Which option does not refer to one of the main changes introduced by the Corporate Sustainability Reporting Directive (CSRD) compared to the Non-Financial Reporting Directive (NFRD)?

a. Increasing reporting obligations.
b. Removing sanctions for non-compliance.
c. Extending the scope of companies.
d. Implementing the digital tagging of sustainability information.

Question 17

Which materiality approach is mandated by the Corporate Sustainability Reporting Directive (CSRD) when producing sustainability information?

a. Impact materiality.
b. Financial materiality.
c. Double materiality.
d. European materiality.

Question 18

Which companies are included within the scope of the Corporate Sustainability Reporting Directive (CSRD) compared to the Non-Financial Reporting Directive (NFRD)?

a. **Non-EU companies with significant operations within the EU.**
b. All SMEs.
c. Large-listed companies.
d. Public-interest entities with more than 500 employees.

Question 19

Which organization is responsible for providing technical guidance to the European Commission on the development of the European Sustainability Reporting Standards (ESRS)?

a. International Financial Reporting Standards (IFRS) Foundation.
b. **European Financial Reporting Advisory Group (EFRAG).**
c. Global Reporting Initiative (GRI).
d. International Sustainability Standards Board (ISSB).

Question 20

Which type of standards comprise the first set of European Sustainability Reporting Standards (ESRS)?

a. **Cross-cutting and topical standards.**
b. Sector-specific standards.
c. Mandatory standards for SMEs.
d. Voluntary standards for SMEs.

Question 21

Which issues are covered by the topical standards belonging to the first set of European Sustainability Reporting Standards (ESRS)?

a. Only environmental issues.
b. Only social and governance issues.
c. Only social issues.
d. **Environmental, social and governance issues.**

Question 22

Which option does not refer to one of the reporting areas used to classify the disclosure requirements of the European Sustainability Reporting Standards (ESRS)?

a. Impact, risk and opportunity management.
b. Strategy.
c. Governance.
d. **Society.**

Question 23

What is a non-aligned activity in the context of the EU Taxonomy?

a. An economic activity that is incapable of significantly contributing to an environmental objective.
b. An economic activity that is capable of significantly contributing to at least one environmental objective.
c. An economic activity that is consider sustainable.
d. An eligible economic activity that does not meet the three criteria to be considered aligned.

Question 24

Which option does not refer to one of the criteria for an eligible activity to be considered aligned?

a. Significantly contributing to fulfilling at least one environmental objective.
b. Not creating a substantial negative impact on the other environmental objectives.
c. Having a sustainability-related certificate.
d. Complying with minimal social safeguards.

Question 25

What indicators does the Taxonomy requires companies to report?

a. Turnover, Capex and Opex.
b. Return on investment, Capex and Opex.
c. Turnover, Return on investment and Opex.
d. Turnover, Capex and Return on investment.

Question 26

How many environmental objectives does the Taxonomy define?

a. Three.
b. Four.
c. Five.
d. Six.

Question 27

What is the goal that the disclosure requirements set by the Taxonomy seek to achieve?

a. Enable assessing the extent to which corporate activities are sustainable.
b. Help investors to allocate their funds more sustainable investments.
c. Foster the green transition of the EU economy.
d. All options are correct.

Question 28

How many cross-cutting standards are included in the first set of European Sustainability Reporting Standards (ESRS)?

a. None.
b. One.
c. Two.
d. Three.

Question 29

Which assurance level does the Corporate Sustainability Reporting Directive (CSRD) require in the first years of its application?

a. Basic.
b. Limited.
c. Reasonable.
d. Complete.

Question 30

Which assurance level will firms subject to the Corporate Sustainability Reporting Directive (CSRD) eventually have to hire by 2028?

a. Basic.
b. Limited.
c. Reasonable.
d. Complete.

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Unit 2.1
Sustainability reporting regulation

ROLE PLAY CASES

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Voluntary vs Mandatory SR

Case Study 2.1.1

Module 2: Sustainability information production and regulation

Unit 2.1. Sustainability Reporting Regulation

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ROLE PLAY

Title: Voluntary vs Mandatory Sustainability Reporting.

Context: Hi!
Welcome to the symposium on voluntary vs. mandatory sustainability reporting: An Academic-Practitioner Debate. The purpose of this debate is to bring together academic and practitioner knowledge and expertise to highlight the pros and cons of voluntary and mandatory sustainability reporting. You have recently completed the academic research training on sustainability reporting. You are given a chance to demonstrate your knowledge in joining the voluntary and mandatory reporting debate.
The attachment above contains the article*: "From voluntary to mandatory non-financial disclosure following Directive 2014/95/EU: an Italian case study".* Please read it before joining the debate session.

Scenario: A University seminar room with a window view of mountains. Seatings are arranged in a roundtable so everyone can see each other. The project is on with the screen in front.

Character: A black male university profesor holding a notebook and pen.

Scene 1

First, we need to form groups between voluntary and mandatory reporting. Please select your choice and follow the instructions accordingly.

Response 1: Voluntary reporting.

Go to:
Scene 2

Response 2: Mandatory reporting.

Go to:
Scene 3

Scene 2

Why do you think voluntary reporting is superior to mandatory reporting?

Response 1: Because of its flexibility.

Go to:
Scene 4

Response 2: Due to its autonomy.

Go to:
Scene 4

Response 3: As a consequence of the relevance of social and environmental concerns.

Go to:
Scene 4

Scene 3

Why do you think mandatory reporting is superior to voluntary reporting?

Response 1: Because it increases the number of that publish sustainability information.

Go to:
Scene 4

Response 2: Because it contributes to enhancing the quality of sustainability information.

Go to:
Scene 4

Response 3: Because it contributes to increasing the quantity of sustainability information.

Go to:
Scene 4

Scene 4

Do you believe that flexible disclosure does not necessarily enhance the quality of sustainability disclosure?

Response 1: Yes.	**Go to:** Scene 5
Response 2: No.	**Go to:** Scene 4 (You should read the paper again.)
Response 3: I'm not sure about that.	**Go to:** Scene 2 (You may want to reconsider to make your group decision.)

Scene 5

What's your view on the influence of mandatory reporting on the quality of sustainability disclosures?

Response 1: I believe it increases the quality of disclosures.	**Go to:** Scene 5 (You should read the paper again.)
Response 2: I don't think it fosters the quality of sustainability disclosures.	**Go to:** Scene 6
Response 3: I'm not sure about that.	**Go to:** Scene 2 (You may want to reconsider to make your group decision.)

Scene 6

After our conversation, do you believe that voluntary reporting has more benefits than mandatory reporting?

Response 1: Yes, I do.	**Go to:** Scene 6 (You should read the paper again.)
Response 2: No, I don't.	**Go to:** Scene 7
Response 3: I have no opinion.	**Go to:** Scene 6 (You should read the paper again.)

Scene 7

And what about mandatory reporting, is it better than voluntary reporting?

Response 1: Yes, it is.

Go to:
Scene 7 (You should read the paper again.)

Response 2: No, it isn't.

Go to:
Scene 8 (It seems then that each type of reporting may have its pros and cons.)

Response 3: Let me think a bit about this.

Go to:
Scene 7 (You should read the paper again.)

Scene 8

What aspects of voluntary reporting enhance the quality of disclosure?

Response 1: Content coverage.	**Go to:** Scene 9
Response 2: Assurance.	**Go to:** Scene 8 (Let's try again.)
Response 3: None.	**Go to:** Scene 8 (Let's try again.)

Scene 9

What aspects of mandatory reporting enhance the quality of disclosure?

Response 1: Mandating the publication of sustainability information.	**Go to:** Scene 9 (Let's try again.)
Response 2: Including mandatory assurance.	**Go to:** Scene 9 (Let's try again.)
Response 3: Both.	**Go to:** Scene 10

Scene 10

What is one of the positive outputs of voluntary reporting?

Response 1: Increased quantity.

Go to:
Scene 10 (We are talking about voluntary reporting. Think again!)

Response 2: Increased quality.

Go to:
Scene 10 (Are you sure? Think again!)

Response 3: Coverage of specific topics.

Go to:
Scene 11

Scene 11

What is one of the positive outputs of mandatory reporting?

Response 1: Increased quantity.

Go to:
Scene 12

Response 2: Increased quality.

Go to:
Scene 11 (Are you sure? Think again!)

Response 3: Coverage of specific topics.

Go to:
Scene 11 (Are you sure? Think again!)

Scene 12

What organisational internal factors influence the shift from the voluntary to mandatory reporting?

Response 1: Morality.

Go to:
Scene 13

Response 2: Competing companies.

Go to:
Scene 12 (Are you sure? Read the article again!)

Response 3: Legislative pressure.

Go to:
Scene 12 (Are you sure? Read the article again!)

Scene 13

What disclosure topic has not improved as a consequence of mandatory reporting?

Response 1: Social topics.

Go to:
Scene 14

Response 2: Employee topics.

Go to:
Scene 14

Response 3: Governance topics.

Go to:
Scene 13 (Let's try again!)

Scene 14

What is the nexus between voluntary and mandatory reporting?

Response 1: Voluntary reporting adoption makes firms more familiar and experienced when facing mandatory requirements.

Go to:
Scene 15

Response 2: There is no universal approach.

Go to:
Scene 14 (Is this a nexus? Let's try again!)

Response 3: The debate is a continuous process.

Go to:
Scene 14 (Is this a nexus? Let's try again!)

Scene 15

Thank you.

Advocates of mandatory sustainability reporting contend that it ensures openness, accountability, and comparability across corporations, resulting in better information for stakeholders and enhanced corporate responsibility. Conversely, proponents of voluntary reporting highlight the need for adaptability and originality. The issue revolves around striking a suitable equilibrium between governmental supervision to guarantee uniformity and responsibility and allowing firms to customise their sustainability reporting to suit their circumstances.

We can start reviewing and exploring sustainability reports. We will meet again in a few days to discuss the quality and quantity of their content. Goodbye!

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Complying with sustainability reporting regulation

Case Study 2.1.2

Module 2: Sustainability information production and regulation

Unit 2.1. Sustainability Reporting Regulation

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ROLE PLAY

Title: Complying with sustainability reporting regulation

Context: Hi!
Congratulations and welcome to ‘GreenPlanet’ as a sustainability reporting trainee. Our firm aims to contribute positively to South Tyrol region's local organizations by helping them improve their sustainability disclosure and prepare it aligned with the upcoming Corporate Sustainability Reporting Directive. Your first task is to become familiar with the sustainability report of ‘Loacker’, which is also based on South Tyrol. Please take a look at the report and provide your assessment on its content.

You may want to review the previous unit on materiality before starting your tasks!

Scenario: A meeting room with logistics in a scenic north alpine location.

Character: A young Asian female in a formal and professional attire.

Scene 1

What topics does Loacker emphasise in its sustainability commitments?

Response 1: People and society.

Go to:
Scene 1 (Is it only this?)

Response 2: Environmental resources.

Go to:
Scene 1 (Is it only this?)

Response 3: Both.

Go to:
Scene 2

Scene 2

Looking at Loacker's commitments, what materiality approach does Loacker follow to produce its report?

Response 1: Impact materiality.

Go to:
Scene 2 (Let's check it again.)

Response 2: Financial materiality.

Go to:
Scene 2 (Let's check it again.)

Response 3: Double materiality.

Go to:
Scene 3

Scene 3

Which reporting standards does Loacker apply in its sustainability report?

Response 1: IFRS Sustainability Standards.

Go to:
Scene 3 (Let's try again!)

Response 2: GRI Standards.

Go to:
Scene 4

Response 3: CSRD Standards.

Go to:
Scene 3 (Let's try again!)

Scene 4

What are the components of Loacker's sustainability strategies?

Response 1: People.	**Go to:** Scene 5
Response 2: Taxation.	**Go to:** Scene 4 (Are you sure?)
Response 3: Both.	**Go to:** Scene 4 (Are you sure?)

Scene 5

How is Loacker achieving balance in sustainability objectives?

Response 1: Cost effectiveness.	**Go to:** Scene 5 (Is this sufficient? Let's try again!)
Response 2: Resource efficiency.	**Go to:** Scene 5 (Think about the bigger picture. Let's try again!)
Response 3: Sustainability along the value chains.	**Go to:** Scene 6

Scene 6

You are spot on! Loacker is creating values along supply chains. Can you tell how many levels the value chain is split into?

Response 1: Two.

Go to:
Scene 6 (Please, go back to the report.)

Response 2: Three.

Go to:
Scene 6 (Please, go back to the report.)

Response 3: Four.

Go to:
Scene 7

Scene 7

One of Locker’s value chains' targets is to avoid CO2 emissions. Which category does it belong to?

Response 1: Resource efficiency.

Go to:
Scene 8

Response 2: People.

Go to:
Scene 7 (Think about its values. Let’s try again!)

Response 3: Society.

Go to:
Scene 7 (Think about its values. Let’s try again!)

Scene 8

Is financial stability part of Loacker's sustainability strategies and commitments?

Response 1: Yes, it is.	**Go to:** Scene 9
Response 2: No, it isn't.	**Go to:** Scene 8 (Think about the double materiality. Let's try again!)
Response 3: I'm not sure.	**Go to:** Scene 8 (Think about the double materiality in the CSRD. Let's try again!)

Scene 9

Well done so far! Let's look into Loacker's sustainability matrix. How many topics in total have you spotted in the matrix?

Response 1: 10	**Go to:** Scene 9 (I'm talking about total. Let's try again!)
Response 2: 18	**Go to:** Scene 9 (I'm talking about total. Let's try again!)
Response 3: 28	**Go to:** Scene 10

Scene 10

You may wish to review the matrix further before answering these questions. In which category “K1: GHG emissions caused by customers” is placed in the matrix?

Response 1: Low strategic intensity.	**Go to:** Scene 10 (Let’s try again.)
Response 2: Medium strategic intensity.	**Go to:** Scene 11
Response 3: High strategic intensity.	**Go to:** Scene 10 (Let’s try again.)

Scene 11

In which category “O2: GHG emissions caused by logistics” is placed in the matrix?

Response 1: Low strategic intensity.	**Go to:** Scene 11 (Let’s try again.)
Response 2: Medium strategic intensity.	**Go to:** Scene 11 (Let’s try again.)
Response 3: High strategic intensity.	**Go to:** Scene 12

Scene 12

“D: Data security” is placed in the low strategic intensity quadrant. What does it mean?

Response 1: It has important business relevance.	**Go to:** Scene 12 (Re-interpret the matrix and try again.)
Response 2: It has insignificant business relevance.	**Go to:** Scene 13
Response 3: It has essential business relevance.	**Go to:** Scene 12 (Re-interpret the matrix and try again.)

Scene 13

Which topic is placed in between the essential and important business relevance categories?

Response 1: Social responsibility.

Go to:
Scene 13 (Let's try again!)

Response 2: Diversity and equal opportunities.

Go to:
Scene 14

Response 3: Working conditions.

Go to:
Scene 13 (Let's try again!)

Scene 14

Can you identify some of Loacker's key stakeholders?

Response 1: Suppliers.

Go to:
Scene 14 (Is this the only one?)

Response 2: Owner family.

Go to:
Scene 14 (Is this the only one?)

Response 3: Both.

Go to:
Scene 15

Scene 15

Thank you. We can start exploring the contents and their relevance to EU sustainability reporting mandates.

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Module 2
Sustainability information production and regulation

Unit 2.2
SOCIAL AND ENVIRONMENTAL IMPACT MEASUREMENT

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

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List of acronyms

- BACO – Best available charitable option
- CSRD – Corporate Sustainability Reporting Directive
- DSDG – Division for Sustainable Development Goals
- ESRS – European Sustainability Reporting Standards
- EVPA – European Venture Philanthropy Association
- GRI – Global Reporting Initiative
- GSDR – Global Sustainable Development Report
- HLPF – High-Level Political Forum for Sustainable Development
- IAEG-SDGs – Inter Agency and Expert Group on SDGs
- IFRS – International Financial Reporting Standards
- KPI – Key performance indicator
- MDGs – Millennium Development Goals
- OECD – Organisation for Economic Co-operation and Development
- OWG – Open Working Group
- QQT – Quality, Quantity, Time
- REDF – The Roberts Enterprise Development Fund
- SDGD Recommendations – Sustainable Development Goals Disclosure Recommendations
- SDGs – Sustainable Development Goals
- SMART – Specific, Measurable, Attainable, Realistic, Timely
- SROI – Social Return on Investment Measurement
- ToC – Theory of Change
- UN – United Nations
- UNDESA – United Nations Department of Economic and Social Affairs
- VNRs – Voluntary National Reviews

About this unit

Unit 1.1 explored the role that alternative forms of accounts, namely **sustainability accounting**, can have in redirecting human activities towards a more sustainable path. In this respect, Unit 1.2 focused on the main form of sustainability accounting that organisations practise nowadays, **sustainability reporting,** to make them accountable for their social and environmental impacts. As explained in Unit 2.1, sustainability reporting is subject to growing **regulation,** particularly in the European Union (EU), which mandates companies to publish sustainability information on an annual basis.

However, more developed forms of accounting are needed so that organisations can better account for their impacts on the environment and society. This Unit focuses on the concept of **social and environmental impact** and its **measurement**, with special attention to the notion of "change" in people's lives and societies and how the role of stakeholders —as receivers of the impact— is relevant in assessing organisational sustainable performance.

Specifically, this Unit explores the following aspects:

- The connection between the **SDGs and organisational social and environmental impact**.
- The **concept of impact** and the complexity of its understanding.
- The role of accounting in **measuring social and environmental impact**.

If you are one of those who think that we, individually and collectively, are having a significant impact on our planet, this unit is for you.

Intended learning outcomes and competences

At the end of this unit, you should be able to:

- Understand the connection between the SDGs and organisations' social and environmental impact.
- Understand the difference between the notion of impact and that of input/output.
- Distinguish between impact measures and other measures in reporting standards and in other approaches (i.e., SDGs).
- Critically evaluate existing social and environmental measures.
- Distinguish long-term effects and measurement tools.
- Build a mentality oriented towards ameliorating the status quo of sustainability measurement.

1. Sustainability Development Goals and organisational impacts

This section introduces the concept of social and environmental impact starting from the global debate regarding the impact that our economic system has on the environment and society. Following the description of the Sustainable Development Goals (SDGs) provided in Unit 1.1 and Unit 1.2, this section explains how they emerge as a result of an international agreement, how they can be applied at the global and national level (macro level), how they are related to the concept of social and environmental impact and how they can be translated at organisational level (micro level). Additionally, this section provides an overview of the limitations encountered in the application of the SDGs.

1.1. The emergence of the Sustainable Development Goals

As explained in Unit 1.1 and Unit 1.2, the **17 Sustainable Development Goals (SDGs)** are a group of 17 interrelated goals on social, environmental and governance issues that were established by the United Nations (UN) to fight poverty, protect the planet, and foster justice, peace, and prosperity (Bebbington & Unerman, 2018). They are at the core of the Agenda 2030 and represent an urgent call to action for all countries (both developed and developing), to work together globally. Unit 1.1 briefly **described the 17 SDGs** and their importance in guiding policymakers, including public policy entities, non-governmental organisations, and numerous public and private sector organisations (Bebbington & Unerman, 2018). Unit 1.2 provided a clear idea about the role played by SDGs in sustainability reporting giving some notions related to **Sustainable Development Goals Disclosure (SDGD) Recommendations** and their alignment with other relevant sustainability reporting frameworks (Adams et al., 2021).

In this Unit, we will help you understand why the SDGs approach aligns with the notion of social and environmental impact. To reach this goal we will firstly start with a brief introduction of the **emergence of the SDGs** in the global context.

The first discussion about the SDGs took place at the **Earth Summit** held in **Rio de Janeiro** in June 1992, when more than 178 nations endorsed the Agenda 21, a comprehensive plan of action to establish a worldwide partnership for sustainable development to enhance human lives and safeguard the environment (Scoones, 2007).

Later, in September 2000, during the **Millennium Summit** held at UN Headquarters in New York, the member states confirmed the adoption of **eight** Millennium Development Goals (MDGs) to fight extreme poverty by 2015.

This phase was followed by other occasions in which the UN expanded Agenda 21 and the Millennium Declaration by emphasizing multilateral collaboration. Among them, we recall: the **Johannesburg Declaration** on Sustainable Development and the Plan of Implementation held in 2002 and the United Nations Conference on Sustainable Development (**Rio+20**) held in Rio de Janeiro in June 2012. During the Rio+20, the document "**The Future We Want**" demanded the creation of an SDGs development

process. In response to this call, the **Open Working Group** (OWG) on Sustainable Development Goals was established by the UN General Assembly in January 2013. The OWG, which comprised delegates from UN member states, was tasked with drafting a complete list of SDGs dealing with the environmental, social, and economic aspects of sustainable development. The OWG unveiled its final plan in July 2014, which included 169 targets and 17 goals that addressed a broad range of topics, from combating poverty to addressing climate change. These objectives represented the aims and aspirations for sustainable development that were widely agreed upon worldwide.

In **September 2015**, the UN General Assembly came together at the **UN Summit in New York** to approve the SDGs as part of the 2030 Agenda for Sustainable Development. This step represented a major turning point in the global effort to solve urgent issues and move humankind toward sustainability (Costanza et al., 2016). From this moment on, the SDGs have been put into practice on a national, regional, and international scale to measure their progress and governments, international organisations, civil society, and the private sector have been collaborating to incorporate the SDGs into policies and programs.

Importantly, the emerging SDGs recognized that transitioning from the MDGs to the SDGs necessitated a shift from addressing goals in developing countries to identifying actions for all countries (both developed and developing) to move forward a more quickly cross-broader range of **interlinked goals** (United Nations Development Programme, 2016). Therefore, the SDGs design implies that each of the objectives and targets is dependent and influences one another, which means that progress on one is related to other goals and targets via causal links and feedback loops. This interconnectedness underscores the complexity and importance of the task at hand. Consequently, an integrated and systems-based approach to the SDGs is required to guarantee that this feedback is understood and handled.

Finally, countries will be better positioned to deliver the goals settled by Agenda 2030 if they **mutually share initiatives** to reduce the trade-offs between goals.

Nowadays, the annual **High-level Political Forum on Sustainable Development** serves as the primary UN venue for SDGs monitoring and assessment and the **Division for Sustainable Development Goals** (DSDG) of the United Nations Department of Economic and Social Affairs (UNDESA) provides substantive support and capacity-building for the SDGs and related thematic issues such as water, energy, climate, oceans, urbanization, transportation, science and technology, the **Global Sustainable Development Report** (GSDR), partnerships, and Small Island Developing States. The DSDG is critical in evaluating the UN system's implementation of the 2030 Agenda.

Activity: Do you remember the key milestones of the SDGs' emergence? (see "Unit 2.2 Activity 1")

1.2. The SDGs' content, targets, and indicators for impact

As defined before, the 17 Sustainable Development Goals (SDGs) operate as a global guideline to address crucial challenges such as poverty, gender equality, and environmental conservation. In this context, the identification and management of **social and environmental impacts** produced at local, regional, and national levels become essential. Indeed, the SDGs provide a framework that includes specific **impact indicators**, allowing progress toward objectives, such as reducing inequalities and safeguarding ecosystems to be assessed. Adopting organisational policies and practices that lead to such impacts not only supports the achievement of the SDGs, but also represents an imperative for building an equitable and sustainable future.

The following table provides an overview of how the social and environmental impacts can be measured at the national level according to the **Global indicator framework for the Sustainable Development Goals** developed by the **Inter-Agency and Expert Group** (IAEG-SDGs) and agreed upon at the 48th session of the United Nations Statistical Commission held in March 2017. The global indicator framework is complemented by indicators at the regional and national levels, developed by each Member State.

Table 1. Overview of the Global indicator framework for the SDGs.

SDG	Content	Target	Impact indicator example
1. No Poverty	Eradicating poverty in all its forms globally	Ending extreme poverty, reducing poverty rates, ensuring social protection systems, and achieving equal rights for all	1.2.1 Proportion of population living below the national poverty line, by sex and age
2. Zero Hunger	Achieving food security, improving nutrition, and promoting sustainable agriculture	Ending hunger, ensuring access to nutritious food, promoting sustainable farming practices, and supporting small-scale food producers	2.4.1 Proportion of agricultural area under productive and sustainable agriculture
3. Good Health and Well-being	Ensuring healthy lives and promoting well-being for all at all ages	Reducing maternal and child mortality, ending epidemics, ensuring universal health coverage, and promoting mental health	3.4.1 Mortality rate attributed to cardiovascular disease, cancer, diabetes, or chronic respiratory disease
4. Quality education	Ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all	Ensuring access to free and quality primary and secondary education, promoting vocational training, and achieving literacy and numeracy for all	4.4.1 Proportion of youth and adults with information and communications technology (ICT) skills, by type of skill

5. Gender equality	Achieving gender equality and empowering all women and girls	Ending discrimination and violence against women, ensuring equal access to education and economic opportunities, and achieving gender parity in leadership positions	5.6.1 Proportion of women aged 15–49 years who make their own informed decisions regarding sexual relations, contraceptive use, and reproductive health care
6. Clean Water and Sanitation	Ensuring access to clean water and sanitation for all	Achieving universal access to safe and affordable drinking water, improving water quality, and promoting sustainable water management	6.3.1 Proportion of domestic and industrial wastewater flows safely treated
7. Affordable and Clean Energy	Ensuring access to affordable, reliable, sustainable, and modern energy for all	Increasing the share of renewable energy, improving energy efficiency, and expanding access to modern energy services	7.2.1 Renewable energy share in the total final energy consumption
8. Decent Work and Economic Growth	Promoting sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all	Achieving full and productive employment, promoting entrepreneurship and innovation, and ensuring equal pay for work of equal value	8.6.1 Proportion of youth (aged 15–24 years) not in education, employment, or training
9. Industry, Innovation, and Infrastructure	Building resilient infrastructure, promoting inclusive and sustainable industrialization, and fostering innovation	Developing quality, reliable, sustainable, and resilient infrastructure, promoting inclusive and sustainable industrialization, and increasing access to information and communication technologies	9.c.1 Proportion of population covered by a mobile network, by technology
10. Reduced Inequality	Reducing inequality within and among countries	Empowering and promoting the social, economic, and political inclusion of all, regardless of age, sex, disability, race, ethnicity, origin, religion, or economic or other status	10.2.1 Proportion of people living below 50 per cent of median income, by sex, age, and persons with disabilities

11. Sustainable Cities and Communities	Making cities and human settlements inclusive, safe, resilient, and sustainable	Ensuring access to adequate housing, promoting sustainable transport systems, and reducing the environmental impact of cities	11.7.2 Proportion of persons victim of physical or sexual harassment, by sex, age, disability status and place of occurrence, in the previous 12 months
12. Responsible Consumption and Production	Ensuring sustainable consumption and production patterns	Achieving sustainable management and efficient use of natural resources, reducing waste generation, and promoting sustainable lifestyles	12.5.1 National recycling rate, tons of material recycled
13. Climate Action	Taking urgent action to combat climate change and its impacts	Strengthening resilience and adaptive capacity to climate-related hazards, integrating climate change measures into national policies, and promoting education and awareness on climate change mitigation and adaptation	13.2.2 Total greenhouse gas emissions per year
14. Life Below Water	Conserving and sustainably using the oceans, seas, and marine resources for sustainable development	Preventing marine pollution, conserving coastal and marine areas, and sustainably managing marine resources	14.5.1 Coverage of protected areas in relation to marine areas
15. Life on land	Protecting, restoring, and promoting sustainable use of terrestrial ecosystems, sustainably managing forests, combating desertification, and halting and reversing land degradation and biodiversity loss	Halting deforestation, restoring degraded land, conserving biodiversity, and combating desertification and land degradation	15.3.1 Proportion of land that is degraded over total land area
16. Peace, Justice, and Strong Institutions	Promoting peaceful and inclusive societies for sustainable development, providing access to justice for all, and building effective, accountable, and inclusive institutions at all levels	Reducing violence, promoting the rule of law, strengthening institutions, and ensuring access to justice for all	16.1.4 Proportion of population that feel safe walking alone around the area they live after dark

17. Partnerships for the Goals	Strengthening the means of implementation and revitalising the global partnership for sustainable development	Mobilising financial resources, enhancing technology transfer, and fostering partnerships for sustainable development	17.1.2 Proportion of domestic budget funded by domestic taxes

Source: Adapted from https://unstats.un.org/sdgs/indicators/indicators-list/

Nowadays, the SDGs are being implemented at the national level in most nations. In 2016 and 2017, 66 nations submitted **Voluntary National Reviews (VNRs)** to the **High-Level Political Forum for Sustainable Development (HLPF)** to report on their success in the first 18 months of implementation (Allen et al., 2018). Moreover, developed nations have produced assessments and studies on their progress toward the SDGs (McArthur & Rasmussen, 2017; Weitz et al., 2015), providing new tools to be adopted in both developed and developing countries.

Activity: Why are the SDGs crucial for sustainable impact? (see "Unit 2.2 Activity 2")

1.3. Transitioning from the macro level to the micro level of the SDGs

Organisations play a key role in pursuing the SDGs at national and global levels. As mentioned before, the Millennium Development Goals (MDGs) aimed to develop measures to aid the development of the world's poorest countries, have been strongly criticised for producing insufficient outcomes because of state inequality. To avoid a similar shortage, the SDGs were introduced through the direct **engagement of the organisational sector** in the definitions of goals and targets (Sachs, 2012; McArthur & Rasmussen 2017). However, the corporate sector's reaction to this call to action was hampered by their diverging perspectives on sustainability (Le Blanc, 2015). A thorough understanding of the business sector's contribution to sustainable development necessitates considering the various factors that influence firm behaviour, such as corporate governance, non-financial regulation, and the external environment (Pizzi et al., 2020). Furthermore, the participation of developed nations in the Agenda 2030 complicates the design of an effective and shared strategy due to **differing stakeholder expectations of organisational actions** (Scheyvens et al., 2016).

Broadly speaking, the introduction of the SDGs framework has produced two main issues at the organisational level (Bebbington et al., 2017; Bebbington & Unerman, 2018):

- The need to encourage businesses to adopt a more **sustainable behaviour**.
- The need to introduce **new and creative impact metrics** to assess the social and environmental impact produced at the organisational level.

The integration of the SDGs within organisations highlights the urgency to reconsider the traditional accounting paradigm, which has concentrated on economic and financial revenues, and calls for alternative measurements to evaluate the **social and environmental impact at the organisational level**. To analyse, understand, and monitor the total impact generated by an organisation and thus, evaluate its success in pursuing the SDGs, we must include social, economic, and environmental components into each of the 17 suggested objectives and emphasise the long-term consequences of organisational activities. This perspective requires the intersection of academic disciplines, theories, professional practices, and policies (Bebbington et al., 2017).

Furthermore, **localization efforts** by **regional** and **local actors** are necessary to translate the SDGs from the macro level (i.e., national, regional) to the micro level (i.e., local, organisational). Local entities are uniquely positioned to adapt and tailor global goals to their specific contexts, ensuring that initiatives resonate with local needs and priorities. Localization efforts enable the identification of specific challenges that may not be apparent at a national or global level, allowing for the development of targeted strategies that address these issues effectively. Regional and local actors can leverage community engagement, fostering a sense of ownership and accountability among residents, which is essential for the sustainability of development initiatives. Moreover, localizing SDGs can lead to innovative solutions that reflect the diversity and complexity of local environments. This **bottom-up approach** not only ensures that no one is left behind but also strengthens the overall framework of the SDGs by highlighting the importance of context-specific strategies. In sum, the localization of SDGs by regional and local actors is indispensable for achieving sustainable development.

Focusing on the **financial sector**, the OECD (2019) underscores the transformative impact of Agenda 2030 on global investor markets, calling for an ambitious financing strategy for sustainable development with the aim of:

- Mobilising and catalysing **innovative resources**, both public and private, domestic, and international.
- Promoting **social and environmental impact** in addition to monetary returns.

Within this framework, OECD (2019) identifies four pillars for the "impact imperative" in the financial sector, which seeks to better steer investment for sustainable development in the following ways:

- **Ensuring that funding is directed where it is most needed.** For far too long, financial resources have been directed into "normal" industries, leaving less lucrative areas behind. The OECD (2019) promotes the development of thriving local financial markets by supporting commercial finance using blended finance models.
- **Use creative techniques to achieve the SDGs.** The public and commercial sectors should work together to innovate and enable the creation of environments that catalyse innovation and experimentation. Additional

finance is insufficient to address the SDGs' difficulties; a more effective and efficient strategy is required.

- **Resolving data and measurement difficulties.** The OECD advocated transparent and standardised data sharing to coordinate efforts in defining and implementing data standards, as well as building links across existing data platforms. Building on the OECD mapping project, a subset of relevant transaction-based indicators was developed to provide a worldwide reporting system that incorporates financial and effect data.
- **Evaluating the social, environmental, and economic impacts of public initiatives.** The so-called policy imperative necessitates an ex-post assessment of policy initiatives' social and environmental results to prevent the "impact" review from becoming a futile activity.

These four pillars will guarantee that the financial sector will produce a tangible impact resulting from collaborative work. This perspective aligns with the regulatory development promoted by the EU.

Activity: How can we go from the national level of the SDGs to the organisational level? (see "Unit 2.2 Activity 3")

1.4. The challenges of assessing SDGs at the micro level

Despite all work and advancement, the SDGs are still deemed ambiguous (Hàk et al., 2016), and their achievement continues to pose significant challenges in terms of quantification, implementation, and monitoring. In this respect, although a set of indicators was developed for their targets at the macro level (Turner, 2005), their **application at the micro level is yet problematic** (Swain, 2018).

This issue has led to a new stream of research that supports the creation a **process framework** for assessing the SDGs at **macro level** that begins at the **micro level** (Costa & Pesci, 2016). This new process framework should aid the resolution of challenges connected to the SDGs application at the organisational level and should prioritise information demands of organisational stakeholders, evaluate organisational goals, and provide appropriate measuring instruments. Furthermore, this new process should evaluate the **interplay** of sustainable challenges at both the local and macro level.

Such a new process framework should first analyse the social and environmental impact produced at the micro level (i.e., organisational) and then move to the macro level. To do this, it is important to produce **social and environmental measurements** at the micro level that go **beyond financial assessment** and provide evidence supporting that social and environmental impacts meet the objectives of many stakeholders with varied interests. Therefore, social, and environmental impact measurements should place **stakeholders at the center** of the disclosure process to meet their information demands (Costa & Pesci, 2016).

Additionally, a **single and uniform method** to measure social and environmental impact of an organisation encounters various obstacles (OECD, 2015) due to the difficulty in meeting diverse organisational information demands connected to distinct organisational aims. As a result, to offer meaningful measures, it is critical to consider the aim to be attained by the organisation as well as the many stakeholders involved.

In sum, to create a new process framework for assessing the SDGs it is important to operate at the local level to (Costa & Pesci 2016; Costa 2021):

- Satisfy the demands of **multiple stakeholders**.
- Build measuring procedures, systems, and tools that fit with the **diverse interests** of organisational stakeholders.
- Develop **new forms of measurement**.

These requirements can be supported through social and environmental impact measurement studies at the micro level (which will covered later in this Unit) to facilitate the SDGs implementation.

The process framework, as developed by social and environmental impact studies, is designed to operationalize impact measures at the micro level. It is based on frameworks that prioritize stakeholders' information needs about organizational activities. This measuring toolkit is not a one-size-fits-all solution, but a flexible approach that responds to the diverse needs of different stakeholders. The same process framework can be used at the micro level to establish SDGs indicators. It is crucial that the demands of multiple stakeholders, as well as the balance of environmental concerns, are at the core of a process framework designed at the micro level, considering the unique informational requirements of stakeholders and the development goals involved.

Finally, while designing SDGs measuring process frameworks, it should be important to examine the challenge of **merging the macro and micro levels**. Therefore, we should combine social and environmental impact measurement concepts into SDGs to create a process framework that can be utilized at the micro level while also considering macro-level implications. This approach should prioritize stakeholders' information demands, evaluate corporate goals, and provide appropriate measuring instruments. Furthermore, this process framework must evaluate the interplay of several sustainable challenges at both the local and macro levels.

The concept of **social and environmental impact measurement**, building specific sets of metrics at organisational level, has the potential to inspire the development of SDGs measures.

For this reason, in the following section, we will define social and environmental impact and then explain how it is measured at the organisational level using a **stakeholder engagement approach**.

Video: SDGs: from macro to micro (Link)

Case study: SDGs: From macro to macro (see "Unit 2.2 Case Study 1")

2. Social and environmental impact

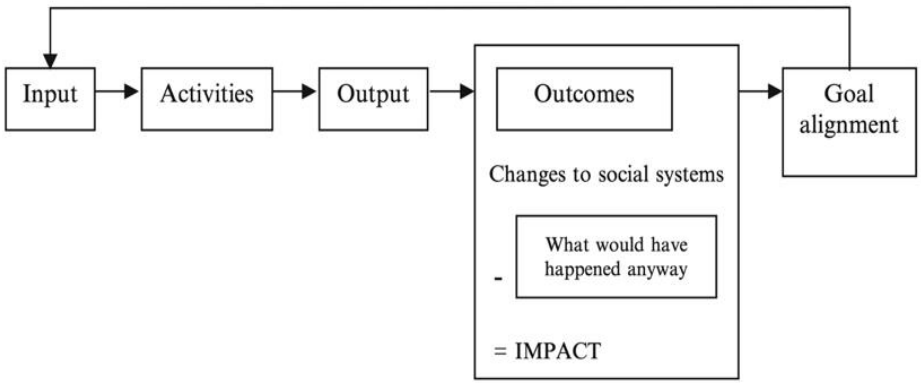
The previous section provided an overview of the significance of translating the SDGs from a macro to a micro level and highlighted the challenges of this passage. This section goes a step backward by reflection on the meaning of social and environmental impact, the difficulties of its **definition** and the complexity of distinguishing social impact from environmental impact. It introduces the concept of **Theory of Change (ToC)** as the foundation for the definition of social and environmental impact. Finally, it also discussess the connection between social and environmental impact and sustainability accounting describing its role p in organisational **accountability**. All in all, this section provides a critical reflection on the concept of social and environmental impact to avoid the risk of generating potential "**impact-washing**" (Alvesson & Blom, 2022).

2.1. What does social and environmental impact mean?

The notion of impact through the impact value chain method

Despite the growing interest in assessing the social and environmental impact of organisations, there is still confusion surrounding this concept, particularly as a unified definition is difficult to achieve (Gibbon & Dey, 2011; Maas & Liket, 2011; Rawhouser et al., 2019). This concept is commonly associated with different words and concepts, such as "impact", "output", "effect", "outcome", and "social and environmental return on investment". However, although these terms have been used interchangeably, they refer to distinctive concepts. To address this problem, the **impact value chain method** (see Figure 1) allows us to distinguish what social and environmental impact means compared to other related notions, such as inputs, activities, outputs, and outcomes (Clark et al., 2004).

Figure 1. Impact value chain method.



Source: Adapted from Clark et al. (2004)

The impact value chain has been pushed by the "**theory-driven assessment**" technique, in which organisations evaluate how different programmes and initiatives create desired or observed results and impacts. This method defines the impact value chain as a "**logic chain of results**" in which organisational inputs (e.g., money, staff time, capital assets) are used to support activities and outputs (e.g., health care, education, job training, etc.) that eventually lead to generating outcomes and impacts (Clark et al., 2004).

As Figure 2 shows, the impact value chain consists of **five stages** that address every facet of a programme or initiative, from the resources employed as inputs to the results it produces for the populations participating in its activities.

- **Inputs** are all human, financial, and material resources that contribute to the realisation of an initiative.
- **Activities** are all the activities and services offered (e.g., health services, schooling, job training, etc.) by an organisation during the implementation of an initiative.
- **Outputs** are the immediate product of the initiative's actions.
- **Outcomes** are all the changes, benefits, learning, etc. resulting from the initiative.
- **Impacts** are all the attribution of an organisation's initiative to broader and longer outcomes.

The definition of these stages of the impact value chain underscores the difference between input-activities-output by assessing organisational performance and outcome-impact, which relate to the monitoring of organisational change. Particularly, the distinction between outputs, outcomes, and impact is a critical component of this holistic approach which allows the identification of the organisation's contribution to social and environmental change. On the one hand, the outputs can have many **short-term**, consequences and changes, such as the improvement of knowledge and skills (e.g., Clark et al., 2004; Grieco et al., 2015; Maas & Liket, 2011). On the other, short-term advantages and improvements produced by outputs can have a **long-term** influence on society and the environment (Clark et al., 2004; Costa & Pesci, 2016; Ebrahim & Rangan, 2010). The long-term influence differentiates the concept of impact from the other stages of the impact value chain.

> The **concept of impact** can be defined as the long-run results of an organisation's activity in terms of economic, environmental, and societal change (Ebrahim & Rangan, 2010; G8 Social Impact Investment Task Force, 2014; Arena et al., 2015).

An example of the impact value chain method

An example of the application of the impact value chain is provided by the PROOFS project implemented in the northwest and southwest regions of Bangladesh in 2013

(Varga & Rosca, 2018). The PROOFS project results from a Public-Private-Partnership (PPP) aiming to improve the lives of 80,000 rural households living under the poverty line. The project was designed to support the smallholder families in their agricultural activities, develop their access to water and sanitation and improve their hygiene and nutrition status. Figure 2 provides examples of the PROOFS project to understand the distinction between the notion of impact from the other stages of the impact value change, among input, output, outcome and impacts.

Figure 2. Impact value chain of PROOFS project.

	PROOFS
Main goal	Education and distribution of nutritious food products to rural households
Input, activities and outputs – intermediary interventions	Enterprise development: market research, strategy development, project implementation support, connecting and engaging companies in nutrition sector, finding Dutch companies interested in piloting innovations in Bangladesh Supply chain development: support in the development of the door-to-door distribution model, recruitment and selection of local partners, training provision for women, educational group sessions, and integration of behavioral change tools in the distribution model Market development: educational group sessions, counseling sessions at household level, development and implementation of innovative tools to foster behavioral change, connecting local with global partners
Outcomes	Increased awareness on basic hygiene and nutritional knowledge Improved acceptability of products
Impact	Improved dietary diversity, food adequacy, and others at household level Increase of income, social status and entrepreneurial skills for the women micro-entrepreneurs High number of people reached (scale)
Project-specific highlights	Importance of local presence Indirect information flows and a long chain of intermediary actors can create tension Difference between considering sales agents as intermediary actors or as beneficiaries

Source: Varga & Rosca (2018)

As the example highlights, input-activities-output are distinct from outcome-impact. While output may be counted from the standpoint of the organisation, the impact is measured from the perspective of the **organisation's stakeholders** (Kolodinsky et al., 2006). Accordingly, organisations might internally assess input-activities-output, whereas quantifying outcome-impact necessitates a **multi-stakeholder viewpoint** to incorporate external opinions and perceptions regarding impact (Costa & Pesci, 2016).

Assessing social and environmental impact

Due to the multi-stakeholder perspective that it requires, the notion of social and environmental impact necessitates a degree of subtlety which has resulted in the establishment of different techniques for defining what impact is and what is not. A first technique to define the concept of impact was provided in Figure 2, which interprets the impact produced by an organisation as "the portion of the total outcome that happened as a result of the activity of the venture, above and beyond **what would have happened anyway**" (Clark et al., 2004, p. 7). This technique uses the **counterfactual**

principle to analyse what may have occurred if the organisation had not performed the activity. Other similar techniques support this method since they aim to "isolate" the part of the impact caused by the organisations' unique intervention (Grieco et al., 2015).

Other techniques use the impact value chain to analyse the result and impact in a **broader sense**, rather than relying on counterfactual analysis. For example, it is possible to analyse the major advantages that organisations may provide, underlining the changes created by an intervention or activity on the community of interest (Ebrahim & Rangan, 2010). In this context, qualitative results are also considered in terms of well-being, such as improved living or health circumstances. Qualitative results under this technique include long-term repercussions on the organisation's core activities.

What differentiates these two viewpoints (the first more focused on counterfactual analyses and the second conceived in their broader sense) is the interpretation and application of the theory of change (Davies, 2018; Taplin & Clark, 2012), which will be covered later in this Unit.

Activity: What are the stages of the impact value chain method? (see "Unit 2.2 Activity 4")

2.2. Are social and environmental impacts two distinct concepts?

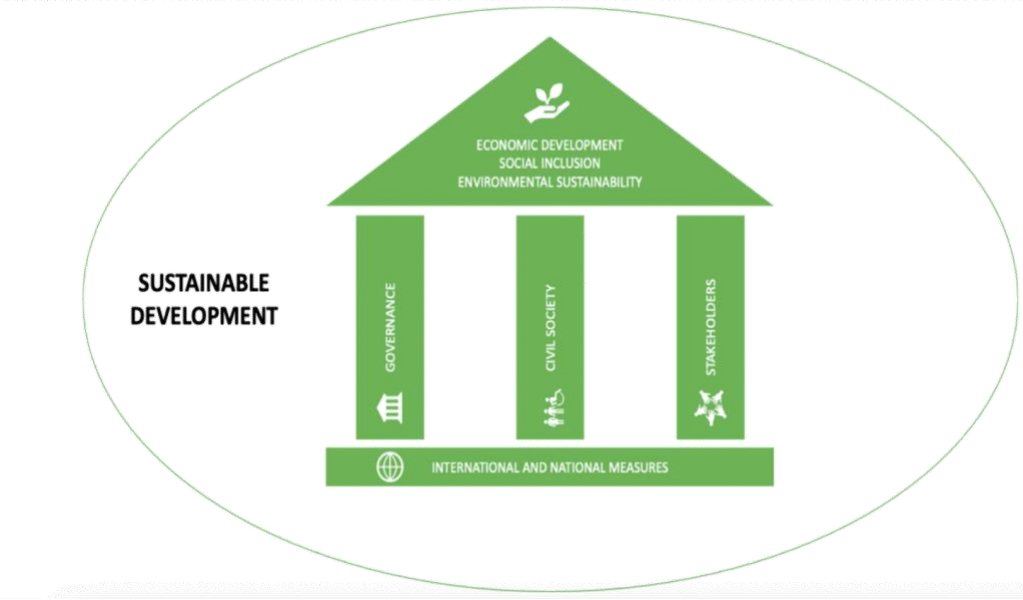
In the previous section, we considered the notion of impact. However, is it the same to talk about social impact and environmental impact? Can we assume that an impact produced at the social level has (or does not have) repercussions at the environmental level (and vice versa)? To answer these questions, it is necessary to disentangle the definition of social vis-à-vis environmental impact.

Social impact refers to beneficial outcomes resulting from a prosocial behaviour that are enjoyed by the intended targets of that behaviour and/or by the broader community of individuals, organisations, and/or environments (Stephan et al., 2016). This definition introduces social impact as a concept that refers to society in broad terms, encompassing environmental aspects as well.

Environmental impact is "an umbrella term that captures the essential idea of assessing proposed actions (from policies to projects) for their likely implications for all aspects of the environment, from social through to biophysical, before decisions are made to commit to those actions, and developing appropriate responses to the issues identified in that assessment" (Morgan, 2012, p.5). As the one of social impact, this definition of environmental impact underscores the linkage between social and environmental matters.

As already highlighted in previous units of this course, it is important to consider the intertwined nature of the social and environmental impacts of an organisation because we cannot achieve sustainable development without considering the interaction between the two (Figure 3).

Figure 3. Sustainable development system scheme.



Source: Bartiromo (2022)

Activity: Do you understand the meaning of social and environmental impact? (see "Unit 2.2 Activity 5")

Social and environmental impacts, sustainability reporting and stakeholder engagement

As covered in Units 1.2 and 2.1, **sustainability reporting frameworks** such as the European Sustainability Reporting Standards (ESRS), International Financial Reporting Standards (IFRS), and the Global Reporting Initiative (GRI) provide guidance on how to report on both social and environmental impacts should be to understand how organisations manage them. When combined, these frameworks improve the informativeness and comparability of sustainability information by offering meaningful disclosures about how organisations impact both the environmental and social domains.

However, organizational impacts cannot be mitigated by simply providing information on social and environmental impacts. It is essential to **engage stakeholders** in models of sustainable management. This entails finding appropriate stakeholders, having significant conversations with them, and using their perspectives to inform decisions. This kind of engagement promotes cooperation, openness, and ongoing development with stakeholders, bringing sustainability plans in line with a range of objectives. Aside from increasing the initiatives' **relevance and efficacy**, good stakeholder engagement fosters **trust** and inspires **creative** solutions that benefit a company and its stakeholders. Measuring social and environmental impacts is merely a corollary of adopting this holistic approach, which is crucial for creating robust and all-encompassing sustainability strategies.

Relating these micro-level effect assessments to a more comprehensive economic development model that is assessed via social and environmental prisms emphasizes the relationship between organizational behaviors and macroeconomic results. This holistic approach is essential for developing resilient and comprehensive sustainability practices that contribute to sustainable economic development.

Activity: Why is stakeholder engagement relevant for social and environmental impacts? (see "Unit 2.2 Activity 6")

2.3. Theory of change

The theory of change and social and environmental impact

The definition of social and environmental impact provided in the previous sections highlights how this concept relates to the changes in the status of society and the environment caused by an organisation's initiatives and operations. The **theory of change (ToC)** provides the foundation for this definition, describing how an organisation's initiatives and operations "causes the intended or observed outcomes" (Rogers, 2008). Particularly, this theory connects to the impact value chain method by helping link inputs (resources), activities (what the programme or initiative does), outputs (number of people, places, supports, activities produced), outcomes (changes), and impact (long-term change).

Although the use of the ToC to evaluate organisation's initiatives and operations is not new, its application has grown in recent years (Davies, 2018). Notably, the ToC allows assessing how and why an initiative works (Weiss, 1995).

> In other words, the **theory of change (ToC)** "is a rigorous yet participatory process whereby groups and stakeholders in a planning process articulate their long-term goals and identify the conditions they believe have to unfold for those goals to be met" (Taplin & Clark, 2012, p. 2). It can be tested empirically by measuring indicators for every step expected on the hypothesised causal pathway to impact.

As seen in this definition, the concept of impact is anchored in the ToC (Keystone, 2008; ActKnowledge, 2010), which refers to the causal logic expected to drive a long-run purpose. This approach to social and environmental impact definition focuses on organisations. It primarily affects the viewpoint of investors, who are interested in selecting among different options to financially support the activity capable of generating the highest social and environmental impact (Sadownik, 2013; G8 Social Impact Investment Task Force, 2014).

Graphical representations for the theory of change

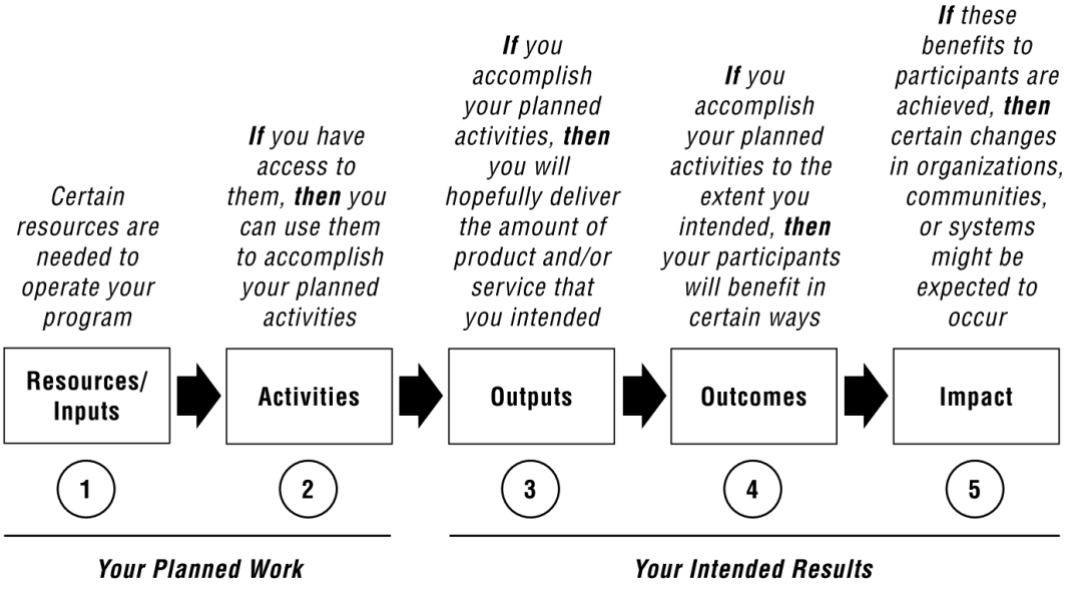
The ToC identifies an organisation's **long-term goals** and then goes backwards to identify improvements that must occur to ensure that they are achieved. Thus, the ToC encompasses both process and product (Taplin et al., 2013):

- In terms of **process**, the ToC is developed in collaboration with stakeholders and modified throughout the intervention development as well as the evaluation process. It involves an ongoing process of reflection to explore change and how it happens (James, 2011).
- In terms of **product**, the ToC adopts some form of diagrammatic representation, usually supported by a text commentary (Davies, 2018).

Following a ToC approach, the identified changes are mapped graphically in causal pathways of outcomes, showing each outcome in a logical relationship to all other potential results (Taplin et al., 2013). The adopted diagrams are capable of succinctly representing multiple and intersecting pathways and are often enriched with a narrative component (Davies, 2018).

Several **logic models** have been used in the ToC to depict a single, linear causal route, frequently with some variation on five categories (inputs, actions, outputs, outcomes, and impacts). For example, WK Kellogg Foundation (2004) issued a handbook on designing and utilising logic models, which has been highly influential (Figure 4).

Figure 4. An example of a simple logic model.



Source: WK Kellogg Foundation (2004, p. 3).

The contingency framework

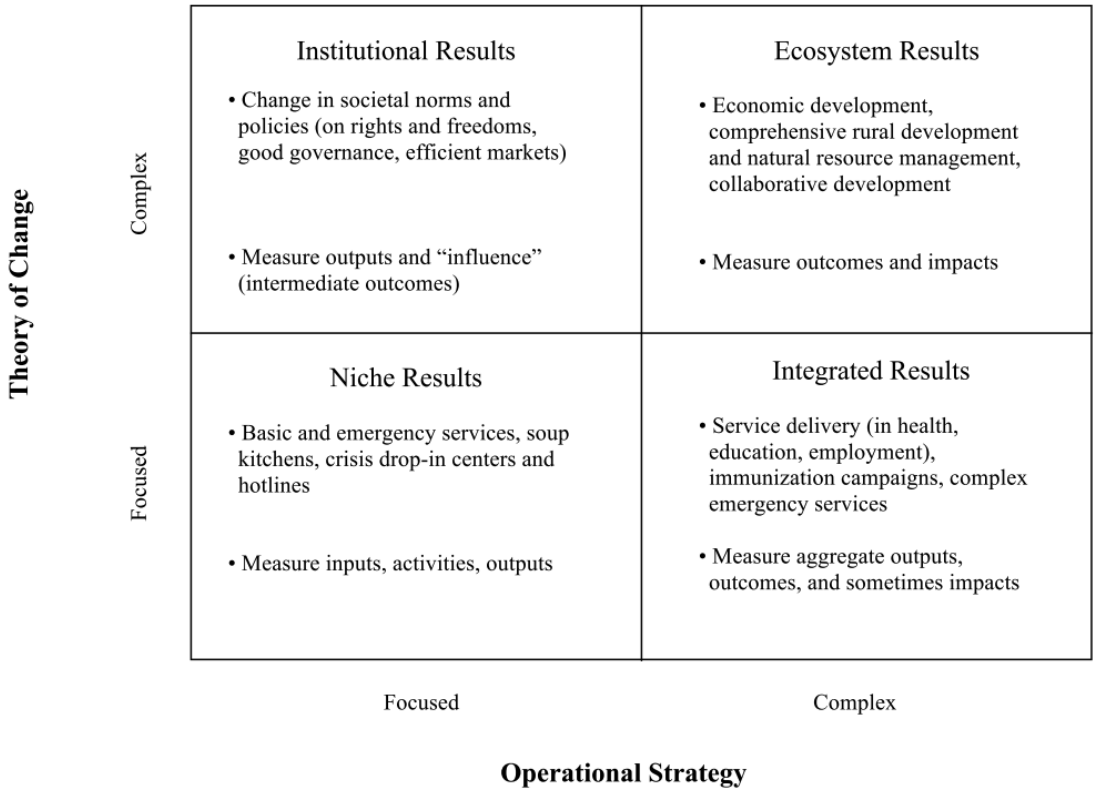
Another important contribution to the ToC is provided by the **contingency framework** (Ebrahim & Rangan, 2010). The contingency framework examines two

distinct approaches to ToC which considers different types of relationships between cause and effect (Figure 5):

- In a **focused theory of change**, the relationship between cause and effect is linear and clearly understandable.
- In a **complex theory of change**, the relationship between cause and effect is explained by multiple causal factors and, therefore, remains only weakly understandable.

As Figure 5 shows, the interaction between these two approaches to ToC and their connection to the organisation's operational strategy leads to the **assessment of different results** in terms of five elements of the impact value chain method that differ in their scope: niche results, institutional results, integrated results and ecosystem results (Ebrahim & Rangan, 2010).

Figure 5. Contingency framework for the ToC.



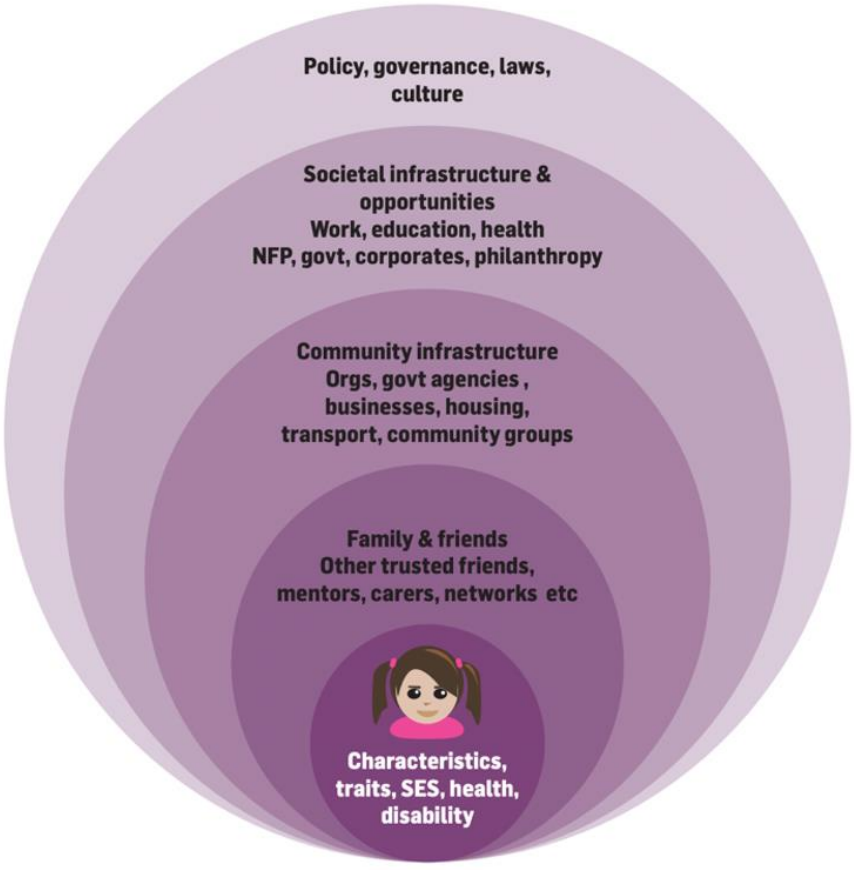
Source: Ebrahim & Rangan (2010, p. 52).

Applying the theory of change in organisational contexts

Applying ToC can be **challenging for some organisations**, especially non-profit organisations (NPO), as linking implemented programmes to their impacts can be difficult. Indeed, applying ToC for specific policies, programmes, projects, agencies, institutions, or corporations may be affected by wider contexts both within and outside the organisation (Schorr, 2012).

For example, the success of an organisation's initiative aimed at involving persons with disabilities in their team depends both on the organisation's investment and on external factors, such as family, geography, and other policies. Let's take the example of modifying the social outcomes of involving people with disabilities in a team (Figure 6). The system in which the employee lives is composed of numerous layers, each of which interacts with the others in a variety of ways, making less clear the understanding of the connection between the organisational programme and its impact. However, providing jobs to people with disabilities may be extremely complex in terms of the organisational activity, but it may be relatively simple in terms of "isolating" the portion of the change that can be attributed to a single intervention.

Figure 6. A practical application of ToC.



Source: Muir & Bennett (2014).

Another example is provided by organisational support for volunteering activities which are often more complex and impacted by a variety of factors, some of which are not fully understood and non-linear. Such activities and initiatives may include many diverse players, making it difficult to recognize the contribution of a single organisation to the aim pursued by the implemented activities.

These two examples highlight that organisations should focus more on change than merely on activities to establish **new methods** of depicting change as a reflection of more complicated and systemic understandings of development. Based on this premise,

some alternative imaginings of accounting have been proposed to develop social and environmental impact metrics to assist organisations in becoming more conscious of their influence (Costa & Pesci, 2016). The next sections will present an outline of how to quantify an organisation's social and environmental impact from an accounting perspective.

Activity: What type of results can be assessed based on the theory of change and the contingency framework? (see "Unit 2.2 Activity 7")

2.4. Social and environmental impact and accounting

Accounting can play a pivotal role in encouraging organisations (NPOs, companies, public administrations, governments, etc.) to consider their social and environmental impacts when they design and implement strategies and programme. Unit 1.1 reflected on how alternative forms of accounts, namely **sustainability accounting**, could help redirect human activities towards a more sustainable path. Also, Unit 1.2 showed how **sustainability reporting** can contribute to making organisations accountable for how they manage the environmental and social impacts, risks, and opportunities related to their activities. In this Unit we will focus on the importance of measuring social and environmental impact and the functionality of accounting in this respect. This is coherent with the urgency of global challenges and the increasing push for organisations to be more accountable for their impacts. Indeed, accounting can potentially influence organisations' **behaviour** and **decision-making** and promote trust.

In this scenario, accounting can serve as a means of:

- Coordinating and legitimising **inter-organisational relationships** and networks (Ferry & Slack, 2022). This is the reason why the concept of accounting has begun to expand into all fields such as public sector accounting, NPO accounting and social entrepreneurship. For example, in the NPO field, reporting practices and performance measurement can link funders and governments to NPOs, establishing the basis of accountability relationships between these different entities.
- Generating consequences for performance and impact within **internal organisational practices** (Chenhall et al., 2013, 2017). Sustainability accounting might create a positive social and environmental impact by, for example, capturing aspects of performance not assessed through more traditional accounting practices.

However, sustainability accountability for measuring social and environmental impact is a **hembig** concept (Alvesson & Blom, 2022). Hembig can be defined as a "scientific concept characterised by its broad scope and ambiguous meanings, which at the same time and somewhat paradoxically, through its dominance crowds out other less fashionable concepts or prevents the development of a more precise terminology" (Alvesson & Sandberg, 2020, p. 1292).

Particularly, this term is an acronym for a **hegemonic, ambiguous, big concept**. Specifically:

- **Hegemony** relates to gaining "cultural and/or linguistic dominance at the expense of other alternative expressions and vocabulary" (Alvesson & Blom, 2022, p. 59). The risk is that people become involved in this assume it is a given concept, and accept an agreement that masks potential issues and disputes. Following this definition, social and environmental impact is a hegemony concept because it is often used interchangeably with other terms as described previously (Killian & O'Regan, 2020). In this respect, social, and environmental impact would seem to have hegemonic status at the broad level, but when applied to specific concepts, it becomes controversial.
- **Ambiguity** refers to the "vagueness and uncertainty associated with multiple, incoherent meanings attributed to a phenomenon" (Alvesson & Blom, 2022, p. 59). It entails unresolved uncertainty and a lack of consensus on boundaries, clear guidelines, or effective solutions" (Alvesson & Blom, 2022). In this sense, the criterion of ambiguity in defining social and environmental impact in accounting becomes evident as it appears to have a diverse set of meanings and potentially even a lack of agreement on these.
- **Big** refers to "the unhelpful broad application and usage of the concept, simply covering 'too much'" (Alvesson & Blom, 2022, p. 59). Social and environmental impact in accounting, referring to a range of meanings, deals with this concept. The broad scope of this concept within research and practice is, perhaps, particularly evident in recent years as it is applied in different areas of accounting and in different ways.

A concept to be considered a hembig must score high on all three criteria: hegemonic, ambiguous, and big.

The problematization that results from considering sustainability accounting for measuring social and environmental impact as a hembig concept suggests that we should engage in more critical reflection on the concept and its use. Indeed, social and environmental impact in accounting could, without sufficient consideration, become an empty "catch-all" concept that covers everything but means nothing and can be hardly operationalized in concrete "strategies'' (Alvesson & Blom, 2022), with the risk of generating potential "**impact-washing**". Similar to "greenwashing", "impact washing" is the act of adopting the label of social and environmental impact without adequately generating and measuring it in accordance with investors' desire to allocate capital with reference to specific impact results. In this context, there might be a tendency to report positive information obscuring negative aspects (Higgins & Walker, 2012). Therefore, it becomes evident the need for accounting researchers and practitioners to use this concept with awareness and care.

Video: What does social and environmental impact mean? (Link)

Activity: What are the characteristics of a hembig concept? (see "Unit 2.2 Activity 8")

3. Social and environmental impact measurement

After reflecting on the meaning of social and environmental impact, this section covers technical aspects of how to measure it, offering a view on how to effectively evaluate organisations' social and environmental impact. Specifically, it focuses on the **importance**, the **process** and the **tools** for carrying out impact measurements. The section approaches these topics in a critical way, favouring social and environmental measurements that adopt **multi-stakeholder viewpoints** avoiding the construction of measures that mask the negative impacts of organisations.

3.1. Issues surrounding social and environmental impact measurement

Given the importance of social and environmental impact, funders, taxpayers, and the population have exerted pressure on managers to obtain more information regarding the social and environmental impacts generated by the organisations for over thirty years. Particularly, these actors seek to ensure that their financial allocations have a clear and concrete social and environmental impact. This pressure, coming from both inside and outside the organisation, has given rise to specialised professionals, such as auditors and evaluators (Hwang & Powell, 2009).

Particularly:

- **Inside** the organisation. It is important to measure the social and environmental impact for:
  a) Identifying strategic lines and criteria, more effective projects, critical factors, and areas to be enhanced.
  b) Supporting a constructive or corrective action if an activity has not achieved the budgeted results.
- **Outside** the organisation. It is important to measure the social and environmental impact for:
  a) Communicating to its stakeholders the actual effectiveness of its interventions by responding to stakeholder information requests.

However, speaking about social and environmental impacts is an increasingly urgent issue as there are currently no standardised and universal tools to measure them. Moreover, there is still confusion about what should be measured. Some types of companies should focus on short-term impacts while others should do it on long-term impacts.

In general, **five issues** surround the concept of social and environmental impact measurement: 1) the financial focus of widely applied methods, 2) causality, 3) temporal boundaries, 4) staff skills, and 5) the diversity of resulting measures.

- **Financial focus of widely applied methods.** Current methods for quantifying social and environmental impact include the ground-breaking work on social return on investment conducted by REDF (The Roberts Enterprise Development Fund), the benefit-cost ratios of the Robin Hood Foundation, the Acumen Fund's best available charitable option (BACO) methodology, and several others (Kramer, 2005; Tuan, 2008). However, these methods mostly focus on financial capital providers, using traditional measures of profitability ratios, such as internal rate of return or projected return, having an impact on these approaches. Thereby, these methods must be supplemented by new tools, including non-financial metrics, such as customers, internal processes, learning and growth (Kaplan, 2001; Kaplan & Norton, 1996).
- **Causality.** Impacts are likely to be influenced by a variety of factors and actors, and while attribution may be possible in certain interventions—like the provision of food, shelter, and job training—it is far less likely in complex programs, such as those focusing on civil and human rights. This lack of standards makes organisations, especially those where the social and environmental dimension is not of primary importance, reluctant to allocate resources to social and environmental issues since they cannot use benchmarks and struggle to adjudicate the impact they are causing. To try to understand the impact, it is necessary to understand what to measure. For some organisations, a good approximation can be provided by their type of service they provide in a specific situation. For example, for an organisation aiding in the case of a disaster, such as the Red Cross, an estimate of their social impact can be provided by the number of ambulance trips rather than the number of meals distributed to the poorest (Ebrahim & Rangan, 2010).
- **Temporal boundaries.** Even where the impact is clear, it is still difficult to determine the effect of this impact in the long term. This is particularly true for all those activities that do not involve physical and specific aids but rather services, such as free legal advice or psychological support. A very practical example to understand the connection between output and outcomes is the vaccine. A vaccine can solve a problem even in the long term, and it is well defined, and its impact can be quantified through the number of vaccines. Similarly, if an organisation plants trees, it is possible to determine its impact through the number of trees planted in a year. Determining a long-term measurement is, instead, much more complex. For instance, if an organisation provides psychological assistance to a person. Such a type of service is much broader and there are various stimuli from various directions (different from the service) that contribute to helping a person. In sum, given the difficulty of measuring long-term goals that may exceed their boundaries, organisations must address the dilemma between the need to demonstrate accountability and the temptation to attribute social and environmental impacts beyond their actual control.

- **Staff skills.** To effectively influence actions, social and environmental impact measurements require not only defining key indicators but also specific staff with specific skills and capabilities. However, these capabilities are often not adequately funded, creating a gap between the importance of performance measurement and the resources actually allocated for this purpose.
- **Diversity of resulting measures.** Social and environmental impact might be larger or lower depending on the method/metrics used to quantify it. This might be seen as a means of masking organisations' unsustainable conduct with legitimacy (i.e., the perceived or actual acceptance and approval of an entity's actions by relevant stakeholders or society) (Suchman, 1995). The tendency to choose between different methods creates a risk that cannot be avoided: organisations may opportunistically choose social and environmental impact measurements that result in demonstrating higher impact, regardless of their activity. The absence of a unique conceptualisation of social and environmental impact measures might be seen as a means of concealing unsustainable business activities.

Although the academic and practical debate has not yet determined a unified methodology to define how to measure the social and environmental impact of an organisation, in the following sections we will attempt to provide an idea of how to conduct a social and environmental impact measurement.

Activity: What is social and environmental impact measurement? (see "Unit 2.2 Activity 9")

3.2. Is there a unique and universal measure for social and environmental impact?

Different methods have been proposed for social and environmental impact measurement (EVPA, 2013; GECES, 2014). The existing methodologies can be grouped into **three broad categories** based on their approach (Clark et al., 2004).

The following table describes and gives an example of these three categories.

Table 2. Overview of existing methodologies for measuring social impact.

Method	Goal	Description	Example	Application
Process methods	Identify all the variables and factors leading to an initiative's outputs.	These methods monitor the efficiency and effectiveness of operational processes, measuring and comparing inputs, activities, and outputs. They are unable to provide an absolute measure of social return, that is, the final desired outcome (benefit). However, it is possible to draw an estimate of outcomes from outputs by calculating the extent to which the latter are related to the former.	Acumen Scorecard by McKinsey & Company (2001).	A solar energy firm can measure its impact using Acumen Scorecard. The scorecard could evaluate metrics (e.g., number of electrified households, reduced carbon emissions, created economic opportunities) to help investors gauge the organisation's contribution to sustainability and social welfare alongside financial returns.
Impact methods	Identify the outcomes of a project.	These methods identify and measure both the operational results (outputs) of an intervention and the resulting benefit (outcome). These measurements identify the impacts an initiative produces and are indispensable for capturing a project's social or environmental returns, which are difficult to describe in economic indicators.	Balanced scorecard by Kaplan and Norton (2001).	Using the Balanced scorecard, the financial goals would include revenue growth, customer perspective focused on satisfaction, internal processes aimed at operational efficiency, and learning and growth targeted employee training. The firm ensures comprehensive strategic alignment by monitoring key performance indicators in each area, fostering continuous improvement and sustainable success in a competitive market.

Method	Goal	Description	Example	Application
Monetization methods	Assign a monetary value to the outcome.	These methods involve a final stage of monetization of the generated impacts. The methodologies quantify social and environmental benefits and relate them to economic measures, such as operating costs and investments incurred. While they enable high comparability of the results to other traditional financial indicators, selecting financial proxies, which approximate the economic value of a good or service with no monetary value, is very complex.	Social return on investment (SROI) by the Roberts Enterprise Development Fund (Emersone et al., 2000).	Using the SROI method, an organization can firstly identify key outcomes of a social initiative (e.g., improved education or healthcare access). Then, it can quantify these outcomes in monetary terms, considering long-term effects. Based on this figure, it can calculate the ratio of social value compared to its related investment to make decisions on resource allocation for maximizing societal benefit.

Source: Adapted from Clark et al. (2004)

As mentioned above, the proposed forms of social and environmental impact measurement are usually an adaptation of financial accounting forms, which have limitations, ambiguities, and frictions in the creation of new forms of measurement (Molecke & Pinkse 2017).

In general, two alternative perspectives have been developed in impact measurement:

- **"One-size-fits-all"** social and environmental impact measurement, which might be adopted by all organisations (Pearce, 1988; Arvidson et al., 2013). This approach reflects the investor perception of desiring comparability and consistency in measurement (Best & Haji, 2013; Clark et al., 2004). This approach aligns with the standards used in financial accounting (Clark et al., 2004), as the supply of standardised financial measurements has always been the primary focus of financial accounting.
- **Tailored** social and environmental impact measurement, which apply common and shared criteria to define the most proper impact measurement for each specific case (Emerson, 2003; Nicholls, 2009). This approach supports the definition of tailored metrics to better highlight the various impacts of organisations by identifying specific metrics capable of capturing stakeholders' diverging perceptions (Costa & Pesci, 2016; Nicholls, 2009). This second underscores that effectiveness criteria must be chosen regarding the purpose of the measurement (e.g., to compare organisations for public purposes, to help investors choose among different investments,

etc.). This scenario provides flexibility as to which indicator to use so that the measurement stays suitable to the intervention and stakeholders' demands (GECES, 2014). In this approach, it is crucial to define and assess social and environmental impact, as well as to better understand the role of the multi-stakeholder approach in developing new micro-frameworks (Costa, 2021), defining specialised measures that can address the demands of the various stakeholders (Costa & Pesci, 2016; Nicholls, 2009).

However, both techniques face criticism because the can result in an "**accountability problem**" (Ebrahim & Rangan, 2010). On one hand, a "one-size-fits-all" approach cannot represent and assess the substantial consequences of every single organisation and its many stakeholders; also, a simple numerical indicator cannot convey the whole impacts of an organisation (Arena et al., 2015; Grieco et al., 2015). On the other hand, creating precise, personalised, and meticulous measurements may be non-comparable, subjective, and time-consuming (Bagnoli & Megali, 2011; Kanter & Brinkerhoff, 1981).

Despite their differences, both approaches might have a significant impact on negotiation processes and power dynamics among various players inside organisations and policymakers (Costa, 2021). The two approaches share the most significant issue identified in the context of social and environmental impact measurement: the accountability to numerous stakeholders and for diverse aims (Costa & Pesci, 2016; Ebrahim et al., 2014). Under these approaches, **stakeholders play an important role** in assessing the impact of various organisations to implement more complex, multi-directional, and multi-stakeholder performance measurement systems (Christensen & Ebrahim, 2006; Costa & Pesci, 2016).

Activity: Is it one-size-fits-all or tailored approach to impact measurement? (see "Unit 2.2 Activity 10")

3.3. The role of stakeholders in social and environmental impact measurement

As the previous section mentions, the **role of stakeholders** and **their engagement** processes is key in social and environmental impact measurement, and it has been debated over both the "one-size-fits-all" and the tailored perspectives. Indeed, one key aspect of accountability is the "to whom" question (Christensen & Ebrahim, 2006; Ebrahim, 2005; Williams & Taylor, 2013), which refers to the many stakeholders to whom organisations are accountable. Therefore, a **multiple-constituency theory** should be adopted in social and environmental impact measurement to avoid the inappropriateness of defining social and environmental impact metrics based on the perspective of a single stakeholder that cannot capture all the types of relevant impacts of an organisation (Costa & Pesci, 2016; European Economic and Social Committee, 2012). Rather, it seems more appropriate to consider different measurements for different stakeholders with diverse information needs.

This **stakeholder-based approach** is linked to the interplay between output and outcome/impact, which organisations can analyse and count in many ways. As a result, two distinct aspects of integrating stakeholders' views in measuring social and environmental impact arise:

- In terms of **process**, recognizing and identifying distinct stakeholders whom an organisation may affect is insufficient (Bengo et al., 2016). A stakeholder-based methodology used to quantify social and environmental impact must be based on stakeholder involvement rather than merely acknowledging the presence of many stakeholder views (Costa & Pesci, 2016). Such involvement should be built on a variety of consultative forums with stakeholders, with the goal of going beyond a multi-stakeholder, consensus-seeking strategy to develop metrics that adequately address stakeholders' requirements (Maas & Liket 2011; Sadownik, 2013). The stakeholder-based approach to social and environmental impact measurement should be conceived and carried out from the information user's perspective, considering the anticipated change and impact. In other words, the organisation should behave as an empathetic actor capable of guiding stakeholders in identifying potential repercussions and adjustments.
- In terms of **metrics**, the socially constructed character of social and environmental impact assessment necessitates a more specialised and customised approach to measurement, as there are no universal, golden measurements that can meet the demands of all stakeholders. It means that metrics should be adopted from a stakeholder viewpoint.

Hence, what is required to preserve a multi-stakeholder approach in social impact measurement? The following suggestions help to achieve this goal:

- **Adopting a user perspective.** Organisations should measure input-activity-output internally through consultation with diverse stakeholders and outcome-impact connections incorporating external perspectives and perceptions of the impact received (Kolodinsky et al., 2006).
- **Actively engaging stakeholders in all phases.** Stakeholder participation should be included in all stages of social and environmental impact measurement, not just in stakeholder identification and during the communication of the established indicators (Costa & Pesci, 2016).
- **Considering indirect stakeholders.** Organisations should consider who is affected, directly or indirectly, by the organisation's impact and empower these stakeholders to establish the metrics themselves.

Wrapping up, organisations should consult stakeholders, ask them how they see the impacts, and comprehend their perspectives. Then, based on these consultations, metrics shall be defined and adopted.

Using stakeholder perspectives as the foundation for social and environmental impact measurements reinforces the idea that measuring is a social activity, and hence

measurement criteria are socially constructed (Roberts & Scapens, 1985). Recognizing the **socially constructed nature of social and environmental impact measurement** supports the **tailored** and **customised** approach to social and environmental impact measurement, in which no universal or golden metrics are defined. Instead, these metrics and indicators emerge in the context of interactions between an organisation and the stakeholders affected by their activities and outputs. Therefore, in the following section, we will provide an overview of how to create tailored metrics for measuring social and environmental impact of an organisation.

Activity: How can stakeholders participate in impact measurement?
(see "Unit 2.2 Activity 11")

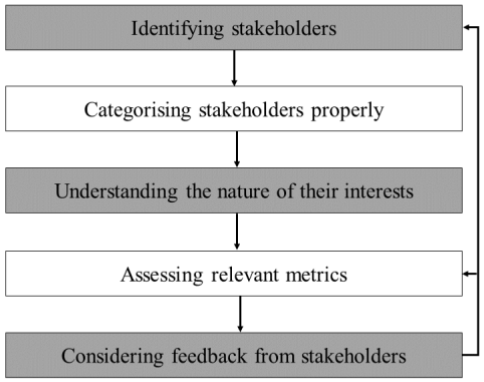
3.4. Developing a stakeholder-based approach

To develop tailored social and environmental impact measurements using a **stakeholder-based approach,** we should first consider that organisations operate in complex and multi-stakeholder environments and, as such, must implement a **social process of deliberative dialogue** with their constituencies (Christensen & Ebrahim, 2006; Edwards & Hulme, 1996). This situation emphasises the relational attitude of accountability (O'Dwyer & Unerman, 2008), as a changing concept based on the various power relationships that exist among multiple organisational stakeholders (Ebrahim, 2005).

Consequently, according to the multiple-constituency theory, social and environmental impact measurement can be viewed as a socially constructed concept in which every stakeholder shapes the perception of the organisation's impact (Herman & Renz, 1997). Each stakeholder has unique impressions of organisational impact depending on their connections with the organisation (Chan et al., 2014).

As a result, as the following figure shows, organisations should consider stakeholders' demands throughout the whole impact measurement process.

Figure 7. Five-step multiple-constituencies approach.



Note: The phases that engaged the stakeholders are highlighted in grey

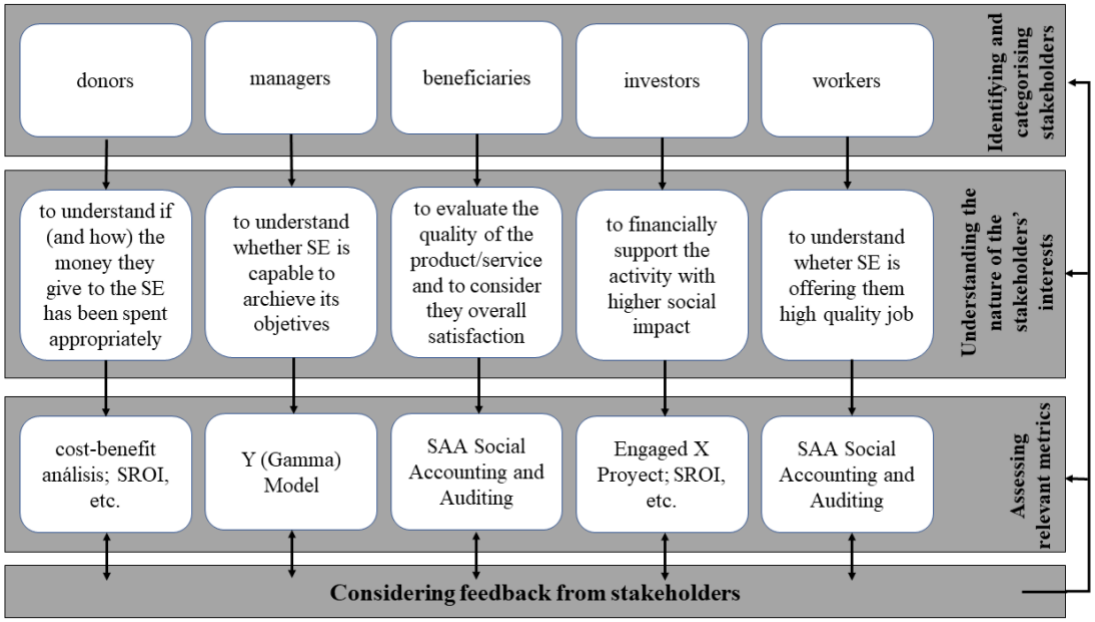
Source: Costa & Pesci (2016, p. 114).

According to this figure, **five steps** must be followed to apply a multiple-constituencies approach:

- **Identifying stakeholders.** The first stage is to discover whom the organisation affects and map these stakeholders to better understand their relationships (Sadownik, 2013). This work entails two major problems (Chan et al., 2014). First, this analysis depicts the organisation as a coordinator of different stakeholder groups. Second, the same stakeholder may have two or more connections with the organisation.
- **Proper categorisation of stakeholders.** Once stakeholders have been identified, it is unrealistic to expect the organisation to perceive the power, urgency, and legitimacy of all stakeholders' claims as equally important (Mitchell et al., 1997). Therefore, stakeholder salience can vary among constituencies. Indeed, a wide definition of stakeholders can be challenging to implement (Rixon, 2010) and may result in involvement burnout (Brown & Hicks, 2013).
- **Understanding the nature of their interests.** This phase seeks to identify the stakeholders' needs/and interests (Sadownik, 2013). Managers may value organisations for their effectiveness in achieving social, economic, and environmental goals, while beneficiaries/clients may prefer outcome measures to assess service/product quality, and employees/staff members may prioritise job quality measures (Andreaus & Costa, 2014). As a result, this phase must thoroughly assess the disparities among various stakeholders' views (Brown & Hicks, 2013; Rixon, 2010).
- **Assessing metrics.** This phase evaluates impact based on key stakeholders' indicated requirements. Metrics definition is not just the responsibility of a manager. Stakeholders can participate to help determine and validate impact measurement (Brown & Hicks, 2013).
- **Stakeholder feedback on the process and metrics.** To ensure accountability throughout the stakeholder-based process, organisations must continually participate in actively engaging stakeholders, allowing them to promote their own viewpoints and perceptions of the organisation's influence (Rixon, 2010).

The operative functionality of the five-step multiple-constituencies approach can be graphically summarised in the following figure:

Figure 8. Five-step-multiple-constituencies-approach.



Source: Costa & Pesci (2016, p. 116).

Different stakeholders, such as public investors, managers, employees, beneficiaries, and contributors, may have varying information requirements. As a result, an organisation should be able to use several approaches and indicators to measure social and environmental impact. For example, metrics required by public stakeholders, who function as "founders" may differ from those demanded by a private investor. A private investor may have personal interest in quantifying impacts, which can be stated in terms of interest, profit, or financial gain. Stakeholders' interest in evaluating impact extends beyond public or private investors. Organisations may provide information to a larger variety of impacted stakeholders, including workers, volunteers, consumers, suppliers, local communities, and other organisations. Therefore, impact measurements should not be specified exánte; rather, they should be determined by the breadth of measurement necessary for a **specific situation** (Chan et al., 2014).

Because there is a broad typology of stakeholders with varying relevance, it is important to select metrics that meet the information demands of major stakeholders. This decision should be the product of a **continuous debate** with stakeholders, not a unilateral decision made by the organisation. As a result, stakeholder engagement should occur not only at the end of the process (in the feedback stage), but throughout the entire measurement process via a continuous cycle of stakeholder identification, prioritisation, and involvement strategies (Bourne & Walker, 2005).

Engagement can take many forms, including information dissemination, survey participation, roundtables, and focus groups. It can even extend to more in-depth consultations in which stakeholders can influence the organisation by advancing their own proposals for the organisation's decision-making process (Friedman & Miles, 2006).

There are several aspects that organisations must consider when undertaking stakeholder engagement:

- Organisations must involve the "right" stakeholders by "agreeing on **methodologies** that ensure the inclusivity of engagement processes and that fairly represent the stakeholder group" (Brown & Hicks, 2013).
- Stakeholder management should balance **competing interests**, particularly when stakeholders represent diverse groups and cultures or wield uneven power and influence (Friedman & Miles, 2006).
- Organisation must assist the stakeholders in **understanding** the measurement.

In conclusion, by using multiple-constituency theory, the suggested **stakeholder-based method** can select a measure that best meets the demands of an organisation's stakeholders. A single "gold standard" of measurement will not, and cannot, capture all the significant consequences that diverse organisations' stakeholders may care about (Harlock, 2013).

This method avoids using social and environmental impact measurements to mask organisation **irresponsibility** (Christensen & Ebrahim, 2006; Edwards & Hulme, 1996; Williams & Taylor, 2013) furnishing the possibility for stakeholders to contribute to determining the most appropriate social and environmental impact.

Activity: What are the steps of a multiple-constituencies approach? (see "Unit 2.2 Activity 12")

3.5. The materiality analysis in social and environmental impact measurement

As discussed in Unit 1.2, the concept of **materiality** focuses on assessing the relevance of selecting specific relevant matters in relation to an organisation's sustainability-related performance when producing sustainability reports (Adams et al., 2021). The notion of materiality is also of relevance to decide what should be covered by the social and environmental impact measurements based on stakeholder's needs.

Specifically, as studied in previous units, materiality from an impact perspective is defined as all topics that can reasonably be considered important because they reflect the economic, social and environmental impacts of an organisation or because they are likely to influence stakeholder decisions and therefore potentially merit inclusion in reporting (GRI, 2022).

Materiality is relevant in social and environmental impact measurement because:

- Social and environmental impact measurement must be relevant and significant to the **organisation's mission, goals, and stakeholders** (Eccles et al., 2012). Thus, identifying material impacts allows organisations to focus on areas that are most important for their purpose and to their

stakeholders; hence, improving decision-making and accountability (Patten & Trompeter, 2003).

- Materiality might **differ depending on** each organisation's environment, stakeholder viewpoints, and industry standards (Gray, 2002). In this context, understanding materiality is critical for prioritising efforts and resources in social and environmental impact measurement.
- Materiality enables organisations to **better communicate** their impact to stakeholders, increasing trust and credibility (Deegan, 2002).

Despite its significance, materiality presents various obstacles in social and environmental impact measurement:

- **Subjectivity:** Materiality assessments rely on subjective judgements to determine substantial and meaningful consequences. Different stakeholders may hold opposing perspectives on materiality, resulting in disputes (Rasche & Kell, 2010).
- **Context of analysis:** Materiality assessment is complex in interrelated social systems, making it difficult to discern causal relationships between actions and outcomes (Lai et al., 2017).
- **Lack of rules:** Social and environmental impact measurement lacks defined parameters for assessing materiality, resulting in uncertainty and inconsistency (Grey, 2002).
- **Stakeholder diversity:** Organisations interact with a wide range of stakeholders, each with their own set of interests and goals, making it difficult to balance their views (Costa & Pesci, 2016).
- **Temporal scope:** Evaluating materiality necessitates the consideration of both immediate and enduring impacts. However, the protracted nature of social and environmental change poses challenges in achieving precise assessment (Bebbington et al., 2020).

To address materiality difficulties in social and environmental impact measurement, organisations might use the following strategies:

- **Engage stakeholders** in the measuring process to learn their perspectives and goals for material impacts (Costa & Pesci, 2016).
- **Conduct contextual analysis** to identify elements that influence materiality and modify measurement frameworks accordingly (GRI, 2022).
- **Define materiality levels** based on organisational aims, stakeholder interests, and industry standards (Farneti & Guthrie, 2019).
- **Ensure transparent reporting** on material impacts, including methodology, assumptions, and evaluation criteria (Patten, 2002).
- **Regularly evaluate materiality criteria** based on changing conditions and stakeholder input (Guthrie et al., 2017).

Materiality is a critical factor in social and environmental impact measurement, shaping how organisations priorities, appraise, and communicate their impact. Despite

the hurdles, organisations may effectively handle materiality by engaging stakeholders, doing contextual analysis, setting clear criteria, reporting transparently, and evaluating continuously. Otherwise, a failure in measuring substantial outcomes is troublesome, and incorporating irrelevant measures wastes resources. Therefore, it is crucial to establish a framework, as the one the following table shows, for determining materiality and tracking actions because keeping records of these judgements improves the transparency and dependability of evaluations.

Table 3. Using materiality to understand what to include in the measurement.

	Easy to measure	Difficult to measure
Material (significant and relevant) to a stakeholder group/ organisation	Measure	Explore how to measure
Not material (insignificant and irrelevant) to a stakeholder group/ organisation	Avoid measuring	Do not measure

Source: Muir & Bennett (2014).

By doing so, organisations may boost the credibility and efficacy of their social and environmental impact measurement. After identifying the **process** for conducting impact measurement, an organisation should proceed to discuss the **tools** that will be used. The next section will show how to operatively measure social and environmental impact by selecting proper KPIs.

Activity: What is the role of materiality in social and environmental impact measurement? (see "Unit 2.2 Activity 13")

3.6. The selection of KPIs

KPIs for social and environmental impact measurement

Proper key performance indicators (KPIs) and metrics are crucial for measuring social and environmental impact. These instruments can provide a common language for **communication** among stakeholders and track the **progress** toward individual outcomes or goals, indicating positive or negative changes over time (Muir & Bennett, 2014).

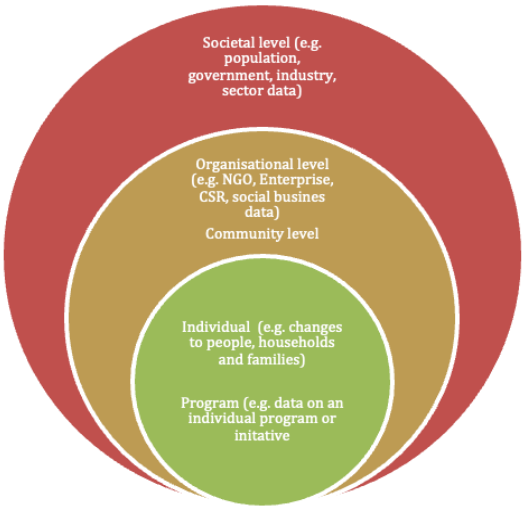
Indicators can vary based on:

- **What** is intended to be measured.
- **For whom** the measurement is expected to be used**,** considering the perspectives of stakeholders who have a material interest in an organisation's programme or intervention.

After engaging with diverse stakeholders and comprehending the pertinent metrics, an organisation can proceed to ascertain the **selection of indicators** that demonstrate absence, favourable, or adverse changes over time (Twersky et al., 2010).

Starting from the Theory of Change, an organisation should decide the foci of analysis (Zappalà & Lyons, 2009): at the person, programme, or intervention level (micro); at the organisational or community level (meso); and/or at the societal, sector, or industrial level (macro).

Figure 9. Micro, meso, and macro levels of change and measurement.



Source: Own elaboration.

Understanding the degree of measurement:

- Contributes to selecting **benchmarks and indicators**, as well as the validity of data comparisons (Productivity Commission, 2010).
- Helps **satisfy stakeholder demands** and establish clear expectations (Partridge et al., 2005).

Afterward, an organisation should select specific **indicators,** which may encompass qualitative or quantitative measures:

- **Qualitative indicators** examine how individuals, communities, and organisations see and experience the environment and society, typically via their own perspectives. These explanations are generally descriptive, fluid, relative, and subjective, aiding in understanding the "why".
- **Quantitative indicators** use numerical data to describe characteristics, such as quantity and frequency. They are systematic, based on theory/evidence, and often perceived as objective. However, they can also capture subjective responses like attitudes and feelings.

Criteria for selecting social and environmental impact KPIs

There are several criteria for designing indicators. To be effective, indicators should be **SMART** (Specific, Measurable, Attainable, Realistic, Timely) (Doran, 1981) or **QQT** (Quality, Quantity, Time) (UN, 2024).

Based on the SMART criteria, indicators should possess the five following features:

- **Specific.** Indicators should address a specific component of the intended impact. It should be plain and straightforward, with no space for interpretation. Instead of a generic statement like "improving education," an example of a specific indicator would be "increasing high school graduation rates by 10% in the target community".
- **Measurable.** Indicators should be measurable, allowing data gathering and tracking progress over time. This allows organisations to determine if they are getting closer to their goals. For example, if they aim to "reduce unemployment," a quantifiable indication would be to "decrease the unemployment rate from 15% to 10% within two years."
- **Attainable.** Indicators should be calculated based on reasonable expectations enable the possibility of being used for setting goals that are arguable feasible to be achieved. For example, if an organisation is a highly pollutant, “being net-zero next year” is challenging and may not be reasonable in such a short timeframe. An attainable indicator would be to “become zero by 2050”.
- **Relevant.** Indicators should align with the organisation's overarching aims and mission. For example, if an organisation's aim is to combat food insecurity, relevant indicators may include measures such as the number of meals supplied to needy families or the percentage of households with food security.
- **Time-bound.** Indicators should have a specific period for completion. This creates a feeling of urgency and responsibility, allowing stakeholders to monitor progress and make changes as needed. Instead of a broad aim like "increase community engagement", a time-bound indication may be "host monthly community forums for one year to increase resident participation by 20%".

In general, key features that indicators must have to successfully quantify social and environmental impact to ensure that the measuring process is appropriate are (UNDP, 2009):

- **Relevance to objective.** Indicators must be closely aligned with the measured objectives. Without context, indicators may fail to give significant insights into the efficacy of initiatives or programmes.
- **Specificity**. Indicators should be specific to what is being measured. This clarity helps to minimise ambiguity and ensures that the data appropriately reflects the desired feature of effect.
- **Sensitivity to change.** Indicators should be able to identify changes over time. Sensitivity guarantees that indicators can detect even small changes or improvements, allowing for prompt adjustments and informed decisions.
- **Reliability.** It is critical that indications come from reliable data sources. Indicators relying on faulty data sources may lead to incorrect findings and erode the measuring process's credibility.

- **Monitorability over time.** Indicators should be built to be continuously checked over time. Monitoring over time gives vital insights into the trajectory of impact, allowing for learning and development.
- **Practicality.** Indicators should be simple and cost-effective. Complex or expensive measuring procedures can be difficult to develop and maintain, particularly for resource-constrained organisations.

At the end, the comparison of the value of the change over time of the indicators to a starting point or reference value (better known as **benchmarking** - KPI) allows us to determine the impact produced.

Thus, when selecting or developing indicators it is appropriate to consider:

- The **frequency** of the measurement.
- Verifying the existence of a benchmark (e.g. EUROSTAT data) or, in case of absence, **defining a benchmark** at the starting point.

When common indicators are utilised and result data is identified and shared, outcomes may be compared at individual, organisational, group, sector, national and/or global level. Nevertheless, the potential for data comparison across various organisations should not overshadow the importance of considering the tailored construction of social and environmental impact measurements (Costa & Pesci, 2016).

Case study: Measuring the impact of an organisation (see "Unit 2.2 Case Study 2")

4. Concluding notes

This unit started from the SDGs approach to provide you with an example of an attempt to measure social and environmental impacts. Social and environmental impact is oriented toward the long run. Therefore, measurements connected to social and environmental impact should be directed to assess the effects of the actions undertaken by organisations over the long run. As such, the term impact that is used in many disclosure documents may be questioned: Are the required measures directed to assess impacts, or what else? In the impact measurement process, it is important to be aware of what we are trying to measure and why. It is essential to distinguish between impact and other possible measures because the judgement that results from these measures must be coherent with their meaning. If we are measuring sustainability matters referring to outputs, our judgement must be coherent with that. We should not use output measures as if they were impact measures because our judgement could be misleading.

Furthermore, in looking at a set of measures wishing to give information about impact, we should recognise the high complexity that their computation and the degree of integration to connect micro and macro measurement systems often entail. For example, the SDGs approach watches in the long run, but the targets over which they are built are based on aggregated data sets that do not imply that organisations

responsible for these results have used a social and environmental impact approach in evaluating their operations. The micro-organisational level is disconnected from the macro level. This disconnection hinders the achievement of SDGs. As seen in the previous unit, the Corporate Sustainability Reporting Directive (CSRD), instead, works at the organisational level, but despite the use of the term “impact” in its text, it mainly refers to outputs.

This unit is intended as the first step in approaching the deep and complex field of measuring sustainability. Social and environmental impact measures should be adopted at the organisational level to facilitate the achievement of sustainability goals that should become global. Moreover, technology (such as IoT, AI, blockchain, or GPS) could revolutionise the world of social and environmental impact measurement through precise data analysis, real-time monitoring, and automated reporting, improving transparency, stakeholder engagement and informed decision-making for sustainable development goals.

Nevertheless, the scenario of sustainability measures is complex and still ongoing. This situation calls for grasping this complexity to operate in the changing and challenging future of this discipline that aims to impact the future of the Planet.

Activity: Final test (see “Unit 2.2 Activity 14”)

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Additional materials

1.1. The emergence of the Sustainable Development Goals

- Video: The United Nations Sustainable Development Summit: 17 Goals to Transform Our World
  https://vimeo.com/151435077
- Video: What are the United Nations?
  https://www.youtube.com/watch?v=E67ln5yJtyE
- Video: Transitioning from the MDGs to the SDGs
  https://www.youtube.com/watch?v=5_hLuEui6ww&t=89s
- Video: Mobilising citizens of the world to achieve the 2030 Agenda
  https://www.youtube.com/watch?v=3E2gcvNvpm8&t=45s
- Link: UN website
  https://sdgs.un.org/goals

1.2. The SDGs' content, targets, and indicators for impact

- Video: The SDG Report 2023: Special Edition
  https://www.youtube.com/watch?v=zF361a019zA
- Video: UN Data Commons for the SDGs | Halftime
  https://www.youtube.com/watch?v=DL_trzE3PdE&t=57s

1.3. Transitioning from the macro level to the micro level of the SDGs

- Resource: SDG Indicators
  https://unstats.un.org/sdgs/indicators/indicators-list/
- Video: RICE Phase I Achievements and the UN SDGs
  https://www.youtube.com/watch?v=ud5cs_uDhs8

1.4. The challenges of assessing SDGs at the micro level

- Video: Bringing the SDGs to life: real change for real people
  https://www.youtube.com/watch?v=hhKIIQIyI6s
- Video: Leave no-one behind: a framework for the implementation
  https://youtu.be/jwiMg14B-cM?si=fMjolQHtwHOoVle2
- Resource: UN qualitative and quantitative monitoring of the compliance and achievement of the SDGs at macro and micro level
  https://unstats.un.org/UNSDWebsite/
- Video: Are the UN Sustainable Development Goal a SCAM?!
  https://youtu.be/6Y-jYFDumkc?si=bPmBf-jzc8725wWv
- Video: The SDGs issues and challenges
  https://youtu.be/T9fMy52MaHY?si=mw7Fx10m1hVyKJTs

2.1. What does social and environmental impact mean?

- Video: Decarbonising Global Value Chain
  https://youtu.be/hY8kuzvp6SQ?si=dbavw8e8xnaOgWv6
- Resource: Definition of impact according to GRI Standards
  https://www.globalreporting.org/standards/download-the-standards/

2.2. Are social and environmental impacts two distinct concepts?

- Video: What is sustainable development?
  https://www.youtube.com/watch?v=7V8oFI4GYMY

2.3. Theory of change

- Video: DIY Toolkit | Theory of Change
  https://www.youtube.com/watch?v=6zRre_gB6A4
- Webpage: Centre for Theory of Change
  https://www.theoryofchange.org/what-is-theory-of-change/how-does-theory-of-change-work/example/identifying-assumptions/

2.4. Social and environmental impact and accounting

- Webpage: Sustainability Accounting Standards Board
  https://www.sasb.org/

3.1. Issues surrounding social and environmental impact measurement

- Video: IAIA's Social Impact Assessment "What is Social Impact Assessment"
  https://youtu.be/UDWRJxc2_II?si=n-sJKnUrriEbzq6D
- Video: Introduction to EIA
  https://youtu.be/N7MpIVS8dQs?si=ni66FTV5FajUn0L9

3.2. Is there a unique and universal measure for social and environmental impact?

- Video: Sustainable development - How do we measure it?
  https://www.youtube.com/watch?v=-jnH9o8Ajd0

3.3. The role of stakeholders in social and environmental impact measurement

- Video: System Stakeholder Analysis
  https://www.youtube.com/watch?v=rLS9Gaocex4

3.4. Developing a stakeholder-based approach

- Video: Stakeholder Analysis and Engagement
  https://www.youtube.com/watch?v=XK0wkTx8h_4

3.5. The materiality analysis in social and environmental impact measurement

- Video: Stakeholder Capitalism | Ep 1 - Beyond GDP: Measuring What Matters | World Economic Forum
  https://www.youtube.com/watch?v=eKUq9bdQUNA
- Video: Stakeholder Capitalism: What Is Required from Corporate Leadership? | DAVOS 2020
  https://www.youtube.com/watch?v=P-q7fKHXTbo

3.6. The selection of KPIs

- Video: How do we measure happiness? World Happiness Report 2023
  https://worldhappiness.report/

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Unit 2.2
Social and environmental impact measurement

ACTIVITIES

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UNIT 2.2

ACTIVITY 1

FIND THE WORD

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	Do you remember the key milestones of the SDGs' emergence?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.2 Social and environmental impact measurement
Heading/subheading after which it should appear	1. Sustainability Development Goals and organisational impacts / 1.1. The emergence of the Sustainable Development Goals

1. Activity 1

- The user must read the description of the concept and indicate the word behind the concept. To do so, the user must select the letters that make up the word before the time runs out.

Word 1

Name of the summit where the Sustainable Development Goals were discussed for the first time in 1992.

Earth

Word 2

Feature of the Sustainable Development Goals that recognises their interactions.

Interlink

Word 3

Name of the goals that preceded the Sustainable Development Goals.

Millenium

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ACTIVITY 2

COMPLETE THE PHRASES

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	Why are the SDGs crucial for sustainable impact?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.2 Social and environmental impact measurement
Heading/subheading after which it should appear	1. Sustainability Development Goals and organisational impacts / 1.2. The SDGs' content, targets, and indicators for impact

2. Activity 2

3. The user has to select the correct words to complete the phrases correctly.

Text

The Sustainable Development Goals (SDGs) are a global call to action to eradicate poverty, safeguard the environment, and guarantee that everyone has peace and prosperity. They give a road map for governments, organisations, and individuals to collaborate for a better future. SDGs are critical in assessing the social and environmental **impact** of our actions. Setting specific objectives and indicators allows us to measure progress, identify areas for improvement, and hold governments and corporations **accountable** for their actions. One of the SDGs' primary strengths is its ability to handle interrelated concerns. For example, Goals 1 (No Poverty) and 2 (Zero Hunger) are inextricably related to Goals 3 (Good Health and Well-Being) and 4 (Quality Education). Addressing poverty and malnutrition can enhance health outcomes and educational access, resulting in long-term **social** and economic growth. Furthermore, the SDGs encourage a **holistic** approach to development. They understand that social, environmental, and economic concerns are intertwined and must be addressed **simultaneously**. In brief, the SDGs are an effective instrument for promoting positive **change** and sustainable development. By tracking our progress toward these objectives, we can guarantee that we are creating a more inclusive, resilient, and prosperous world for current and future generations.

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ACTIVITY 3

ENIGMA

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	How can we go from the national level of the SDGs to the organisational level?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.2 Social and environmental impact measurement
Heading/subheading after which it should appear	1. Sustainability Development Goals and organisational impacts / 1.3. Transitioning from the macro level to the micro level of the SDGs

3. Activity 3

Question 1

Level at which the SDGs are initially expected to operate in terms of assessing social and environmental impact.

Macro

Question 2

Level at which organisations operate in terms of assessing social and environmental impact.

Micro

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ACTIVITY 4

HIDDEN WORD

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What are the stages of the impact value chain method?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.2 Social and environmental impact measurement
Heading/subheading after which it should appear	2. Social and environmental impact / 2.1. What does social and environmental impact mean? / Assessing social and environmental impact

4. Activity 4

Question 1

Immediate product of the initiative's actions.

Output

Question 2

The attribution of an organisation's initiative to broader and longer outcomes.

Impact

Question 3

Change, benefit, learning, etc. resulting from the initiative.

Outcome

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ACTIVITY 5

COMPLETE THE PHRASES

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	Do you understand the meaning of social and environmental impact?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.2 Social and environmental impact measurement
Heading/subheading where it should appear	2. Social and environmental impact / 2.2 Are social and environmental impact two distinct concepts?

5. Activity 5

Distinguishing between social and environmental impacts is often challenging due to their **interconnectedness**. While social impacts primarily pertain to human **well-being**, environmental impacts concern the health and integrity of **ecosystems**. However, actions aimed at addressing one aspect often have **repercussions** on the other. For instance, a project focused on improving water access may positively impact community health (a social outcome) but could also affect local biodiversity (an environmental outcome). Consequently, it becomes increasingly difficult to disentangle these impacts and attribute them solely to one category. Hence, addressing sustainability comprehensively requires acknowledging and addressing the **intertwined** nature of and environmental impacts.

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ACTIVITY 6

WORD SEARCH

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	Why is stakeholder engagement relevant for social and environmental impacts?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.2 Social and environmental impact measurement
Heading/subheading after which it should appear	2. Social and environmental impact / 2.2 Are social and environmental impact two distinct concepts? / Social and environmental impacts, sustainability reporting and stakeholder engagement

6. Activity 6

Statement (no longer than 170 characters)

What elements does stakeholder engagement promote for managing social and environmental impacts?

Words (between 2 to 12 character long)

1. Efficacy
2. Relevance
3. Trust
4. Creativity

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ACTIVITY 7

PAIRS

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What type of results can be assessed based on the theory of change and the contingency framework?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.2 Social and environmental impact measurement
Heading/subheading after which it should appear	2. Social and environmental impact / 2.3 Theory of Change / Applying the theory of change in organisational contexts

7. Activity 7

Pair 1

Word: Institutional results

Image**:** A4GE U2.2 A7.1_image

Time**:** 15 seconds

Pair 2

Word: Ecosystem results

Image**:** A4GE U2.2 A7.2_image

Time**:** 15 seconds

Pair 3

Word: Niche results

Image**:** A4GE U2.2 A7.3_image

Time**:** 15 seconds

Pair 4

Word: Integrated results

Image**:** A4GE U2.2 A7.4_image

Time**:** 15 seconds

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ACTIVITY 8

SORT LETTERS

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	To which term does the definition refer?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.2 Social and environmental impact measurement
Heading/subheading after which it should appear	2.4 Social and environmental impact in accounting

8. Activity 8

Image: A4GE U2.2 A8_image

Question 1

Cultural and/or linguistic dominance at the expense of other alternative expressions and vocabulary.

Hegemony

Maximum time to solve the question: 15 seconds

Question 2

Vagueness and uncertainty associated with multiple, incoherent meanings attributed to a phenomenon.

Ambiguity

Maximum time to solve the question: 15 seconds

Question 3

A large number of more or less coherent meanings, which typically also leads to the concept being applied and used in a wide-ranging set of contexts and situations.

Big

Maximum time to solve the question: 15 seconds

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ACTIVITY 9

DOUBLE OR NOTHING

Sustainability Accounting Learning Platform
for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What is social and environmental impact measurement?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.2 Social and environmental impact measurement
Heading/subheading after which it should appear	3. Social and environmental impact measurement / 3.1. Issues surrounding social and environmental impact measurement

9. Activity 9

Question 1 (correct answer in bold green)

Which of the following definitions better reflects the concept of social and environmental impact measurement?

a. The process of quantifying an organisation's sales.
b. The evaluation of the social and environmental results of an organisation or initiative.
c. The monitoring of profits generated by an organisation.
d. The determination of the number of employees in a project.

Question 2 (correct answer in bold green)

Which option refers to one of the main objectives of social and environmental impact measurement?

a. To maximise company profits.
b. To assess the effectiveness of a programme or intervention.
c. To reduce an organisation's operating costs.
d. To increase the number of a company's customers.

Question 3 (correct answer in bold green)

Which option refers to one of the benefits of social and environmental impact measurement?

a. Responding to stakeholder information needs.
b. Increasing financial gains.
c. Improving employee satisfaction.
d. Reducing market risks.

Question 4 (correct answer in bold green)

How does social and environmental impact measurement help organisations internally?

a. By identifying strategic lines and effective projects.
b. By facilitating access to markets.
c. By increasing short-term profits.
d. By decreasing the focus on community well-being.

Question 5 (correct answer in bold green)

Which of the options best describes the problem of causality in social and environmental impact measurement?

a. The easiness to determine cause-and-effect relationships.
b. The identification of a process to establish cause-and-effect connections.
c. The difficulty to establish direct links between actions and outcomes.
d. Causality is not relevant for impact assessment processes.

Question 6 (correct answer in bold green)

Which of the options does not refer to one of the issues surrounding the concept of social and environmental impact measurement?

a. The financial focus of widely applied methods.
b. Temporal boundaries.
c. Staff skills.
d. The impact orientation of its process.

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ACTIVITY 10

ROULETTE

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	Is it one-size-fits-all or tailored approach to impact measurement?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.2 Social and environmental impact measurement
Heading/subheading after which it should appear	3. Social and environmental impact measurement / 3.2. Is there a unique and universal measure for social and environmental impact?

10. Activity 10

Question 1 (correct answer in bold green)

Indicate the approach for measuring homicide in the following terms: the number of homicides per 100,000 inhabitants in each geographical area and time.

a. **One-size-fits-all.**

b. Tailored.

Question 2 (correct answer in bold green)

Indicate the approach for measuring the Gross Domestic Product (GDP) in the following terms: the total value of all goods and services produced in a country over a given period, usually one year.

a. One-size-fits-all

b. Tailored

Question 3 (correct answer in bold green)

Indicate the approach for measuring carbon dioxide (CO2) emissions in the following terms: the amount of CO2 emitted into the atmosphere by human activities such as transport, industry, and energy production.

a. One-size-fits-all

b. Tailored

Question 4 (correct answer in bold green)

Indicate the approach for measuring waste recycling in the following terms: the percentage of waste produced that is recycled rather than landfilled, adapted to the local context and available infrastructure.

a. One-size-fits-all

b. Tailored

Question 5 (correct answer in bold green)

Indicate the approach for measuring a beneficiary satisfaction in the following terms: an indicator measuring the degree of satisfaction of the beneficiaries of a social programme or initiative, assessing their involvement, access to services and improved well-being.

a. One-size-fits-all

b. Tailored

Question 6 (correct answer in bold green)

Indicate the approach for measuring economic impact in the following terms: the analysis of the economic effects of an activity or initiative on a given geographical area, considering job creation, increased income, and local investment.

a. One-size-fits-all

b. Tailored

Question 7 (correct answer in bold green)

Indicate the approach for measuring employee diversity in the following terms: the percentage of women or minorities in the workforce or in leadership positions.

a. One-size-fits-all

b. Tailored

Question 8 (correct answer in bold green)

Indicate the approach for measuring water usage in the following terms: the amount of water consumed or withdrawn by an organization over a specific period.

a. One-size-fits-all

b. Tailored

Question 9 (correct answer in bold green)

Indicate the approach for measuring community health and well-being in the following terms: A local healthcare organization implements an impact measurement system to assess its impact on community health and well-being.

a. One-size-fits-all

b. Tailored

Question 10 (correct answer in bold green)

Indicate the approach for measuring biodiversity in the following terms: a conservation organization implements an impact measurement system to assess its impact on biodiversity conservation.

a. One-size-fits-all

b. Tailored

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ACTIVITY 11

WORD SEARCH

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	How can stakeholders participate in impact measurement?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.2 Social and environmental impact measurement
Heading/subheading after which it should appear	3. Social and environmental impact measurement / 3.3 The role of stakeholders in social and environmental impact measurement

11. Activity 11

Statement (no longer than 170 characters)

Identify the words related to the role of stakeholders in social and environmental impact measurement.

Words (between 2 to 12 character long)

a) Engagement
b) Tailored
c) Diversity
d) Empathy
e) User

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ACTIVITY 12

FROM HIGHEST TO LOWEST

Sustainability Accounting Learning Platform
for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What are the steps of a multiple-constituencies approach?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.2 Social and environmental impact measurement
Heading/subheading after which it should appear	3. Social and environmental impact measurement / 3.4. Developing a stakeholder-based approach

12. Activity 12

Question

Can you order the steps of a multiple-constituencies approach to impact measurement from the first step (the highest) to the last one (the lowest)?

1. Identifying
2. Categorising
3. Understanding
4. Assessing
5. Feedback

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ACTIVITY 13

DOUBLE OR NOTHING

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	What is the role of materiality in social and environmental impact measurement?
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.2 Social and environmental impact measurement
Heading/subheading after which it should appear	3. Social and environmental impact measurement / 3.5. The materiality analysis in social and environmental impact measurement

13. Activity 13

Question 1 (correct answer in bold green)

Materiality refers to the significance or importance of an impact in relation to the organisation's overall performance.

a. **True.**
b. False.

Question 2 (correct answer in bold green)

Materiality assessment helps organizations identify the social and environmental issues that are most relevant to their stakeholders.

a. **True.**
b. False.

Question 3 (correct answer in bold green)

Materiality is a fixed concept and does not change over time.

a. True.
b. **False.**

Question 4 (correct answer in bold green)

Materiality assessment is a one-size-fits-all approach that can be applied universally to all organisations.

a. True.
b. **False.**

Question 5 (correct answer in bold green)

Materiality considerations are only relevant for large corporations and not for small or medium-sized enterprises.

a. True.
b. **False.**

Question 6 (correct answer in bold green)

Materiality assessment involves identifying and prioritising social and environmental issues based on their potential impact on the organisation's ability to create value over the short, medium, and long term.

a. **True.**
b. False.

Question 7 (correct answer in bold green)

Materiality assessment is a static process and does not require regular review or updates.

a. True.
b. **False.**

Question 8 (correct answer in bold green)

Materiality is solely determined by internal factors and does not consider external stakeholder perspectives.

a. True.
b. **False.**

Question 9 (correct answer in bold green)

Materiality assessment helps organizations focus their efforts and resources on addressing the most significant social and environmental issues.

a. **True.**
b. False.

Question 10 (correct answer in bold green)

Materiality assessment is primarily focused on identifying risks rather than opportunities for the organization.

a. True.
b. **False.**

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ACTIVITY 14

QUIZ

Sustainability Accounting Learning Platform for a Green Economy

2022-1-ES01-KA220-HED-000089844

Title	Final test
Module	Module 2 Sustainability information production and regulation
Unit	Unit 2.2 Social and environmental impact measurement
Heading/subheading where it should appear	4. Concluding notes

14. Activity 14

Question 1

What is a key difference between the Millennium Development Goals (MDGs) and Sustainable Development Goals (SDGs)?

a. MDGs focused only on environmental sustainability, while SDGs address social and economic aspects as well.
b. MDGs were established by the United Nations, while SDGs were developed by individual countries.
c. MDGs were aimed at developing countries, while SDGs apply universally to all countries.
d. MDGs had a narrower scope with 8 goals, while SDGs have a broader scope with 17 goals covering a wider range of issues.

Question 2

Where did the Sustainable Development Goals (SDGs) originate from?

a. They were developed by a single organization.
b. They emerged from a series of global conferences in the 1990s.
c. They were created by the United Nations General Assembly in 2015.
d. They were proposed by a group of international NGOs.

Question 3

How are the Sustainable Development Goals (SDGs) related to the concept of impact?

a. SDGs have no relation to the concept of impact.
b. SDGs solely focused on environmental impact.
c. SDGs address social and environmental impact globally.
d. SDGs are only concerned with economic impact.

Question 4

What do the Sustainable Development Goals (SDGs) indicators measure?

a. Only economic growth.
b. Progress towards the sustainable development goals.
c. Political stability in developed countries.
d. Individual happiness and well-being.

Question 5

What are some challenges in transitioning from the micro to macro level in achieving the Sustainable Development Goals (SDGs)?

a. Lack of financial resources.
b. Limited stakeholder engagement.
c. Complexity of global issues.
d. All options refer to challenges.

Question 6

What are some challenges organizations may face when implementing the Sustainable Development Goals (SDGs) at the organizational level?

a. Lack of awareness about the SDGs.
b. Difficulty in aligning organizational goals with the SDGs.
c. Limited resources for monitoring and reporting on SDG progress.
d. All options refer to challenges.

Question 7

What is the role of stakeholders in measuring impact?

a. They provide occasional feedback.
b. They actively participate in data collection and impact assessment.
c. They should only monitor the final results.
d. They have no role in impact measurement.

Question 8

How are the Sustainable Development Goals (SDGs) interconnected?

a. They are mutually exclusive.
b. They are unrelated to each other.
c. They are interrelated and mutually reinforcing.
d. They are disconnected from each other.

Question 9

Which of the following statements describes a limitation of the Sustainable Development Goals (SDGs)?

a. They are too narrow and do not cover a wide range of global issues.
b. The SDGs lack specificity and are difficult to implement effectively.
c. There is no international consensus on the importance of the SDGs.
d. The SDGs do not address environmental sustainability adequately.

Question 10

Which of the following options best reflects the importance of global cooperation in achieving the Sustainable Development Goals (SDGs)?

a. Global efforts are unnecessary; individual countries can achieve the SDGs on their own.
b. Collaboration among nations is crucial to tackle global challenges and achieve the SDGs.
c. Achieving the SDGs solely depends on the actions of developed countries.
d. The SDGs are too ambitious, and global cooperation is not feasible.

Question 11

Which of the following best describes social and environmental impact measurement?

a. It is a method used to assess the financial performance of organisations.
b. It is a process of evaluating the social media presence of companies.
c. It is a technique for quantifying the effects of business activities on society and the environment.
d. It is a strategy for increasing employee productivity in the workplace.

Question 12

Which option increases the difficulty of distinguishing social impact from environmental impact?

a. Clear boundaries between social and environmental factors.
b. Consistent measurement methodologies.
c. Overlapping issues between social and environmental domains.
d. Limited stakeholder engagement.

Question 13

Which are the main differences between inputs-activities-outputs and outcomes-impact in the impact value chain?

a. Inputs focus on resources, activities on actions, outputs on immediate results, while outcomes relate to broader changes and impacts.
b. Inputs refer to outcomes, activities to inputs, outputs to outcomes, while impacts represent the results.
c. Inputs relate to impacts, activities to outcomes, outputs to inputs, while outcomes represent short-term changes.
d. Inputs are similar to outcomes, activities to impacts, outputs to activities, while impacts to results.

Question 14

Which option refers to the main difference between outcomes and impact?

a. **Outcomes refer to short-term changes, while impact relates to long-term effects.**
b. Outcomes are quantitative, while impact is qualitative.
c. Outcomes represent direct results, while impact refers to indirect consequences.
d. Outcomes focus on inputs, while impact focuses on outputs.

Question 15

Which of the following statements best describes the Theory of Change?

a. **It is a model that outlines the steps an organisation will take to achieve its goals.**
b. It is a framework used to evaluate the impact of social programs.
c. It is a method for calculating the return on investment in development projects.
d. It is a theory that explains the relationship between economic growth and social progress.

Question 16

Which term describes the practice of misleadingly overstating an organisation's positive impact?

a. Greenwashing.
b. Bluewashing.
c. **Impact-washing.**
d. Sustainability-washing.

Question 17

Which option refers to one of the negative consequences of impact washing?

a. **Loss of consumer trust.**
b. Increased brand reputation.
c. Improved stakeholder engagement.
d. Higher financial returns.

Question 18

Which of the following statements best describes qualitative and quantitative indicators?

a. Qualitative indicators are precise and numerical, while quantitative indicators are descriptive and narrative.
b. **Qualitative indicators are descriptive and narrative, while quantitative indicators are precise and numerical.**
c. Both qualitative and quantitative indicators measure the same aspects of an impact.
d. Qualitative indicators are more reliable than quantitative indicators in impact assessment.

Question 19

What role does social and environmental accounting play in accountability?

a. It ensures compliance with legal regulations.
b. **It enhances transparency and trust by disclosing information on social and environmental impacts.**
c. It minimises financial risks for organisations.
d. It maximises shareholder returns by focusing on profit generation.

Question 20

Why is it important to assess an organisation's impact from the perspective of stakeholders?

a. To ensure alignment with regulatory requirements.
b. **To enhance transparency and accountability.**
c. To solely focus on financial performance.
d. To reduce costs and increase efficiency.

Question 21

What does social and environmental impact measurement refer to?

a. Assessing financial performance.
b. Evaluating employee satisfaction.
c. **Measuring the effects of organisational activities on society and the environment.**
d. Calculating market share and brand value.

Question 22

What is the significance of measuring social and environmental impact within an organization?

a. To maximise shareholder profits.
b. To boost employee satisfaction.
c. To strengthen corporate reputation and trustworthiness.
d. To minimise operational expenditures.

Question 23

Which of the following options best describes SMART indicators?

a. Indicators that are vague and imprecise.
b. Indicators that are complex and difficult to understand.
c. Indicators that are specific, measurable, achievable, relevant, and time-bound.
d. Indicators that are static and unchangeable.

Question 24

What is the key difference between the "one-size-fits-all" approach and the tailored approach to social and environmental impact measurement?

a. "One-size-fits-all" is customisable while tailored is not, "one-size-fits-all" is universal while tailored is specific
b. "One-size-fits-all" is rigid while tailored is flexible, "one-size-fits-all" is general while tailored is customised.
c. "One-size-fits-all" is individualized while tailored is standardized, "one-size-fits-all" is adjustable while tailored is fixed.
d. "One-size-fits-all" is personalised while tailored is uniform, "one-size-fits-all" is adaptable while tailored is constant.

Question 25

What role do stakeholders play in social and environmental impact measurement?

a. They have no influence on impact measurement.
b. They provide financial support for impact measurement initiatives.
c. They contribute with their perspectives and expectations, shaping the measurement process.
d. They solely rely on organizations to measure impact.

Question 26

How can stakeholders be involved in social and environmental impact measurement?

a. By conducting impact assessments without stakeholder input.
b. By hiring external consultants to conduct impact measurement.
c. **By engaging them in dialogue, gathering their input and feedback.**
d. By relying solely on internal experts to determine impact.

Question 27

Why is it important to involve stakeholders in social and environmental impact measurement?

a. Because it makes the process more complicated.
b. Because it is a requirement mandated by government regulations.
c. **Because stakeholders have valuable insights and perspectives that can enhance the credibility and relevance of the impact measurement.**
d. Because it is a trendy buzzword in corporate social responsibility.

Question 28

Is it important to consider indirect stakeholders in social and environmental impact measurement?

a. No, because direct stakeholders are more influential.
b. No, because indirect stakeholders have no impact on the organisation.
c. **Yes, because indirect stakeholders may be affected by the organisation's actions or operations.**
d. Yes, even if indirect stakeholders are not relevant to impact measurement.

Question 29

How does impact measurement potentially mask organisational irresponsibility?

a. **By highlighting positive outcomes while ignoring negative impacts.**
b. By involving stakeholders in the measurement process.
c. By aligning with the Sustainable Development Goals.
d. By providing accurate and transparent data.

Question 30

What is one of the steps related to assessing materiality in social and environmental impact measurements?

a. Ensuring stakeholder engagement.
b. Identifying and prioritising relevant issues.
c. Reporting to regulatory authorities.
d. Implementing technology solutions.

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Unit 2.2
Social and environmental impact measurement

ROLE PLAY CASES

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SDGs: From macro to micro

Case Study 2.2.1

Module 2

Unit 2.2 Social and environmental impact measurement

UNIVERSIDAD DE BURGOS

Centre for Sustainability Management LEUPHANA

MBS Since 1897 MONTPELLIER BUSINESS SCHOOL

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UNIVERSITÀ DI TRENTO

ROLE PLAY

Title: SDGs from Macro to Micro

Context: Hi!

Congratulations on your new appointment as sustainability manager in our NPO «Everything Begs Salvation» dedicated to safeguarding the rights of children. My name is Clara Adelante, and I am one of the managers of the NPO. You are responsible for designing and implementing strategies and decisions in line with the 17 SDGs. As you know, the starting point is to design social and environmental impact measurements in line with the SDGs. To do that, we want you to analyse the social and environmental impact assessment of other leading NPOs that operate in our sector. The company Save the Children provides a good description of how social and environmental measurements can be aligned with SDGs in its annual report. Also, you can look at how to construct a report on the United Nations SDGs by applying GRI standards in Repsol's report. Then we can chat about your view. Now you can download Repsol's report. You can access Save Children's report in the next step.

[Link documents: https://image.savethechildren.org/2021-annual-report-results-for-children.pdf-ch11044862.pdf/1vo2sxcn06y041e3x4it4r0ls0x6jx3y.pdf]

[Link documents: https://www.repsol.com/content/dam/repsol-corporate/es/sostenibilidad/informes/2023/informe-ods-2023.pdf]

Scenario: An office with the logo of the Sustainable Development Goals (or a poster sustainability-related themes) in the background.

Character: A middle-age Caucasian female wearing modern clothes.

Scene 1

First of all, do you think that the report produced by Save the Children is somehow related with the SDGs?

Response 1: Yes, it is.

Go to:
Scene 2

Response 2: No, it is not.

Go to:
Scene 1 (Let's look at it again!)

Response 3: I don't know, I do not have enough material to know it.

Go to:
Scene 1 (Let's look at it again!)

Scene 2

How do you think this report aligns with the SDGs?

Response 1: Because it explicitly mentions the SDGs.

Go to:
Scene 3

Response 2: Because its information relates to the 17 SDGs.

Go to:
Scene 4

Scene 3

But they did not explicitly mention the SDGs. Do you think organisations should explicitly mention the SDGs when they produce their social and environmental impact measurement reports?

Response 1: Yes, it is always important.	**Go to:** Scene 3 (Let's think again!)
Response 2: No, it is never important.	**Go to:** Scene 3 (Let's think again!)
Response 3: It depends on the purpose of the report and the target audience.	**Go to:** Scene 5

Scene 4

Imagine that we need to produce a report for internal communication within the organisation. Do you think it is important in this case to align the measurement with the SDGs?

Response 1: Yes, it is always important.

Go to:
Scene 4 (Let's think again!)

Response 2: No, it is never important.

Go to:
Scene 4 (Let's think again!)

Response 3: The alignment of measurement with the SDGs may not necessarily be crucial unless there is a clear internal interest or strategy that justifies such alignment.

Go to:
Scene 5

Scene 5

How does the information provided in the report by Save the Childrens align with the SDGs?

Response 1: The colors used to describe the impact produced by Save the Childrens correspond to those used in the SDGs.

Go to:
Scene 5 (That argument is not strong, is it?)

Response 2: The indicators provided in the report (e.g., number of meals distributed to children living in poverty in Africa) align with the SDGs (e.g., SDG-2 - Zero Hunger).

Go to:
Scene 6

Scene 6

Which of the following SDGs did you find in the report?

Response 1: SDG-3 (Good health and well-being), SDG-2 (Zero hunger), SDG-4 (Quality education).

Go to:
Scene 7

Response 2: SDG-7 (Affordable and clean energy) and SDG-14 (Life below water).

Go to:
Scene 6 (Let's look at it again!)

Scene 7

Well, Save the Children only discloses social impact indicators in its report. Should we do the same in our organisation?

Response 1: Yes, because our organisation only has a social impact.

Go to:
Scene 7 (I don't think so!)

Response 2: No, because even if our organisation primarily focuses on social activities, it also generates an environmental impact.

Go to:
Scene 8

Scene 8

Page 37 of the report says that Save the Children provided «837,000 children learning and getting critical meals in rural America». Do you think it is possible to link this impact to a single SDG?

Response 1: Yes, because it only refers to SDG-2 (Zero Hunger).

Go to:
Scene 8 (Let's think about this for a while!)

Response 2: No, because it refers to multiple SDGs. For example, SDG-2 (Zero Hunger) and SDG-10 (Reduced Inequalities).

Go to:
Scene 9

Scene 9

Now, page 30 says that they aided 18 million children in crisis. Do you think that is possible to link this impact to a single SDG?

Response 1: Yes, because it only refers to SDG-3 (Good health and well-being).

Go to:
Scene 9 (Let's think about this for a while!)

Response 2: No, because it refers to multiple SDGs. For example: SDG-3 (Good health and well-being) and SDG-10 (Reduced Inequalities).

Go to:
Scene 10

Scene 10

Do you think it will be easier in our organisation to connect each impact to specific SDGs?

Response 1: No, because most of the time an impact is linked to several SDGs.	**Go to:** Scene 11
Response 2: Yes, because each impact is linked to one and only SDG.	**Go to:** Scene 10 (Let's think again!)
Response 3: I am confused!	**Go to:** Scene 10 (Breath slowly and try again!)

Scene 11

Now, since our organisation carries out more or less the same activities as Save the Children, do you think we should produce exactly the same report?

Response 1: Yes, we should produce exactly the same report but with different data.

Go to:
Scene 12

Response 2: No, we should adapt our information to our organisation activities and to the context in which we operate.

Go to:
Scene 13

Scene 12

Do you believe that if we produce exactly the same report as Save the Children, we would be able to explain all the impacts generated by our organisation?

Response 1: Yes, because by carrying out the same activities, we would generate the same impact.

Go to:
Scene 12 (Are you sure about that?)

Response 2: No, because each organisation operates within its own unique context and has its own set of activities, stakeholders, and impacts.

Go to:
Scene 13

Scene 13

Do you believe that if we produce a different report from Save the Children, we would be able to compare our data with those of Save the Children?

Response 1: Yes, definitely.	**Go to:** Scene 13 (I'm not sure about that!)
Response 2: No, it would be impossible.	**Go to:** Scene 13 (Don't be so pessimistic!)
Response 3: We might be able to compare some measurements, others will be different.	**Go to:** Scene 14

Scene 14

When we produce our report, do you think it will be useful for aligning our organisation with the SDGs?

Response 1: Yes, because it will allow us to show our contribution to achieving the SDGs at a global scale.

Go to:
Scene 15

Response 2: No, because it is not possible to compare the impact of an organisation with the SDGs.

Go to:
Scene 14 (I would be more ambitious!)

Scene 15

Based on what has been said so far, do you think it is possible to transition from the macro (global) level to the micro (organisational) level in pursuing the SDGs?

Response 1: Yes, it is possible although complex.	**Go to:** Scene 16
Response 2: Yes, it is possible, it just requires mentioning the SDGs into impact reports.	**Go to:** Scene 15 (Not really!)
Response 3: No, it is not possible because the coordination between the two levels is not feasible.	**Go to:** Scene 15 (Let's think again!)

Scene 16

Thank you. I think that we can start to plan the activities for your new job. We will meet in the coming days to define our organisation’s sustainable development strategies to contribute to achieving the 17 SDGs. Goodbye!

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ACCOUNT 4 Green Eco

Measuring the impact of an organisation

Case Study 2.2.2

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ROLE PLAY

Title: Measure the impact of your organisation

Context: Hi!
Congratulations on your new appointment as social impact evaluator in our NPO «Impacto» dedicated to safeguarding children rights. My name is Rosa Navarro, one of the founders of the NPO. You are responsible for designing and implementing social impact assessment methodologies to identify the tangible and intangible outcomes produced by our organisation. The starting point is to identify our impacts on the society and how to assess them. We want you to analyse the social impact assessment of other leading NPOs that operate in our sector. The organisation Save the Children provides a good social impact assessment in its annual report. Also, you can start by looking at how to report on the SDGs by applying GRI standards by reading Repsol's report. I believe you are already familiar with them. If needed, could you take a look at them again? Then we can have a chat about your view? Now you can download Repsol's report. You can access Save Children's report in the next step.

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[Link documents: https://www.repsol.com/content/dam/repsol-corporate/es/sostenibilidad/informes/2023/informe-ods-2023.pdf]

Scenario: A rural cottage with a table and chairs. If possible, some animals could also be present.

Character: A robust woman of approximately 50 years old with short hair, ethnic necklaces, and eccentric glasses.

Scene 1

The first thing we need to decide is what kind of impact we want to measure in our report. In this case, what type of impact is Save the Children measuring in its report?

Response 1: Social impact.	**Go to:** Scene 2
Response 2: Environmental impact.	**Go to:** Scene 1 (Let's look at it again!)
Response 3: Economic impact.	**Go to:** Scene 1 (Let's look at it again!)

Scene 2

Do you think it was easy for the Save the Children to measure their impact?

Response 1: Of course, all impacts produced by the NPO are easily recognisable and quantifiable.

Go to:
Scene 2 (I'm not sure about that!)

Response 2: Not at all, it's never possible to recognise the impacts produced by an organisation and quantify them.

Go to:
Scene 2 (I'm not sure about that!)

Response 3: It was not easy but was possible to forecast the impacts produced and calculate an estimate.

Go to:
Scene 3

Scene 3

We need to decide whether to adopt a one-size-fits-all measurement strategy or a tailored one. Do you think this report is drafted in exactly the same way by all NPOs working for children's rights?

Response 1: Yes, because all NPOs working for children's rights produce the same impact.

Go to:
Scene 3 (Let's look at it again!)

Response 2: No, because each NPO working for children's rights produces different impacts based on the context in which they operate and the activities they carry out.

Go to:
Scene 4

Scene 4

We need to start drafting our impact report. How do you think Save the Children produced their report?

Response 1: Based solely on the costs of activities carried out throughout the year.

Go to:
Scene 4 (Let's think again!)

Response 2: Involving their stakeholders.

Go to:
Scene 5

Scene 5

Where do you think Save the Children obtained the data for their report?

Response 1: Using national databases.

Go to:
Scene 5 (Are you sure?)

Response 2: Collecting them from stakeholders.

Go to:
Scene 6

Scene 6

To draft our report, we need to decide at which level of analysis we would like to operate. At what level of analysis does Save the Children operate in drafting their report?

Response 1: Micro level (at individual or programme level).	**Go to:** Scene 7
Response 2: Meso level (at the organisation or community level).	**Go to:** Scene 8
Response 3: Macro level (at societal level).	**Go to:** Scene 6 (Let's look at it again!)

Scene 7

When they analyse their impact produced at the individual level, what type of data do they use?

Response 1: Qualitative data (e.g., collected by interviews).

Go to:
Scene 9

Response 2: Quantitative data (e.g., providing figures).

Go to:
Scene 7 (Let's look at it again!)

Scene 8

When they analyse the impact produced at the meso level (i.e. organisational and community level), what type of data do they use?

Response 1: Qualitative data (e.g., collected by interviews).

Go to:
Scene 8 (Let's look at it again!)

Response 2: Quantitative data (e.g., providing figures).

Go to:
Scene 12

Scene 9

What type of information has been provided through such qualitative data?

Response 1: The emotions experienced by the beneficiaries.

Go to:
Scene 10

Response 2: The number of activities carried out by the organisation.

Go to:
Scene 9 (Let's look at it again!)

Scene 10

The involvement in writing the report of which type of stakeholder does this qualitative information highlight?

Response 1: Donors.

Go to:
Scene 10 (Do you really think so?)

Response 2: Beneficiaries.

Go to:
Scene 11

Response 3: Investors.

Go to:
Scene 10 (Do you really think so?)

Scene 11

What attitude do the organisation's beneficiaries have towards the organisation itself?

Response 1: They support the organisation.

Go to:
Scene 15

Response 2: They oppose the organisation.

Go to:
Scene 11 (Let's look at the report again!)

Response 3: They are neutral towards the organisation.

Go to:
Scene 11 (Let's look at the report again!)

Scene 12

We should decide to whom the information in our report should be addressed. In designing this document, Save the Children used quantitative indicators to describe the social impact produced at the meso-level. Which type of stakeholders they are seeking to satisfy with it?

Response 1: Donors and investors.

Go to:
Scene 13

Response 2: Beneficiaries.

Go to:
Scene 12 (Let's look at it again!)

Scene 13

Why should donors and investors be interested in reading this report?

Response 1: To make informed decisions on how to invest or donate their funds.

Go to:
Scene 14

Response 2: To influence the decisions made by the NPO.

Go to:
Scene 13 (Do you really think that?)

Scene 14

What do you think about the indicators Save the Children provides in their report?

Response 1: They are SMART (specific, measureble, accepted, reasonable, time-bound).

Go to:
Scene 15

Response 2: They are generic and vague, and refer to an unspecified period of time.

Go to:
Scene 14 (Let's look at them again!)

Scene 15

Finally, to decide the exact amount to allocate for drafting the report, we should decide the purpose of the report. Do you think that Save the Children produced this report to be disseminated inside or outside the organisation?

Response 1: Inside the organisation for identifying strategic actions.

Go to:
Scene 15 (Let's look at it again!)

Response 2: Outside the organisation for communicating the actual effectiveness of its interventions to its stakeholders.

Go to:
Scene 16

Scene 16

Thank you. I think that we can start to measure the social impact generated by our organisation. We will meet again in a few days to discuss the reporting frameworks that we will apply and other things that we need to determine for producing our first annual report. Goodbye!