Measuring total Impact: A new Language for Business Decisions

BACKGROUND RESEARCH PAPER

PwC

Submitted to the High Level Panel on the Post-2015 Development Agenda

This paper reflects the views of the author and does not represent the views of the Panel.

It is provided as background research for the HLP Report, one of many inputs to the process.

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Supporting sustainable global development

Businesses, governments and wider society have been grappling with the challenge of how to develop a more relevant and inclusive basis for measuring growth and value creation, and hence improve decision making – both at an operational and strategic level. While progress has been made, the search for a viable and robust approach continues and a key focus for PwC has been working with these organisations and their stakeholders to develop the right solutions.

Our collaborations to date have led to the development of what we believe is a more comprehensive, balanced and hence relevant evaluation of business impacts on society, the economy and the environment – Total Impact Measurement and Management (TIMM)\(^1\). This new ‘language’ of decision making seeks to provide the business equivalent of new ways to evaluate national output and well-being. It builds on the United Nations Human Development Index (HDI)\(^2\) and ties in with the work of the United Nations High-Level Panel (UN HLP) in drawing up a new and measurable global framework for Post-2015 development, which includes environmental sustainability and inclusive economic and social development.

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1. TIMM provides a balanced scorecard of a business’ social, economic, environmental and tax contribution impact (impacts being outcomes less an estimate of what would have happened anyway).
2. The HDI combines indicators of life expectancy, educational attainment and income into a composite index.
The following is a brief summary of our core ideas, developments to date and the steps we’re taking to further develop and validate our approach. We will publish further analysis and ideas for how to take TIMM forward later in the year.

**Strengthening decision making**

We all need growth. People need growth to sustain their livelihoods. Businesses need growth to satisfy their shareholders. Governments need growth to maintain employment and promote well-being. The world as a whole needs growth to support a rapidly increasing global population and bring billions of struggling citizens out of poverty. But what citizens, businesses and governments understand by ‘growth’ and what it’s there to achieve may differ and may demand trade-offs to alleviate potential conflicts.

In turn, how we currently measure growth, be this nationally or within businesses, may be too narrow to manage what matters. The economic dynamic is being transformed and we’re now more aware of how value is being created and destroyed. Manifestations of this include businesses’ need to use resources in smarter and more efficient ways, their need to build trust to sustain their ‘licence to operate’ and recognition that their chances of success are greater in a community that is stable, healthy, prosperous and committed to common goals. Conventional measures of profit at a business level often fail to take sufficient account of such additional elements of value (see Figure 3 for more detail about these elements). Similarly, GDP at a national level is already being recognised by many governments as too narrow a measure.

There is a clear downside risk if businesses fail to take broader impacts into account (e.g. an industrial plant that has to close because of a lack of available water or sufficient skilled
people locally). But there is also a hidden and untapped upside that is being missed in strategic decisions because of how returns are measured. At a basic level this might be securing access to key resources or government contracts/concessions. It might also be the sense of purpose that encourages employees to serve customers in the most effective way or goodwill that encourages consumers to buy a business’ products or become advocates for its brand. The next big challenge for companies is to identify how they can work with other enterprises and the communities they serve to realise desired outcomes for consumers and deliver such social benefits as better health, enhanced skills and improved infrastructure, which would support the development of their businesses in a sustainable way.

Many businesses, governments and the people they serve are therefore reaching for new ways to bring their mutual objectives together by promoting real, inclusive, responsible and lasting ‘good growth’. As Figure 1 illustrates, this rethink of what constitutes growth is spurring the development of new and more relevant ways to measure how much value is being created. At a national level, initiatives such as GDP +, Wealth Accounting and Valuation of Ecosystem Services (WAVES) and the System of Environmental-Economic Accounts (SEEA) are seeking to move government measurement beyond the narrow metric of Gross Domestic Product (GDP). These developments are looking to provide a broader view, taking into account the creation/depletion of the social and environmental

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3 GDP + looks beyond income generation by seeking to capture other material conditions such as jobs, earnings and housing, quality of life, education, gender equality, personal security and well-being.
4 WAVES looks beyond the conventional System of National Accounts (SNA) by seeking to include intangible forms of wealth such as human capital and the benefits flowing from ecosystem services such as pollination and flood protection from mangroves.
5 The UN Statistical Division’s SEEA contains the internationally agreed standard concepts, definitions, classifications, accounting rules and tables for producing internationally comparable statistics on the environment and its relationship with the economy. The SEEA framework follows a similar accounting structure as the SNA.
capital needed to generate that GDP. Armed with this information, governments are able to apply these principles to the decisions they make at a policy and project level. TIMM could be the business equivalent of these new ways to measure value and a more relevant language for making decisions and judging success. It would allow boards to better understand the potential impact of strategies and investment choices and optimise the trade-offs between the various social, environmental and economic impacts of these decisions.

*Figure 1. Evolving measures of value and growth*

**Bringing businesses and their stakeholders on board**

The key question is how to bring businesses on board and harness their support for ‘good growth’. First, we need to make sure impact measures are sufficiently consistent to provide meaningful comparisons across business. Secondly, we need a combination of carrots, sticks and enablers to encourage more businesses to take up their use. First movers have
already come to the fore in many areas of impact measurement. Fast followers are now joining them as they see the potential upside benefits and understand the potential risks of falling behind. The catalysts of reputation and licence to operate mean that larger companies are likely to be in the vanguard, with their market influence helping to bring in their suppliers (many of them small businesses).

The increased government focus on assessing growth more holistically, which is being reinforced by international processes like the Post-2015 Development Agenda, can help to accelerate the inflection point when the mass of businesses looks to come on board. Companies like PwC can play their part by working with businesses and their stakeholders to develop relevant, credible and usable measurement methodologies.

**What is TIMM?**

In addition to the returns they earn for their shareholders, all businesses have impacts on society, whether it’s through their use of natural resources to generate products or provide services; the benefits they bring to the communities in which they operate; the employment opportunities they provide or their contribution to the public finances. Some of these impacts are positive and some negative.

Business decisions often fail to take all of these impacts into account because their significance is not fully understood and they’re not measured by conventional techniques. Emerging impact measurement techniques address these shortcomings by developing an understanding of the relationship between businesses’ inputs and activities, their outputs and their longer term outcomes and associated impacts (see Figure 2). This can extend to the valuation of impacts, which has the considerable advantage of allowing for more
effective comparison and aggregation, something which other approaches are less able to do.

*Figure 2. Measuring and managing what matters: A more informed basis for decision making*

TIMM seeks to create an holistic understanding of how a business’ activities impact on a broad range of stakeholders (see Figure 3). These impacts arise directly through its operations and indirectly through its effects on customers in the marketplace and other organisations in the supply chain.
TIMM also captures the further impacts on wider communities and other stakeholders (see Figure 4). Some of the methodologies which underpin TIMM are well established while others are developing quickly.

Businesses and their stakeholders are increasingly interested in understanding, quantifying and valuing their outcomes and impacts so that they can gain insights that can inform their strategic and operational business decisions. Development and adoption of effective impact measurement practices would help businesses to understand how they create and destroy
economic, social and environmental value, while still achieving their primary goal of
generating a sustainable financial return for their shareholders.
Our plans to inform and shape our thinking

We’re engaging with businesses and their stakeholders (customers, employees, investors, governments, NGOs, etc.) to learn more about their perceptions of TIMM, its potential place within their decision making and how this could be strengthened. This includes how to make TIMM more accessible and usable. Our research will include surveys, pilots, round tables and other engagement with businesses and their stakeholders.
Issues our analysis and ideas will seek to address

1. Why notions of value/growth need to change, why decisions need to be made in a different way and how this works.

2. How TIMM would allow businesses to create and measure the still untapped collaborative value outside the company through ‘value networks’.

3. Demonstrate why TIMM is not just desirable from a corporate social responsibility perspective, but a vital part of business resilience and sustainable value creation.

4. Demonstrate how TIMM can strengthen decision making within the business and how it links to Integrated Reporting and other frameworks for impact measurement and reporting such as the Global Reporting Initiative6, enhancing stakeholders’ ability to rate the performance and potential of the enterprise.

5. Demonstrate how TIMM offers a viable prototype for comprehensive, objective and comparable impact evaluation, building on existing techniques, new thinking and the latest metrics used to gauge sustainability, social impact etc.

6. Demonstrate how TIMM can be used to underpin stakeholder communication and engagement.

7. Understand what conditions need to be in place to accelerate broader adoption of TIMM. This includes how to create a meaningful, credible and consistent methodology.

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6 The Global Reporting Initiative (GRI) is a non-profit organisation that promotes economic, environmental and social sustainability. GRI provides all companies and organisations with a comprehensive sustainability reporting framework that is widely used around the world. GRI is due to launch its fourth generation reporting guidelines in 2013.
Contacts
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