

A close-up photograph of a hand holding a stream of water. The background is dark, and the water is illuminated, creating a spray of droplets. The text is overlaid on this image.

Public Value in the Water Sector

Report by Purpose Union and Impact Institute

June 2020

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Main Report

Executive summary

Context

Following a tendering process in February 2020, Purpose Union and Impact Institute were tasked with providing:

- an analysis of what and how water companies report on their purpose, societal value and how they embed it within their culture
- best practice in other sectors
- the basis for a framework to assess the public value a company creates on an ongoing basis. For this framework, public value is seen as identical to societal value.

This document has been produced in light of the above. These are the views of Purpose Union and Impact Institute as advisers to Ofwat and do not constitute the views or recommendations of Ofwat.

Overview

- Reporting of how companies create societal value is uneven across the sector and there are discrepancies in how companies in the sector approach this issue.
- Most companies that were reviewed articulated a purpose. A number were precise about why they existed and what societal value they aimed to create. Only one had amended their articles of association to reflect their stated purpose, though there is a debate among those responsible business practitioners and commentators about how useful such a change is (our view is that such a change can be helpful but is not necessary). Most companies have a dedicated board committee focused on purpose and/or societal value activity.
- The sector could do more to explain and demonstrate how it is embedding purposeful cultures

in their organisation at all levels. Much of the reporting that companies currently provide is anecdotal or fails to establish a framework that helps to track culture change if required.

- More attention and rigour are placed on reporting on environmental themes than social themes. The nature of the industry lends itself to prioritise the management of natural capitals. However, this approach potentially risks minimising the impact of creating social value in the communities that the companies operate in. These include, but are not limited to, activities designed to improve social mobility, as well as pay equity for historically disadvantaged groups.



- More evidence of system-wide thinking in how social and environmental challenges are tackled would be desirable. We found that in a majority of instances companies were focused on mitigating the effect of social and environmental challenges rather than trying to work with others to address the interlinking factors that underpin numerous problems (however there were several examples of this type of approach on water use and helping vulnerable customers for example). In addition, we felt that although companies were comfortable reporting on inputs and outputs concerning societal value initiatives, not enough were able to report on impact at a system-wide level.
- The sector is strong at reporting how it engages stakeholders but is less strong on weighing up the issues that matter to society. The companies examined reported their approaches to engaging stakeholders, which were often extensive. However, our view is that most companies could do more to detail the specific social and environmental challenges that matter to them,

how those issues relate to each other and the priority accorded to those issues, informed by stakeholder engagement.

- Only a few companies use their social channels to communicate messages relating to societal value. Only a few CEOs use their platform in public to speak about how their company creates social and environmental societal value.

Terms

Capital – The stock of resources utilised by an organisation in their business processes

Impact – The measurable contribution of a business to societal well-being

Impact Frame – The data needs and calculation model of an impact

Impact Journey – The process of exploring, defining, measuring, and managing impact

Impact Pathway – A (quantifiable) chain of effects and counterfactual effects linking a specific activity of an organisation to its impact

Input – The direct (and therefore intended) result of activity within the sphere of the organisation

Materiality – The expected importance and magnitude of an impact

Outcome – The (typically unintended) effect of the output(s) outside the sphere of influence of the company.

Output – The measurable effect the company has, in relation to the reference scenario

Purpose – A description of why the organisation exists

Reference Scenario – The counterfactual scenario to which the actual activities of the organisation are being compared (e.g. a situation where the organisation is not active and competitors take over its actions)

Societal Value – The economic, social and environmental effects resulting from the actions of an organisation

Stakeholder Group – The individuals or groups affected by an organisation's business activities, as well as the individuals or groups who affect an organisation's ability to create value (e.g. government, employees, clients)

Value – The tangible effect on the well-being of individuals resulting from an action

Well-being – A broad notion related to the satisfaction of needs and/or preferences at the individual or collective level. It is most intuitive to use individual well-being as the fundamental concept

Introduction

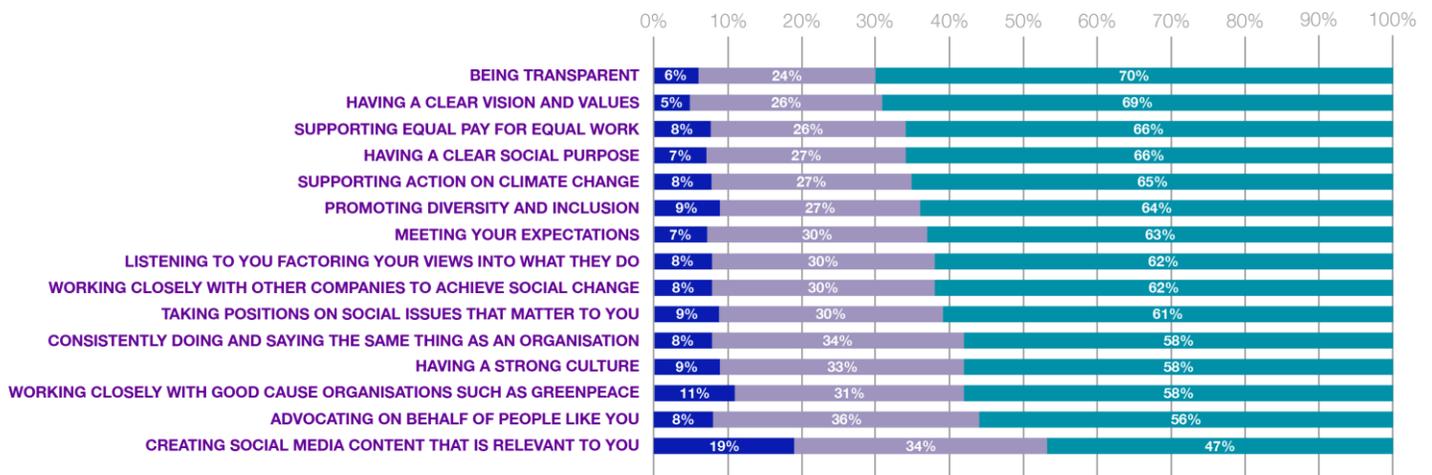
Society, the aggregate of individuals and interests spanning the public, private and social sectors, now expects companies to lead on the social and environmental issues that matter to their stakeholders.

Our recent Purpose Pulse survey discovered that six in ten (61%) of respondents told us that it was important or very important that companies take a stance on the issues that matter to them¹.

Purpose Pulse Survey Question, 2020

How important do you think each of the following are for a company to do to build trust and support amongst people like yourself? ? *n=1919*

■ Not important at all / Not important
 ■ Neutral
 ■ Important / Very important



¹ Purpose Pulse 2020, Purpose Union: <https://www.thepurposepulse.com/>

The water industry is no different. The role that business plays in their local communities has been brought to the fore during the current COVID-19 crisis, in which the water sector has a critical role to play. One of the most remarkable developments in the last couple of years has been the declining confidence in governments alone to address the biggest challenges facing society. Our recent Purpose Pulse survey shows that this decline of trust is particularly stark amongst Millennials and Generation Z. Our view is that water companies can no longer wait for the government to drive lasting change. Instead, they must be willing to act, even if the government lacks the means or interest to do so.

Limitations

Our insights were gathered from desktop research. We assessed publicly available information, as well as statements from companies, including annual reports, and other documents, to reach a snapshot view of company approaches. We did not solicit information from the companies that we examined. There will inevitably be internal perspectives and documents that would provide us with a more holistic view of how the water industry is approaching purpose and societal value.

Our approach to purpose

We appreciate that there are slight variations on how purpose is defined amongst consultants and other social purpose practitioners. The emphasis that is placed on external targets and accreditations, such as the Sustainable Development Goals, or various ISO standards, is one major area of divergence, as are the ways in which businesses could, or should, validate their bespoke purpose strategies. Likewise, there are debates regarding the intersection of corporate culture and purpose, and the extent to which being a purposeful business is compatible with profit.

The authors of this report take the view that a company's purpose describes why a business exists. This should articulate how the core activity of a business intends to make a positive contribution to society (hence the use of the phrase social purpose), which in the water industry is often framed around meeting the needs of the community that the provider serves. This should also be compatible with being financially successful.

Our approach to societal value

Societal value is the economic, social and environmental effects resulting from the actions of organisations.² Societal value, as it is referred to here, may be termed public or social value by others. Societal value was preferred because it avoids the dichotomy between public and private value commonly used in economic theories and is not confused as being only the production of value for society (and excluding value related to the environment).



The effects resulting from the actions of organisations are becoming increasingly important, as many are seeking to quantify and measure these effects to maximise the societal value of the organisation. While different metrics can be used to measure societal value, one of the most developed and researched methods is through well-being.

The actions of organisations have a tangible effect on the well-being of individuals. This is what is referred to here as value. The value of a given action, then, is the measurable change in the well-being of an affected individual that the action results in. If the action positively changes the individual's well-being, it has a positive value, and if it reduces the individual's well-being, it has a negative value.

² This definition echoes that of social value experts, such as The Social Value Portal <https://socialvalueportal.com/what-is-social-value/>

The change in societal value resulting from an organisation's actions is broken down into the different changes for different groups of people (stakeholder groups). These stakeholder groups are divided based on the similarity of the effect and magnitude of the value change that the action results in. The individuals in a given stakeholder group are assumed to experience, on average, the same shift in well-being through this value change. An example of this is the well-being effects of employment. The act of hiring and employing people has a measurable effect on the well-being of those being employed. While the employees may have different levels of well-being change due to, e.g. differences in salaries and positions, an average effect is calculated and applied to every employee affected by their employment. In this example, the stakeholder group is the employees of the organisation, who are assumed to have the same change in value due to the employment. The societal effect, on the other hand, is the measurable change in well-being that results from the act of employment.

Ascertaining the amount of both positive and negative impacts that all of a company's actions have is the essence of understanding a company's societal value. Assessing the activities of a company and how they lead to impacts can help to identify which impacts will be seen as material to the company. In the measurement of these impacts, it is the societal value created by the company that will be quantified and reported.

Our approach to impact

In the context of the theme of this report, a company's impact is the measurable contribution of a business to societal well-being. This impact is categorised according to the six Capitals as defined by the IIRC. These capitals, Financial, Manufactured, Intellectual, Human, Social and Natural, are stocks of resources utilised by the organisation in their business processes.³ The impact of businesses includes the contribution to these Capitals for clients, shareholders and society at large. Impact can be the result of being a purpose-driven organisation and can be both positive or negative.

What is the relation between Purpose, Societal Value and Impact?

An organisation drives and communicates its stated purpose through the many ways it mobilises itself to reach its goals - its actions. Through these actions, the organisation affects the world in tangible and measurable ways. This effect leads to the creation or reduction of value for stakeholders. As such, actions express the stated purpose of the organisation by communicating its effect on the world through creating or removing societal value.

³ ACCA and NBA (2013), 'Capitals: Background paper for <IR>'.

It is possible to quantify, measure, value and map these changes in (societal) value to Capitals and stakeholders, resulting in assessed impact. In other words, the impact of an action is the measurable change in societal value for a stakeholder that the action results in. A given action may have multiple impacts if it results in different changes in societal value for various stakeholders. An example of this is the payment to employees. Employee payments result in two impacts - the increase in Financial Capital for employees and the decrease in Financial Capital for the company. Additionally, employee payments factors into the measurement of the Human Capital impact of the well-being effect of employment. In line with this, an organisation's impact is the measurable value for each stakeholder that the purpose of an organisation helps to create.

Examples of enablers and actions

Several factors help to support the success of purpose-driven companies committed to delivering societal value.

First, companies must articulate a clear purpose and then place that at the heart of how they run their company. Having a clear statement of purpose is likely to:

- Serve as a motivational reference point for organisations to galvanise employees
- Act as a direct reminder to those within the organisation, making it more likely that behaviours and decisions take into consideration wider stakeholders
- Make it easier for employees to be incentivised and rewarded when there is a clear purpose for such mechanisms to be anchored to
- Empower external and internal stakeholders to hold a company to account, using its stated purpose as a source of accountability

However, further steps need to be taken, above and beyond the creation of a purpose statement. These include ensuring that the board has a direct line of sight on issues pertaining to the purpose of a company and its societal value. Crucially, as this report highlights, it also involves fostering a culture where the company's purpose guides decision making and broader behaviour in the relevant water company. This approach is vital to all companies that wish to be considered purposeful, but especially in those sectors where there is public interest, such as in the supply of utilities.

This may also include adapting a company's articles of association or entire company form to ensure greater alignment with stakeholders. However, we do not think it is necessary for a company to formally change its articles to be purposeful or have an impact, nor do we believe that this sort of formal change is sufficient for a company to describe itself as purposeful or impactful. We believe that both terms must also be demonstrated in the activity undertaken by a company over an extended period.



A second factor is transparency. Society expects companies to be open with how they approach and act on material social and environmental issues.⁴ This speaks to how a company holds itself accountable for the targets it sets (if such targets exist). Interestingly, our recent research suggests that stakeholders also want to hear about mistakes made by companies and what they have learned from those missteps as well as successes. This is why clear and easy to navigate materials are critical. They strengthen

⁴ The Purpose Pulse, Purpose Union, 2020

society's ability to understand and interact with a company.

Third, top-performing companies on purpose and societal value metrics, from a variety of different sectors, understand that setting or influencing the agenda around a particular issue by taking a stance on that issue can be an effective way of driving change. A company's commitment to purpose and societal value should run throughout the business. Platitudes and announcements of intent must be accompanied by a point of view and a willingness to engage in and lead debate, even when that engagement creates a possible backlash.

To take an example, numerous companies produce statements that reiterate their commitment to social mobility to ensure that their employees and the young people in their local communities can thrive, irrespective of their socioeconomic background. But the real test of authenticity rests on their willingness to be vocal on contentious issues. In the example given, some corporate leaders have been willing to use their platform to argue against the underfunding of schools and its impact on equality (such as Tidjane Thiam, when he was CEO of Credit Suisse). Furthermore, as companies operating as geographic monopolies, it could be argued that water companies have a responsibility to use that status to improve the well-being of its local community. Sometimes that might mean using its platform to drive social or environmental change. Yet, as one would expect, this must come with the disclaimer that standing out by speaking out has potential drawbacks.

Taking a position on contentious issues such as a carbon pricing scheme, grammar schools, the immigration points system or, in light of the COVID-19 pandemic, universal basic income may satisfy some internal and external stakeholders but may alienate or anger others. A water company

positioning itself on a hot button issue also risks distracting the company away from its core initiatives. Companies will have to make case by case judgements on how to navigate such matters.

Finally, in terms of coalitions and system-wide thinking; society expects companies to help solve problems at a system-wide level rather than tackle problems in isolation through traditional bilateral charity-corporate relationships. However, system-wide change requires a collective action-based approach to addressing social challenges. Coalitions, as well as individual businesses, will be expected to hold themselves collectively accountable to their stakeholders in the communities that they serve, and to broader society, and report on progress towards targets.



The launch of the Fashion Pact Coalition ahead of the G7 summit

The methodology used in this report

We were tasked with providing:

1. an analysis of what and how water companies report on their purpose, societal value and how

they embed it within their culture.

2. best practice in other sectors
3. the basis for a framework of evaluation for company reporting on public purpose and how to assess this on an ongoing basis.

First, we investigated if, and for those that do, how, water companies articulated their social purpose. We also examined if water companies had attempted to enshrine their purpose more formally in the organisation and actively tried to create a more purposeful culture. We also explored if and how companies in the sector ensured that their governance structure reflected the vital role direct board oversight can play in stewarding the company's purpose-related initiatives.

We also explored what and how companies reported concerning societal value. There are, of course, numerous themes and factors that companies report on. The World Business Council for Sustainable Development's 2019 report states that there are around 40 areas of overlap between companies in what they report⁵. In Annex III of this report, we have set out a suggested framework for how companies can measure, value and report on their societal value using the concept of Capitals, in line with the mentioned IIRC Framework. This framework covers:

- Financial Capital (e.g. employee salaries and related taxes)
- Intellectual Capital (e.g. the value of intellectual assets and depreciation of intellectual assets)
- Manufactured Capital (e.g. the value of a company's products and services)
- Human Capital (e.g. the well-being effects of employment, health and safety)
- Social Capital (e.g. efforts to address gender discrimination and ethnic discrimination)
- Natural Capital (e.g. use of scarce materials, climate change)

⁵ Reporting matters: Navigating the landscape: a path forward for sustainability reporting WBCSD 2019 Report

These are explored in greater detail in Annex III. For this section of the report, we have identified a sample list of themes that sit under the last three Capitals - Human, Social and Natural.

The sample criteria under each of the three headings were picked based on our assessment of their relevance to the water sector and the importance attached to a particular theme by society.

Human Capital

- Employee satisfaction and feedback

Social Capital

- **Gender pay gaps and discrimination.** The statutory Gender Pay Gap (“GPG”) reporting that has been introduced by the government, has meant that the annual figures that companies are obliged to release now attract significant attention



from investors, employees, and consumers on what their GPG figures are, and how they are being addressed. We looked, therefore, at how companies aimed to meet the minimum reporting requirements or whether they sought to hold themselves accountable above and beyond what is required, reporting their strategies for lasting change.

- **Ethnic pay gaps and discrimination.** Ethnic pay gap reporting is not yet mandatory. Still, companies outside of the water sector have got ahead of this and some have begun collecting

and reporting on their approaches for making their organisations diverse and inclusive for ethnic minorities. Similar to the gender pay gap, this is an important issue for stakeholders, especially for the Millennial and Generation Z cohorts. Ethnic Pay Gap Reporting is not yet mandatory, so we were looking to use this section as a proxy to analyse whether companies wait for legislation or regulatory intervention, or try to look to the future and develop innovative ways to address this challenge.

- **Corporate Social Responsibility/Community-focused activity.** We were looking to see how companies approach corporate social responsibility ("CSR") activity (e.g. charity donations and partnerships, community engagement projects). There is far more considerable scepticism of "tick box CSR" that tries to purpose-wash or green-wash. Purpose-washing is a term that we have defined as where businesses claim and promote a sense of purpose as a reputational tool to gain market share which is not comparable to the scale of commitment to their stated purpose. Green-washing is a term that we have defined as where businesses claim and promote that they are taking an active role in the fight against climate change as a reputational tool to gain market share which is not comparable to the scale of resources given over to that fight. There are, of course, companies who may want to engage with this agenda but may lack the expertise or resources to do so.

There is also more significant pressure on companies to integrate CSR activity into the core strategy of the business rather than a silo within a company. For example, some of the questions we examined include: Does the CSR activity that the company leads map onto the risks and opportunities that it has identified? Is it clear how the activity helps the company achieve its core business objectives? Does it unlock any commercial opportunities?

Natural Capital

- **Climate change.** Climate Change is now a top tier issue for stakeholders. For some demographics (such as Millennials and Generation Z-ers) it is the defining social/environmental issue of their time. A company's position and action on the climate emergency has become a litmus test for societal value. We examined how companies responded to this crisis, as it is an effective proxy for engaging with what many consider to be the most important purpose and societal value issues of our time.

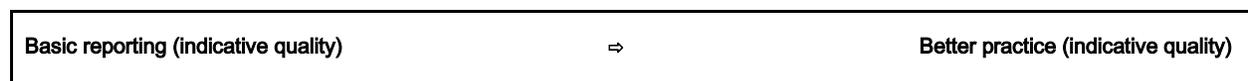
Additional supporting criteria

- **Stakeholder engagement to understand issues and weighing those issues.** We examined how companies demonstrated their engagement with stakeholders on social and environmental issues: a useful barometer for understanding how the company in question understands society's expectations of them. In addition, we were looking to see how companies demonstrated that they understand the broader social and environmental issues that matter to stakeholders, the interplay between them and their relative importance.
- **Risk analysis of social and environmental factors.** We were looking to see if companies explicitly framed purpose and sustainability issues as risks and opportunities and set out those risks in detail. We have found that companies that adopt this approach are better equipped to integrate such risks into their strategy, avoiding siloing activity related to society and the environment within the company.

- Alignment to the Sustainable Development Goals.** We examined how companies use the SDGs to consider their impact and how they can use their business model to solve some of the world’s most pressing challenges. The SDGs are a particularly useful set of standards because their global dimension allows for the comparison and adoption of best practice across multiple geographies and sectors, which can lead to better reporting. In particular, we explored whether companies expressed which SDGs they prioritised and aligned their activity against. We have found that such an approach has second-order impacts. It can act as a spur to social innovation, enthuse employees and make system-wide coalition building with other organisations and sectors more effective. This is also an area where clear distinctions can be made between companies who engage in a tick-box approach to their engagement with the SDGs, and others that have a more considered approach to reporting their engagement with the goals.



We placed the quality of reporting with reference to the following spectrum.



Human Capital		
<p>Employee satisfaction and feedback. Disclose how you gauge levels of employee satisfaction and that feedback is incorporated into the company.</p>	<p>Publish results of employee survey or consultations and track against targets and historical performance. Benchmark against other companies.</p>	<p>Describe the key themes in employee consultations and how the business has successfully implemented that feedback (or not).</p>
Social Capital		
<p>Gender pay gap and discrimination. Provide full statutory gender pay-gap reporting.</p>	<p>Full reporting with additional information on how pay-gap issues are being addressed.</p>	<p>Full reporting with additional information including the impact of any measures taken, whether efficacious or not.</p>
<p>Ethnic pay gap and reporting. Provide full statutory ethnic pay-gap reporting.</p>	<p>Full reporting with additional information on how pay-gap issues are being addressed.</p>	<p>Full reporting with additional information including the impact of any measures taken, whether efficacious or not.</p>
<p>Corporate Social Responsibility/Community-focused activity. Disclose KPIs most relevant to your business, including historical performance data to show trends over time.</p>	<p>Set specific and quantifiable short and medium-term targets for these KPIs. Meet targets and set stretch goals.</p>	<p>Where relevant, receive an external audit, and align your progress with Sustainable Development Goals</p>
Natural Capital		
<p>Climate change. Discuss qualitatively which areas of the environment you impact through your operations. Have targets.</p>	<p>Disclose the relative size of your impact on the environment compared to others in the sector.</p>	<p>Have a detailed strategy on how you intend to meet those targets. In monetary terms, disclose your impact on the environment.</p>
Additional supporting criteria		
<p>Stakeholder engagement to understand issues and weighing those issues. State which issues you have identified as material and why.</p> <p>Report on the process that was undertaken to determine material issues and how stakeholders were engaged. Focus your reporting on your material issues, linking them to your strategy and KPIs, and report on how stakeholders were engaged, and their feedback.</p>	<p>Report on the process that was undertaken to determine material issues and how stakeholders were engaged.</p>	<p>Focus your reporting on your material issues, linking them to your strategy and KPIs, and report on how stakeholders were engaged, and their feedback.</p>
<p>Risk analysis of social and environmental factors. Provides a basic risk analysis, exploring opportunities and threats to the business derived from their purpose statement.</p>	<p>Provides a more detailed analysis, exploring opportunities and threats, as well as likelihood and impact of those scenarios coming to pass.</p>	<p>A rigorous analysis of opportunities and threats, couched in the likelihood of those scenarios, as well as analysing the broader sector situation.</p>

<p>Alignment to the Sustainable Development Goals. Numerate which SDGs are prioritised, and provide qualitative statements on progress toward the SDGs.</p>	<p>Numerate which SDGs are prioritised, and reference independent data, e.g. external benchmarking, to ensure the credibility of your reporting.</p>	<p>Provide detailed quantitative analysis of progress against internationally recognised benchmarks for meeting SDGs.</p>
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Observations

Purpose

It is our view that companies who articulate a clear social purpose are more likely to deliver societal value. They tend to create cultures where purpose influences key decisions made by a business. It also shapes the behaviour of individuals within a business. Ofwat



recognises this through its Board Leadership, Transparency and Governance Principles. The principles, as a licensing condition, require that:

"The Board of the Appointee establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves."

We found that the majority of water companies do articulate a purpose. Those purpose statements were often clear and framed the rationale for the existence of the company in an engaging and inspiring way. It is our view that these statements can have a galvanising effect on those who work within the organisation and can help to build a culture where employees are cognizant of their wider role in society.

In a small number of instances, we found that purpose statements articulated in public materials such as annual reports and websites were somewhat generic and could have applied to numerous companies outside of the sector, indeed that they could have applied to almost any for-profit company.

There is a healthy debate about the value of making a company's social purpose explicit in its articles of association or even changing the legal structure of the organisation. Our view is that these decisions can potentially contribute to creating a purposeful company. They may signal the company's intent in this area and it can serve as a useful proof point. However, amending articles or receiving accreditation as a B-corporation⁶ is neither a necessary or a sufficient condition of becoming a purposeful company. A decision to amend articles of association to enshrine purpose in a company can create the legal framework to enable a company to stay mission-driven and avoid drift through a change of leadership, key financial moments or crisis. It is a process that may also persuade stakeholders that a company backs its words with action.

At this stage, it is hard for us to ascertain if more companies will follow Anglian Water's lead but this should be a development that is welcomed by Ofwat, though not necessarily prioritised in the conversation about purpose and societal value. There is a danger that companies place too much emphasis on legal and formal structural changes to embed purpose over the cultural changes that are crucial in creating purposeful companies. However, a willingness to amend articles or to become a B Corporation is a useful starting point that, by necessity, will require a company to consult with its board, employees, investors and customers about the social value. For instance, to secure B Corporation certification, a company, in addition to amending their governance documents, must also achieve a minimum verified score on the B Impact Assessment—that assesses a company's impact on its workers, customers, community, and environment. Such a process can be a useful way of socialising the concept of purpose within an organisation. It was pleasing to see that most companies have board-level oversight over activity related to purpose or responsibility, indicating that most companies do

⁶ Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.

recognise the importance of this agenda.

Table of approaches to purpose⁷

	Purpose statement	Constitutionally embedded?	Board committee dedicated to overseeing corporate responsibility or related activities
Company			
Anglian Water Services Limited	To bring environmental and social prosperity to the region we serve through our commitment to Love Every Drop.	Yes. Changed articles of association recently	Yes
Dŵr Cymru Cyfyngedig	To provide high quality and better value drinking water and environmental services, so as to enhance the well-being of our customers and the communities we serve, both now and for generations to come.	Yes	Yes
Northumbrian Water Limited	Water is life. Every living cell on earth needs water to survive. The single most essential ingredient for human life to thrive, is clean drinking water. Our work is instrumental in fulfilling our basic human needs and protecting the source of life.	No	No
Hafren Dyfrdwy Cyfyngedig	To serve our communities and build a lasting water legacy. This drives our vision to deliver an outstanding customer experience, best value service and environmental leadership.	No	Yes
Severn Trent Water Limited	To serve our communities and build a lasting water legacy. This drives our vision to be the most trusted water company by 2020, delivering an outstanding customer experience, best value service and environmental leadership.	No	Yes
Southern Water Services Limited	We provide water for life to enhance health and well-being, protect and improve the environment and sustain the economy.	No	Yes
South West Water Limited	Bringing resources to life	No	Yes
Thames Water Utilities Limited	To build a better future for our customers, our region and our planet by caring for water. Because without water, there is no future.	No	Yes
United Utilities Water Limited	To provide great service to customers and communities in the North West, creating long-term value for all our stakeholders. Our vision is to be the best UK water and wastewater company.	No	Yes

⁷ This assessment was based on our observations. We consulted materials published by water companies to ascertain their stated social purpose. This was either made explicitly or was described in a relevant section that articulated a vision statement, even if such a statement was not framed as their reason for being. We also consulted annual reports to discover if the water company had an established committee of the board dedicated to corporate responsibility or a related theme.

Wessex Water Services Limited	We provide our customers and communities excellent service and value for money. We protect and improve the environment. We provide our people with the opportunity for personal development and a satisfying career. We provide our investors with a fair return for their investment.	No	Yes
Yorkshire Water Services Limited (Regional water only undertakers)	No articulated purpose	No	Yes
Affinity Water Limited	No articulated purpose	No	Yes
Bristol Water plc	To have a positive impact on society and the environment — building trust beyond water	No	Yes
Portsmouth Water Limited	No articulated purpose	No	No
South East Water Limited	No articulated purpose	No	Yes
South Staffordshire Water plc Sutton	We have a long history of delivering clean water every day and in all weathers to our customers, providing an essential public service that touches everything they do. This guiding purpose enables the 1.7 million people and around 45,000 businesses across our South Staffs and Cambridge regions to go about their daily lives and helps to keep them healthy.	No	No
East Surrey Water Plc	The company has set out an aspiration 'to ensure a continuous supply of high-quality water, accurate and affordable bills, dealing with enquiries efficiently, reducing our impact on the environment and helping communities thrive'	No	No

Building cultures to support purpose-driven decision making

Culture is an integral part of a purpose-driven company that is committed to creating societal value.

Ideally, a company that claims to be driven by purpose should ensure that:

- Employees are aware of the company’s purpose
- Employees can confidently express their own purpose and how that relates to the company’s purpose
- Employees understand how the company lives its purpose through the business and its impact in wider society

- Employees have a point of view about the company's purpose and are able to engage with customers, regulators and investors about purpose
- Employees, at all levels, feel that they can speak up where they feel that a business decision contradicts a company's purpose
- Employees feel greater loyalty and pride as a result of working for a purpose-driven company
- Employees feel empowered to proactively develop ideas and initiatives and will help the company deliver on its purpose

Whilst the majority of companies we examined tended to state what their culture was, with some anecdotal support to their claims, some went further and were able to evidence significant culture change campaigns, including detailing the initiatives, and



the KPIs by which those campaigns would be judged. We found that there are a number of themes that the majority of companies that detail their culture extensively tend to cluster their reporting around: safety, innovation, customer service, openness, and transparency.

Our view is that the sector could be more rigorous with its reporting on culture, especially in relation to purpose. With the increased interest in purposeful work-places, it is vital for talent acquisition and retention for water companies to be able to demonstrate that they have embedded a culture that is an attractive proposition to top talent: sharing best practice about not just how to embed that culture, but how to report on it in a meaningful way is a step that will benefit all companies in the water sector.

It is important to note that purposeful culture reporting could be improved across numerous sectors. A recent Emperor survey indicates that only 10% of firms report on how they are progressing, evaluating, and setting targets for their culture.⁸

Boldness in reporting can be demonstrative of culture. One of the most powerful examples that we located during the research stage of writing this report was from South West Water: their recognition that they are a company that 'operates in a traditionally non-diverse sector, [which is] well aware of the impact [that its] own practices may have in relation to gender, as well as the broader issue of race and ethnicity'. This recognition should be commended: it demonstrates that South West Water are willing to directly engage with issues around race and identity, issues which, on the whole, companies in the United Kingdom are less willing to address head on, in comparison to countries such as the US, where this sort of language is far more common in corporate reporting. Of course, such boldness in approaches to reporting must be matched by boldness in action.

Environment vs Social

Within the sector, more emphasis and rigour is placed on environmental issues than social issues in approaches and reporting. Water companies seem to devote more space to explaining the risk that climate change poses. However, we found that there is less of a developed approach or mechanisms for accountability for social themes such as philanthropic activity or social mobility. Where there were targets, we found that inputs and outputs rather outcome and impacts were the dominant way of tracking progress in these areas.

⁸ <https://emperor.works/insights/culture-reporting-measuring-and-demonstrating-culture/>

As far as we were able to assess without access to non-public information, United Utilities is unique in the water sector in reporting that they have employed a social mobility manager. However, this does not mean that the other companies are not responding to the issue: all companies in England in this report have signed The Social Mobility Pledge.⁹ However, it is important to note that only United has demonstrated to this extent how they will ensure that the requirements of the pledge will be implemented within their business.



Whilst it is clear other companies have internal programmes to promote social mobility, and Affinity Water's reporting of their work with their graduate and apprentices leadership programmes is also worth noting, more robust reporting would benefit other companies in their sector as they seek to demonstrate in what ways, and, most crucially of all, to what extent, they are delivering societal value. The inclusion of areas where collaboration could make a significant difference would also be welcome.

Despite the different approaches to the reporting of these two broad themes, there is room for improvement in environmental reporting. We found that many companies in the water sector lack clarity on their strategy for reducing their contribution to the climate crisis. Likewise, many do not report their environmental impact in a way that the majority of consumers would find easy to understand. Given that stakeholders are already concerned about the impact of companies in general on the environment, and will continue to become increasingly concerned, this is an area that companies

⁹ The pledge is available to review at www.socialmobilitypledge.org

would do well to support stakeholders by improving the accessibility of reporting. Water companies are expected to set out their long term planning in their Water Resource Management Plan. However, it is not immediately clear that these are documents that stakeholders should consult, given that the documents themselves were understandably technical. There is an opportunity to develop a more user-friendly tool.

One company that is particularly noteworthy as a case study is Bristol Water, which published a document called “Bristol Water for All: Our Purpose and Social Contract to Build Trust Beyond Water”. It is worth singling out this document, as it was not only clear on the ways in which Bristol Water aims to reduce its impact on the climate, through emission reduction, but that it also reported on Bristol Water's broader environmental risk management and mitigation, and integrated this information with reporting on their wider work with the community that they serve, unrelated to the environment. This synthesis of environmental and social reporting demonstrates how these issues are all increasingly seen as interlinked and vital to the continued viability of our communities.

Reporting system-wide thinking

More focus could be given to reporting system-wide impact, in addition to inputs and outputs in the sector.

The current approaches to reporting societal value in the sector indicate that there needs to be more system-wide thinking about how social and environmental challenges are tackled. We found that in a majority of instances companies were focused on mitigating the effect of challenges rather than trying to work with others to address the interlinking factors that create the problem (however there were a number of examples of this type of approach on water use and helping vulnerable customers). In

addition, while we felt that companies were comfortable reporting on inputs and outputs in relation to societal value initiatives, not enough were able to report on impact at a system-wide level.

The sector is strong at reporting how it engages stakeholders but is less strong on weighing up the issues that matter to society

The companies that were examined reported their approaches to engaging stakeholders which were often extensive. However, our view is that most companies could do more to detail the specific social and environmental challenges they care about, how those issues relate to each other and the priority accorded to those issues.

Thought Leadership and Media Profile

There seems to be a hesitancy in the water sector regarding the importance of CEO and Senior Leadership Team media profile. Most leaders do not seek to proactively set or drive an agenda around social and environmental issues. Overall, leaders in this sector do not use their platforms to set the agenda on the social and environmental issues facing society. The leaders who have sought to use their platform for social and environmental issues have tended to emphasise climate change and broader environmental risks concerning health and safety.

There seems to be a correlation between the size of an organisation and its ability to drive a media agenda regarding purpose and societal value, with the larger companies in the sector securing more media coverage than the smaller ones. This may be related to the scale of the impact they can have, and therefore the relative importance that media organisations will ascribe to their efforts. However, our examination also included local media and it was noticeable that many CEOs had not used their platform to drive an agenda around social or environmental issues, which is surprising given the scale of

operations that these companies have in their localities and the impact that they could have on a regional level. However, one particularly interesting development was Severn Trent's recent announcement that it would spend upwards of £1.2bn to help repair the environment and end its contribution to the climate crisis by 2030. This 'triple carbon pledge' is one of the most visible examples in the sector of a company taking a stand on issues related to their societal value, and resulted in significant positive media attention for Severn Trent. It is also worth noting that Heidi Mottram, CEO of Northumbrian Water, has often placed op-eds in local media advocating for greater environmental responsibility.

This is perhaps to be expected, given the media environment within which the water sector finds itself with numerous critical articles from local news outlets reporting on outages and executive pay. Yet, despite potentially positive stories, in a significant number of cases, messaging on the environment occurs defensively rather than proactively. It is worth noting that historically CEOs of UK businesses have not been outspoken on social and environmental issues. This is an area where expectations are shifting quickly. The views of millennials and Generation Z stakeholders is instructive on this point. 61% of Millennials and Generation Z believe that it is important or very important that companies take a stance on the issues that matter to them.

Our view is that the COVID-19 pandemic will intensify the debates around public health, local resilience, vulnerability and affordability and when it is appropriate to pay dividends. The water sector, given its proximity to these issues, might be able to use this unprecedented crisis to lead the conversation of how best to ensure that the communities that they serve emerge healthier, more financially secure and more united in the medium and long term.

Useful learnings for the sector

Based on what has been highlighted by our examination of the water sector (in light of the limitations already mentioned), and our understanding of best practice inside and outside of the sector (featured in the second section of this report).

- **Formal changes to governance can ignite a conversation about a company's role in society but is neither a necessary or sufficient condition for being a purposeful company.** Anglian Water is so far the only UK-based water company to change its articles of association in order to demonstrate its commitment to societal value. This change may help to ensure that a significant number of people in the organisation, from the board of directors and senior leadership, to front-line staff are involved.
- **Harness the energy of employees, especially millennials and generation Z staff.** Purpose is a theme that a number of employees likely already care about. Recognising the strengths and passions of employees is vital for ensuring that they are fully committed to delivering on the societal value of the company, and empowering them to have a clear line of communication to key decision-makers through purpose councils/committees can be effective.
- **Measuring collective impact.** Greater impact can occur when organisations work together but measuring collective impact can be difficult in some instances. Companies should start to further develop parallel 'impact journeys' which, on



the one hand, enables them to tailor the approach to their specific organisation, while at the same time working together to set a sector vision on a specific theme, with clear KPIs. The Public Interest Commitments provide a good example of where such parallel impact journeys could help monitor collective progress on issues such as social mobility.

- **Focus on impact as well as inputs and outputs.** Shift focus from what you are doing to generate social value and focus on reporting what value has been generated, and how that is aligned with your purpose and other objectives. The suggested framework outlined in Appendix III may be a useful tool for companies in the sector.
- **Alignment to SDG metrics.** Making it clear why a company cares about certain metrics for demonstrating societal value, such as the SDGs, demonstrates to employees, and to your wider network of stakeholders not just what you care about, but why it should form part of the company's shared strategic vision.
- **Report a more comprehensive approach to materiality.** Materiality assessments help companies to make it clear to their stakeholders not just what they believe to be important but how they are balancing different competing systems and resources in their assessments. Providing that information in a clear and easy-to-digest format is vital for stakeholders to be able to gain an understanding of the often incredibly complex decision making processes at the heart of a business that they are directly impacted by, but may understand very little of the day-to-day operations of. It is the responsibility of water companies as providers of a vital service to provide this information in a way that stakeholders can understand, not for the stakeholders to educate themselves to a level sufficient for them to be able to make sense of systems that are unfamiliar to them.
- **Communicating with stakeholders more effectively.** More consideration should be given to stakeholders with more digestible forms of communication materials to help gain a better

understanding of a company's impact. As competition for the attention of audiences intensifies developing creative ways of engaging with audiences on the public value of the water sector is critical. Some of the ways that the sector could communicate more effectively include, but is not limited to:

- Using social media to distribute compelling content related to social and environmental issues on a more consistent basis
- Focusing on a specific social or environmental issue and using that as the basis of a hero campaign rather than aiming to communicate the breadth of their activity in that particular space
- Use the leadership of the company to drive the public debate about relevant social and environmental issues across platforms that will reach different audiences such as podcasts or Instagram Live (it is worth noting that the FMCG sector is strong in this area among others).
- **The power of advocacy.** Advocacy can be a powerful part of demonstrating societal value. The CSR decisions made by a company in the sector should speak to a company's purpose and culture, and, in the best cases, can act as an extension of a company's own social value into a new space.

A note on size and purpose

It is worth noting that larger companies tend to have internal resources available to enable them to develop a robust reporting system. Those resources allow them to devote time and headcount to ensuring that the company is up to speed with best practice in reporting public value. However, this does not mean necessarily that size is a constraining factor on a company's aspirations to be purpose-driven and have an impact. Smaller companies may find it easier to build a culture where purpose

guides decision-making. A company might also be more efficient at using resources to create public value, regardless of its size.

Appendix I: Company Profiles

Anglian Water

Brief Overview

Anglian Water communicates their social purpose clearly and are confident in the use of a number of external measurements for demonstrating their commitment to delivering societal value, including accreditation to a number of ISO and BSI standards, and linking much of their activity as a company to meeting the United Nations Sustainable Development Goals.

Purpose and Culture

Anglian Water is the only water company to amend its articles to reflect its purpose. Beyond making changes to governing documents, the board has identified the company's culture as one of six areas for development in the future, building on what they already refer to as a 'culture of responsible business and excellent service'. Whilst responsible business is a declared element of their culture, and there are extensive references in company press releases and other documents to the awards they have won, there are limited attempts to quantify, beyond volunteering days, the social impact of this culture in their annual report. The board has a committee that has direct responsibility for social responsibility.

Reporting

Anglian Water's reporting sets out their ambitions for sustainability, which are presented with time-bound targets, that keep the company accountable. Likewise, their commitment to propriety in their supply chain is amplified and explained in detail in their online materials, with clear reporting on how they positively influence their value and supply chain.

One useful example of Anglian's commitment to high-quality reporting comes from an environmental perspective, where Anglian's green-bond financing demands tracking carbon emissions and other environmental impacts precisely.

There are areas for improvement. Reporting on employee satisfaction, the company notes that engagement has improved but falls short of explaining what pieces of feedback were acted on and the resulting progress.

Positioning

Our assessment is that Anglian Water could be doing more to explain publicly what goals it is working towards in terms of purpose and societal value. A core focus for Anglian Water is the pivot from compliance to wellness in HR. This involves working on both mental health and upward mobility, both of which they believe has benefits for business.

It was announced in March 2020, that Peter Simpson, CEO, had been appointed co-chair of the UK Corporate Leaders Group (CLG), a group of leading UK businesses who have come together to drive stronger ambition and effective acceleration on climate change action within the UK. This complements previous interventions made by the CEO on the environment.

Dŵr Cymru

Brief Overview

Generally, Dŵr Cymru delivers good reporting, which is focused on communicating its societal value to external stakeholders.

Purpose and Culture

Dŵr Cymru reports extensively on both purpose and culture, and the interrelation between them: it prides itself on being a 'Welsh Water company', and to that end promotes Welsh culture and the Welsh language through their work and customer services. They detail how they are a 'safety first' employer, saying that it is a significant part of their culture. Welsh Water is very clear on their culture: with a significant section of their annual report given over to discussing it. Welsh Water is clear that their culture stems from their unique corporate structure, which allows them to build customer trust and buy-in in a way that the majority of for-profit companies would be unable to do. Through both this and their commitment to their Welsh identity, they are clear that their culture is closely intertwined with their purpose. The board has a committee that has direct responsibility for social responsibility.

Reporting

Generally speaking, Dŵr Cymru is transparent in its reporting and strives to make relevant information available to stakeholders in a way that is easy for them to understand. For example, their annual report, and their online presence more generally, gives extensive information on how they work to support vulnerable customers. However, the lack of Gender or Ethnic Pay Gap reporting beyond the statutory requirement is noticeable in the annual report. Likewise, given that other elements of the business are sector-leading, for there to be limited focus on social mobility as an element of the societal value that a firm like Dŵr Cymru can create, seems to be an area for improvement. However, there are a number of

areas in which it could improve the breadth and depth of its reporting. It could also consider aligning its environmental reporting with the United Nations Sustainable Development Goals, and providing Gender and Ethnic Pay Gap Reporting above and beyond that which is currently required by statute.

Positioning

The former CEO of Dŵr Cymru, Chris Jones, has a relatively limited media profile and had not used his platform to talk about social and environmental issues to a considerable degree. Dŵr Cymru as a company, more broadly, has some media profile as a case-study for non-profit utility provision, but this remains limited. It is too early to form an assessment of Peter Perry, the new CEO of the company.

Further simple and transparent reporting regarding the work of The Water Partnership for Wales, of which Dŵr Cymru is a key member, would have helped in communicating Dŵr Cymru's positioning to external stakeholders.

Northumbrian Water

Brief Overview

Northumbrian Water articulates a clear social purpose and explains how it influences their business objectives, and what reporting standards they seek to follow.

Purpose and Culture

Northumbrian Water integrates its purpose throughout its website and there its annual report contains an explanation of how it approaches purpose. It states that "We work hard to give our people and the jobs they do a real sense of meaning. Working with a sense of purpose enables personal fulfilment." The company explains that it has an 'innovative' culture, which it is able to clearly demonstrate in its reporting owing to the measurable outcomes from its Innovation festival - including mapping all the pipes and cables across their operating area in collaboration with Ordnance Survey. As a provider, they are clear that 'Super-charging our innovation culture is essential if we are to continue to deliver unrivalled experiences within the context of rising customer expectations, technological advances and changing political and physical climates'.

Our view is that the company can do more to draw a closer link between certain aspects of its culture and how that impacts its ability to stay purpose-driven. This could be achieved by detailing how it deliberately shapes a purposeful culture with a more specific narrative with supporting metrics. There is no direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

We found that the company had a good level of reporting across the criteria that we examined.

Northumbrian's reporting focuses extensively on relating its activities to the priorities of its stakeholders. They have developed a stakeholder-reporting grid in their annual report that makes it clear that they regularly seek input from the wider community on their work, and reflect whether goals and targets have been met back to those stakeholders. The company could do more to explain how its activities are aligned with the SDGs. It could also do more to explain how the material social and environmental issues impact its assessment of risk and how those factors affect its strategy.

Northumbrian Water has a clear explanation for how it understands employee satisfaction levels, though to approach best practice, the company should articulate how it has acted upon feedback.

Positioning

Heidi Mottram uses her platform to drive the agenda on the environment, especially in local media.

She used her platform to talk about flooding and climate change. It is also notable that Heidi Mottram often mentions issues that sit beyond the sector. Those "wider issues" include plastic pollution and supporting vision-impaired people.

Northumbrian also established the first national water poverty unit with National Energy Action (NEA) to establish an understanding of the issues, inform policy, be a best practice hub and to take practical action to eradicate water poverty. It will be interesting to see how the company intends to use the NEA to drive systemic change through public advocacy and influencing.

Hafren Dyfrdwy

Brief Overview

Any discussion of Hafren Dyfrdwy has to be couched in recognition of its unusual status given its close relationship with Severn Trent, including sharing a CEO. With less than a year of data unique to Hafren Dyfrdwy to analyse, there are some limitations to what can be drawn out of the data. That being said, where there is information, there are a number of pleasing trends in the reporting of purpose and societal value by this utility provider.

Purpose and Culture

Hafren describes their purpose in strong terms, and it is closely related to their culture. Their annual report differentiates their social purpose for the environment, for colleagues, for customers, and other groups. This purpose then drives a culture of 'doing the right thing' at all levels: with education and review mechanisms embedded into the key deliverables of the company to ensure that social purpose is acted upon throughout operations.

The board have made it clear that, in this early stage of Hafren's development as a provider, they want to embed a positive and purposeful company culture: they commissioned a survey of current employees, and also through a regular site visit programme conducted by the board. There is direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

The company provides a good level of reporting, though there are areas for improvement. Hafren's reporting demonstrates that they have engaged in an extensive programme of face-to-face meetings with the community that they serve, alongside other methods of getting in touch with them, which speak to a proactive approach to communicating their societal value and soliciting the opinions of their stakeholders to feed into their business plan. From early on in its existence as a utilities provider, Hafren has committed to external auditing of their reporting on sustainability, which, if continued, will continue to ensure excellence in their reporting on these issues.

Hafren details how it has acted on some of the feedback from its employee engagement tools, such as greater pay transparency. This should be commended. However the information could be presented in a more comprehensive manner for ease of understanding. The company could do more to explain how its activities are aligned with the SDGs. It could also do more to explain how the material social and environmental issues impact its assessment of risk and how those factors affect its strategy.

Positioning

Hafren shares the overwhelming majority of external positioning with Severn Trent given the close relationship between the two organisations.

Severn Trent Water

Brief Overview

Severn Trent is a company that has a good approach to reporting in the sector as it provides a detailed description of its activities in its public documents. The company also articulated a clear social purpose.

Culture and Purpose

Severn Trent defines their purpose as serving 'our communities and build[ing] a lasting water legacy. This drives our vision to be the most trusted water company by 2020, delivering an outstanding customer experience, best value service and environmental leadership'. This informs their culture, which is driven by the key objective of creating 'an awesome place to work'. This is supported by a detailed cultural index that combines various indicators of culture, while recognising the limitations of such an exercise. There is direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

The company has a strong approach to reporting across the various criteria that we examined. The company is clear about how its activity supports the SDGs, how it factors in social and environmental issues into its risk planning and has targets for its CSR activity, approaches which we believe the sector can develop more (using Severn Trent as good practice). One of the most impressive aspects of Severn Trent's commitment to societal value is their extensive transparency in reporting on their goals, and whether they have been met. Of particular note is the extent to which Severn Trent tracks both Gender Pay Gap and BAME employment, with initiatives to improve both: a commitment to equity in employment that is not just industry-leading but also leading practice in general on those specific

issues.

One area of improvement is how it reports how it gauges and reports on employee satisfaction. We felt that more could be done to explain what feedback it had received and how the company was acting on such feedback.

Positioning

The company uses its platform to drive the conversation around social and environmental issues.

Severn Trent's CEO, Liv Garfield, has a more significant media profile than the vast majority of the CEOs in the water sector. She has used her profile and platform to raise awareness of climate change as it relates to the water sector and, to a lesser extent, call for greater diversity in the sector.

Their recent announcement that they would spend upwards of £1.2 billion pounds reducing their emissions to zero across the business by 2030 marks them out as one of the most prominent water companies yet to take a visible public stand on the urgency and severity of the climate crisis. They have framed their business strategy for the next decade around mitigating their contribution to the continued climate crisis. This shift has been communicated well in both earned and owned media, with the clarity of communication, including explicit discussion of purpose and societal value making it clear where Severn Trent sees this fitting into their agenda as a purposeful company.

Southern Water

Brief Overview

Southern Water is working hard to tie together their social purpose, societal value, and culture in light of their recent breach of their licence conditions. It has a good level of reporting in some areas but there are areas for improvement.

Purpose and Culture

Southern Water is clear about its social purpose, which it details at length in its annual report, but acknowledges that this has not translated into a viable company culture: Southern Water is working to embed a new company culture in light of breaches of their licence conditions regarding the management of their waste-water treatment works, and the issuing of a fine by Ofwat. They have improved whistleblowing protections, and added a number of values-related questions to their regular Gallup employee engagement survey, to help track cultural transformation. As with a number of other firms, alongside their commitment to greater transparency as part of their response to the licence conditions breach, Southern Water is keen to pursue a 'culture of innovation', which they demonstrate through increased collaboration with their local wildlife trusts, as well as other steps. They should aim to link how this culture of innovation can also help them stay-purpose driven in the future. There is direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

Southern Water has a good level of reporting on areas such as its action to close the gender pay gap, how it identifies issues that are material to its stakeholders and that factors into the company's

understanding of risk. Southern demonstrates a robust approach to reporting on employee satisfaction. The company's report states that "In early 2019, we completed wave three of the survey. The results showed a meaningful increase in the majority of criteria and 30% of our teams reported improved engagement. Based on insights from the survey, our line managers are working with their teams to address areas for improvement. To facilitate this, we have trained over 40 coaches to support line managers with these follow-up actions." Although the company could be more explicit in the feedback it has received and actionable plans against that feedback Southern Water has gone beyond what most of its peers in the sector have reported in this area.

However, the company could do more to clarify its contribution to action on the climate outside of its Water Resources Management Plan 2020-70 report. It should also provide metrics on its CSR activity and how its activity aligns to the SDGs. A number of their reporting areas are not driven by outcomes and impact but tend to focus on inputs: a less helpful way of reporting on core societal value issues. Like most companies in the sector, the company lacks any meaningful form of reporting on the ethnic pay gap or discrimination.

Positioning

Ian McAulay has taken up more speaking engagements than the average CEO in the water sector. However, it has proven challenging to find the text, or videos of those engagements online. Where they can be found, he dedicates a reasonable amount of time to speak about the environment and resource use. Social Mobility is not a major part of his platform.

Southern Water are committed to providing a sustainable utility: their 'Water First' programme, according to their website 'reaches beyond any five-year planning process – to embed public health

protection at the heart of our water services. It is a 'source to tap' approach – spanning catchment sources, water treatment, network, customer service and monitoring – underpinned by improvements in people, processes, systems, culture, training, and risk and information management'. Such a programme shows their commitment to ensuring that they provide a sustainable resource.

South West Water

Brief Overview

South West Water is heavily invested in their local community and demonstrates their commitment to the environment through their annual reporting. There are some areas where reporting is good but there are areas which can be improved.

Culture and Purpose

South West Water defines its purpose as a commitment to the delivery of sustainable value. Much of their culture is defined around being customer-centred, with little articulation of the causal link between culture and purpose. Culture at South West Water is the direct responsibility of their people committee - a major element of the culture that they have embedded within the organisation is of customer service, which was recognised with the TLF Research Best Return on Customer Service Investment Award at the 2019 Customer Service Awards. The company should move towards explaining how it fosters a purpose-driven culture and what the impacts of any resulting initiatives have been. There is direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

South West Water has a good level of reporting in a number of areas. It has KPIs for its CSR activity and some social and environmental issues featured in its appraisal of risk. The company also has a good approach to reporting on diversity. Although South West water has no metrics for potential ethnic pay gaps, there is a recognition that "our 2018 employee survey told us that 89% of our employees believe that people within the Company are treated fairly regardless of race or ethnic origin. While we

recognise this as good progress, we plan to further increase our focus on ethnic diversity in the coming year". This transparency is welcomed and should be matched with a detailed set of actions with metrics in subsequent publications.

This work is augmented by being a signatory to The Social Mobility Pledge.¹⁰

The company should work to improve how it details how it engages with stakeholders and what social and environmental issues were material to those stakeholders. The annual report mentions the SDGs but there is no attempt to benchmark activity and report on progress using the SDG framework. These are areas for improvement.

Positioning

Christopher Loughlin has used his platform to highlight climate change and the company's community engagement. In addition, a reasonable amount of his online platform and speeches focus on creating an ethical supply chain and good customer service.

South West Water is heavily involved in supporting a number of local water-related charities. They support, amongst others, The South West Coast Path Association; Surf Life Saving GB; Devon and Cornwall Wildlife Trusts; Environment Plymouth, which is dedicated to making Plymouth Sound plastic-free and, Beach Schools South West, an outdoor learning charity. The company could do more to demonstrate how it seeks to drive an agenda that will create systemic change.

¹⁰ The pledge is available to review at www.socialmobilitypledge.org

Thames Water

Brief Overview

Thames Water is one of the largest water providers in the UK, which brings with it unique challenges, not least rebuilding of public trust after they were issued with a fine of £20.3m in 2017 for pumping raw sewage into the Thames and being criticised for its approach to issues such as dividends, tax and pensions. It is clear that Thames Water is using the transitional period following its heavy fine, and the media fall-out to try and reposition itself as one of the industry leaders in terms of sustainability and societal value.

Purpose and Culture

Thames Water articulates their purpose in the culture and values section on their website. They base their purpose on delivering employee and consumer satisfaction, judged on metrics which include sustainability. However, the company should explain how its culture helps to create a purpose-driven company and what actions have been taken in support of that effect as well as the efficacy of such actions. There is direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

Thames Water has a good level of reporting in many areas. Their desire to build public trust had led to an increased level of transparency across all of their owned media channels, and through their reporting: for example in the details of its approach to CSR, as well as disclosing the carbon output of the business, and SDG alignment. They also detail, at length, how the general public is engaged in their planning and business development, and the extent of the community listening that has been

undertaken is clear from explicit references to it throughout their annual report and other documents.

It is clear that Thames Water are taking active steps to improve the inclusivity of their workplace, their annual report detailing 'important progress in relation to diversity and inclusivity with our employee engagement scores continuing to improve; our gender pay gap continuing to steadily decrease; and moving up 25 places in the Stonewall Workplace Equality Index. We also signed the social mobility pledge and co-collaborated on the Sector Inclusion Commitment'.¹¹

Thames Water views sustainability as crucial to the delivery of their services over the long term. In April 2019, they made a pledge to achieve net-zero carbon emissions by 2030 (alongside the rest of the sector). According to the company, this is a commitment that means that their strategy and culture has to be aligned to ensuring that reductions in emissions are made wherever possible.

Thames Water explains the results of their employee feedback surveys but should aim to include what they have actioned in the future.

Positioning

Thames Water's annual report states that 'being open and transparent is becoming synonymous with the new approach to the management of Thames Water, and is the only way to deliver the required service improvements'. Thames are also clear on wanting to foster a culture of inclusivity and have been recognised by local MP Alok Sharma for their role in promoting a disability confident strategy. The former Chief Executive is named in the annual report as being specifically responsible for creating an appropriate culture of excellence for consumers and a number of the NEDs on the board are culture

¹¹ The pledge is available to review at www.socialmobilitypledge.org

change experts. Furthermore, the stated strategic priority of Thames Water is related to its culture: 'to build a collaborative and capable team dedicated to serving customers'. As with many other firms, providing more than anecdotal metrics of its culture remains elusive.

Ian Marchant's profile is very limited as an interim CEO. He has however done a recorded radio interview where he spoke of the importance of businesses 'giving back', which he defined as including social mobility, the living wage, and community engagement. Sarah Bentley, the newly appointed CEO has recently been appointed so we were unable to make an assessment at this point.

United Utilities

Brief Overview

United Utilities describes itself as a purpose-driven organisation and is clear about the societal value that it sees itself generating for its stakeholders. They have adopted a good approach to reporting in many areas.

Purpose and Culture

United Utilities Purpose is defined as providing a 'great service to customers and communities in the North West, creating long-term value for all our stakeholders. Our vision is to be the best UK water and wastewater company'. They align this agenda to their culture through an extensive focus on customer satisfaction and sustainability on their owned channels, and through a particularly innovative section on their website which provides real-time updates on their employee performance across key metrics. This innovative example of demonstrating transparency to their stakeholders is an interesting way of forming a client-facing culture. There is direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

United Utilities provides good reporting on a majority of the areas examined. They have a robust approach to reporting their approach to stakeholder engagement and the issues that are material to them. The company is also transparent about the top issues raised by employees - Health, safety and well-being, Diverse and skilled, workforce and Employee relations. They also provide detailed analysis of their 'supportive' work culture with a case study regarding the work that they do to support colleagues' mental health backed up by accreditation to the Workplace well-being Charter. The firm is clear on the values that it expects colleagues to hold and should be regarded, in their reporting on the

culture, as one of the leaders in the sector.

The company could do more to integrate social and environmental factors into its appraisal of risk. It should also develop a more comprehensive set of metrics around its CSR activity.

Positioning

In terms of social mobility, United Utilities go well-beyond the rest of the sector, by employing a social mobility manager: another innovative step being taken by this company to build, and demonstrate their societal value. The company claims the most innovative culture in the water sector, citing a recent Ofwat report which stated that 'United Utilities shows the most embedded innovation culture, with an ambitious and sector-leading approach to innovation capability'. The company could probably do more to help set an agenda around the systemic social and environmental issues that would be identified through its engagement with external and internal stakeholders.

Wessex Water

Brief Overview

Wessex Water has a good approach to reporting in a number of areas, however, there are a number of areas which need improvement. They are notable for their commitment to supporting organisations external to the water sector, which they believe promote community cohesion.

Purpose and Culture

Wessex Water are clear on their social purpose, and how it relates to their culture: they have recently published a document regarding their strategic direction, which details their efforts to embed a purposeful culture in their organisation, centred around excellence for customers, and employee satisfaction. They provide a clear strategy on how these will be embedded into the company, although this could be strengthened with the inclusion of KPIs for this endeavour to be measured against. There is direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

This is supported by an extensive transparency operation, which involves making public the results of consultation and polling of consumers on a bespoke website. However, despite this innovative use of digital assets, there are a number of areas in which the reporting undertaken by Wessex Water could be improved: Wessex Water presents clear Gender Pay Gap reporting but does not do so for the Ethnic Pay Gap. It does not account for how it will redress issues of pay equity and is unclear regarding its work to further social mobility. It should also explain how its activities contribute towards progress towards the SDGs.

Positioning

Colin Skellett is one of the most vocal CEOs in the sector, although his focus when speaking on platforms is not on purpose or societal value issues. One of their most prominent methods of engagement with their local community is through their allocation of 'Community Cohesion' funds: financing projects in the Wessex region that often bring geographically and socially diffuse communities closer together.

Yorkshire Water

Brief Overview

We believe that Yorkshire Water has a strong approach to reporting purpose and societal value. Their approach to purpose and societal value is innovative and rigorous.

Purpose and Culture

The Company's culture and purpose are both clearly defined as mutually reinforcing, and Yorkshire Water commits to ensuring that it is implemented through a variety of means, including reviewing feedback from a bi-annual Kelda Voice employee survey, reviewing reports from internal audit at the audit committee and through regular interactions of the board with the senior management team across the business. Yorkshire Water also makes it clear through their annual report that whilst their directors are expected to embody the culture of the organisation, additional traits are expected of them, including 'openness and public service', which were identified in an external review of the board as particular strengths of its current composition. There is direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

Amongst those companies that we have profiled Yorkshire Water is one of the leaders in terms of the breadth and depth of their reporting, which in numerous cases goes well beyond the industry standard, and those standards required by the regulator and statute. They have a robust approach to reporting gender and ethnic pay gaps. They have a clear method of reporting their impact on climate change and they have metrics attached to their CSR work. The company publishes an annual publication entitled 'Our Contribution To Yorkshire', the latest of which appears to be dated May 2018. The document sets

out the company's impact (both positive and negative) on the environment, customers and society using Total Impact and Value Assessment methodology ('TIVA'). The TIVA approach is based on the Six Capitals philosophy adopted by Yorkshire Water, grouping impacts under: Financial Capital, Manufactured Capital, Natural Capital, Human Capital, Intellectual Capital, and Social Capital (similar to the framework set out in this report). The annual report includes significant quantified and monetised metrics related to sustainability, including pollution incidents, waste diverted from landfill, kilometres of river improved, the number of stretches of water that are high enough quality for public bathing.

Positioning

Yorkshire Water has a Social Value Committee, chaired by the Chief Executive of the company and at least two non-executive directors. The company communicates matters of societal value through the corporate governance documentation, and also through media releases posted on the company website. Liz Barber's public remarks have a focus on sustainability and reducing environmental impact. She champions CFOs/CEOs making changes and being held accountable. She also makes engineering a significant part of her platform- evaluating cost, environmental, and social impact of ways of working and innovating to be better in terms of biodiversity and environmental impact.

Affinity Water

Brief Overview

Affinity have a number of strengths in the way in which they communicate and relate their purpose and societal value to the concerns of both internal and external stakeholders: they are mostly transparent on the issues that they perceive as mattering most to their stakeholders and are committed to delivering a more diverse water company in the years to come.

Purpose and Culture

The Company's culture is described in what they refer to as 'The Affinity Way', which describes 'who we are, the way we act and the performance we deliver'. This document references the organisation's purpose extensively and makes it clear that both purpose and culture are mutually reinforcing.

However, the company states in its annual report "further work is underway to ensure the company's purpose, strategy and values are clear and transparent, and reflective of the needs of our stakeholders." There is direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

Affinity has some areas of strength in terms of reporting: the company devotes a section of their Annual Report to areas relating to purpose/societal value. These are further broken down into KPIs later in the report. Furthermore, the company has published a report detailing how they engaged with customers and stakeholders on the matters most important to them whilst creating their most recent Business Plan. However, there are areas where Affinity is less forthcoming. Whilst it is to be commended for a specific sub-section on its website which outlines its impact on CO₂ emissions, there

is a lack of detail on other environmental concerns which makes understanding the full implications of its operations difficult for stakeholders without access to internal or proprietary information. The company could improve how it reports on its engagement with employees by detailing how it has incorporated feedback. The board does, however, acknowledge that “it will assess how best to engage with employees across the business in a way that implements effective engagement with, and participation from these parties”.

Positioning

Pauline Walsh started the #whynotwater campaign to encourage mandatory efficiency labelling on water appliances. She campaigns more broadly on the issue of water preservation in the UK. In her limited speaking engagements, Pauline Walsh devotes a substantial amount of attention to sustainability issues.

Bristol Water

Brief Overview

Bristol Water is clear about their social purpose, and the importance of it in their relationship with their consumers. The company articulates a purpose in a guiding document entitled 'Our Purpose and Social Contract'. Its approach to reporting is good in many of the areas that we examined.

Purpose and Culture

Bristol Water sees their culture as the tactical implementation of three strategic priorities: ensuring safe working practices; retaining a skilled workforce; and, maintaining a motivated workforce. Their annual report details how these three objectives play out over their hiring, CPD, and remuneration programmes, and there are a number of thought-leadership pieces on their website which relate to embedding a 'happy' culture in the organisation. There is a clear link between these strategic priorities and the purpose as articulated in their guiding document. There is direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

Bristol Water comprehensively tracks their business activities against the SDGs. The company publishes a gender pay gap report as well as measures the company takes to reduce these inequities. Bristol Water is part of the Social Mobility Pledge and the Ablaze Mentoring Programme as well but does not engage in any Ethnic Pay Gap reporting.¹²

¹² The pledge is available to review at www.socialmobilitypledge.org

The company could improve the quality of its reporting by factoring in social and environmental issues into its appraisal of risk and having a more user-friendly explanation of its activity relating to reducing the impact of climate change.

Positioning

Mel Karam has spent a limited amount of time speaking out about social and environmental issues.

Portsmouth Water

Brief Overview

The company should work to improve its reporting in a number of areas and develop a clearer link between Purpose and Culture.

Purpose and Culture

The organisation's culture does not feature in its public documents as it should do, especially when compared to other companies in the sector. The company has core values, operational excellence, customer service, environmental stewardship, and sustainability as part of their strategy, but these are not seen as a culture, or as part of the purpose of why the company exists. There is no direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

Portsmouth Water does not report metrics for its CSR activity, their contribution to the UN SDGs, or how the operations of the company impacts their local community and environment. Likewise, Portsmouth Water reports on its gender pay gap but goes no further than the statutory minimum reporting requirement. There is no suggestion of how the gap in pay equity will be ameliorated or reporting on the ethnic pay gap within the organisation. Climate Change reporting is limited to risk mitigation, and the functional steps being taken, including in the Water Resources Management Plan to reduce its impact on the environment by for example planning a leakage reduction of 15% by water efficiency measures and higher levels of metering. However, the opportunity is not taken by the provider to tell a compelling narrative regarding their commitment to fighting the climate crisis, with the environment seeming to be positioned as a risk to be mitigated, as opposed to an asset to protect.

There are some instances where Portsmouth Water does engage with the societal value that it creates. It is a signatory of the Social Mobility Pledge and speaks explicitly about the importance of ethical sourcing within its supply chain.¹³

Positioning

Bob Taylor has a relatively limited platform, but he has devoted a reasonable amount of time to discussing sustainability and the changing world in which it is “more difficult to make collective progress on the challenges that we are facing”, and where “environmental risks dominate these challenges.”

¹³ The pledge is available to review at www.socialmobilitypledge.org

South East Water

Brief Overview

South East Water has some areas of innovative work around purpose and societal value, which are to be commended.

Purpose and Culture

South East Water publicly lists five core values on its website, which inform the culture that they are aiming to create in the organisation: trust, creativity, excellence, passion, and agility. These are embedded through a number of initiatives in the organisation, including training 20 innovation champions across the business to embed a culture that supports new ideas and continual improvement. However, whilst it is clear that the business has a vision for its internal culture, it is unclear where, if anywhere this is articulated as a formal purpose, included in its Performance, People Planet report, which would be a logical place for such a statement to be contained. There is some distance to go before South East Water could be described as one of the industry leaders on purpose and societal value reporting: The company attempts to outline their purpose through their 'Performance, Planet, People' section in their annual report, but this is rather unclear. It is also unclear how this explicitly links into the entirety of their business practice. There is direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

South East Water does not adequately quantify the environmental impact of its business on local communities, neither are executive remuneration, or other levers for changing behaviour tied to improving the societal value of the company, such as reducing emissions.

Yet, where South East Water demonstrates a robust approach is their use of over 120 engagement methods to contact over 13,000 of their customers: a substantial number of people who have then fed into their business plan. Likewise, there is very positive engagement in their annual report with issues surrounding the Gender Pay Gap, where the statutory reporting is combined with the efforts that the organisation is taking to redress issues of pay equity.

Positioning

These issues, combined with a relatively limited pro-active media profile regarding the positive work done by South East Water, mean that it is unclear to the casual observer the positive societal value created by the company.

South Staffordshire Water

Brief Overview

South Staffordshire has a number of areas that require improvement concerning reporting. It should also develop a clear articulation of its purpose and how that purpose is shaped by its culture.

Purpose and Culture

South Staffordshire Water does not explicitly articulate a purpose, although they are clear about the role that they fulfil in their community as a provider of a high-quality water service. Their culture is therefore not integrated in any meaningful sense into their purpose but is an expression of that business objective: with bonuses linked to delivery targets and a commitment to public health prominently displayed on their website. There is no direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

South Staffordshire has a patchy engagement with social purpose and societal value and it is clear that there is some distance to go if it is to be providing an average level of purpose and societal value reporting. Noticeable gaps exist in social mobility reporting, ethical supply chain reporting, and on gender/ethnic pay gap reporting that exceeds statutory requirements. It is clear from the annual report for the financial year 2018-2019 that South Staffordshire Water recognises the importance of embedding a new culture in the organisation, above and beyond just ensuring that health and safety is foremost in the minds of those individuals who work for the organisation. However, whilst the annual report details that steps are being taken by the board to achieve this, it is unclear what their goals are in terms of culture change, or by what metrics they will measure their success or otherwise in this endeavour.

Positioning

Former managing director, Phil Newland, uses his public platform connected to his work as one of the leads on a young person's innovation panel that focuses on what challenges young people face and prioritise. He has often spoken about the buying power of companies and power as employees to effect social change, and much of that platform is devoted to sustainability and the environment. It is too early to form an assessment of Andy Willicott who was appointed as managing director in May 2020.

Sutton and East Surrey Water

Brief Overview

Sutton and East Surrey Water is one of the poorest performers in our report. With no coherent purpose, nor a clear indication how they engage with stakeholders on core issues, there is a paucity of information when it comes to how Sutton East Surrey Water quantifies its societal value, and communicates it with its customers.

Purpose and Culture

There is a severe lack of information which allows for a coherent picture of Sutton and East Surrey's purpose and societal value to be created: Whilst they meet the statutory requirement to report their Gender Pay Gap, they do not have a plan to redress the 17.3% imbalance. They do not report on their ethnic pay-gap, or how they work to reduce imbalances in social mobility. Sutton and East Surrey Water has 10 values that they claim are central to their business, and case studies of where they have been applied. However, there is very limited information about how these values are more widely embedded in the organisation and what metrics are used to judge East Surrey Water's success in doing so. They are highly anecdotal in nature, and with no empirical data attached to them, must be considered to be of limited value when it comes to assessing culture. There is no direct board oversight for activity related to purpose, CSR or responsible business through a dedicated committee.

Reporting

Transparency in Sutton and East Surrey's reporting on issues of purpose and societal value is concerning. Their annual report details that they "share knowledge and develop more innovative solutions to deliver the step-change in performance required", without detailing how assessments of

those partnerships are carried out, or where that information can be found.

Furthermore, there are serious concerns regarding their reporting on their objectives. Whilst the majority of utility providers in our study detail objectives and outcomes, Sutton and East Surrey focuses almost exclusively on objectives, with little detail on how successful the organisation is in terms of implementation.

Positioning

With a new CEO in place, it remains to be seen if they will use their platform to set an agenda.

Appendix II: Case Studies

CASE STUDY: NOVO NORDISK

Changing of corporate structure

Novo Nordisk, the global pharmaceutical company, states in its [articles of association](#) that it “strives to conduct its activities in a financially, environmentally and socially responsible way”.

Novo has won praise for enshrining purpose at the heart of the company. Novo believes that this change to its articles make it clear that while overall responsibility lies with The Board of Directors, every single Novo Nordisk employee is responsible for enhancing our financial, social and environmental performance.



This is a step that companies can take to

both demonstrate their culture, as well as begin to change it to make it more public-value led. It also signals to their suppliers and contractors their ways-of-working, which can be backed up by policies regarding ethical procurement along parts of their supply chain, as well as by internal safeguards.

Since the launch of the Dow Jones Sustainability Indexes (DJSI), Novo Nordisk has consistently been awarded scores in the top of the healthcare sector – either as number one or two.

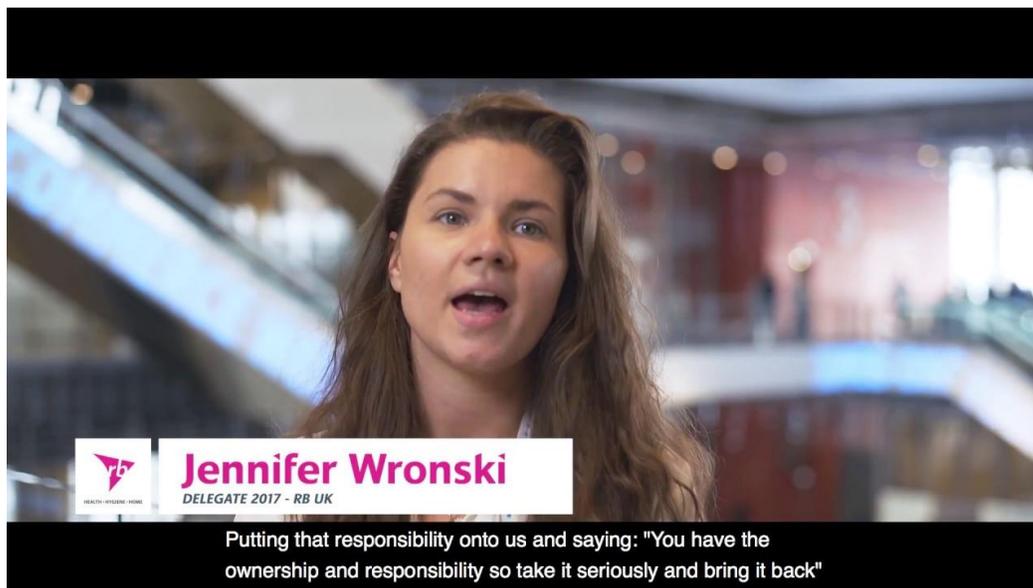
Learnings for the Water Sector

Anglian Water is so far the only UK-based water company to change its articles of association in order to demonstrate its commitment to societal value. This change ensures that everyone in the organisation, from the board of directors and senior leadership to front-line staff are presented with an opportunity to think in a structured way about their wider responsibilities and impact. As we have outlined earlier in this report such an approach, though not necessary or sufficient, can help to initiate a company-wide conversation regarding purpose, and the value that an organisation can bring to its community.

CASE STUDY: RB

Embedding purpose

RB, the parent company of some of the UK's best-known brands, including Nurofen, Durex, Dettol, and Gaviscon, has [created a 'purpose council'](#) of predominantly millennial employees to advise the senior leadership team on issues relating to purpose and societal value.



This council takes advantage of the importance that millennials place on social purpose issues as consumers, and allows that thinking to make a difference at the very top of RB: it has a direct line of communication to the CEO of RB, and is empowered to encourage innovation and to raise awareness and understanding of purpose inside of the company.

They are also authorised to bring in coaching to upskill employees in purpose thinking and practice.

Learnings for the Water Sector

Statistically, younger employees are more likely to care about purpose. Recognising this, engaging that

set of employees is vital for an organisation that seeks to deliver on their societal value. Empowering younger employees to have a clear line of communication to key decision-makers is one way in which a company can show that it is committed to its social purpose, and recognises the importance, and contribution of those that care the most about it, as well as ensuring that these issues remain on the agenda for the amount of time that is needed to see genuine change in large and multi-faceted organisations.

CASE STUDY: UTILITY COMPANIES COALITIONS

Coalition building

Several coalitions of utility companies in The Netherlands, [Green Nets](#) (“Groene Netten”) and [Next Generation Infrastructures](#) in collaboration with Impact Institute, have working groups on the impact and value of infrastructure. The organisations associated with the coalitions own and manage the infrastructure that faces challenges such as urbanisation, digitisation and energy transition. These challenges are underlined by the organisation’s awareness of their mutual dependence and increasing complexity.

believes that all infrastructure managers have a clear social responsibility based on their role. They believe they can jointly accelerate sustainable development from their own chain position by consciously dealing with emission reduction and accelerating the migration to circular material use, in collaboration with suppliers. Given the large collective impact of all social infrastructure managers together, this directly contributes to both significantly lower CO₂ emissions in the Netherlands and shift to a circular economy.

This ambition, according to Groene Netten, is underpinned by big societal challenges currently: climate change and the depletion of raw materials (also felt in the Netherlands), the increasing demand for more sustainable forms of entrepreneurship and the demand for alternative, sustainable energy sources.



The coalitions and administrators aim to focus more on social value. Societal themes such as the climate agreement require guidelines and baselines to be directed towards value and impact, and, as such, impact measurement has been on the agenda of the organisations in the coalition for some time. By measuring their impact, these organisations can more effectively manage their impact and thus increase their value to society.

Moreover, recent developments in society and politics have made the need for impact measurement more urgent: in addition to economic growth and social challenges, the climate agreement has recently been concluded. The Dutch government has set out objectives to combat climate change. In addition, other large challenges, such as those relating to the nitrogen crisis, require a joint and harmonised approach.

Several organisations in the two coalitions have the desire to better understand the contribution to social value, from both the perspective of each individual organisation and the perspective of the collective, in order to be able to focus on social value now and in the future.

In that context, a selection of organisations have started a parallel 'Impact Journey' - in collaboration with Impact Institute. The main aim is to get a harmonised and comparable view of each organisation's value to society. The organisations began by undergoing a 'hotspot analysis', where the materiality of all impacts material for their organisation were determined. The results were then used to align on three quantitative impacts that these organisations saw as essential to all of them and the sector overall, using the six Capitals of the IIRC as a useful classification¹⁴. Through this, these organisations have and will continue to, increase their understanding of their impact in a harmonised manner. In addition, all organisations use the insights from their own 'impact journey' to create a common sector

¹⁴ The results of these analyses are not yet public.

vision. This includes strategic vision on a selected theme, such as, for example, climate change, and insights on questions such as "What is sufficient?"; "What can we do as a sector beyond organisational responsibilities?"; "What are policy implications?". This provides them with not only a clear view on vision, urgency and preconditions to manage impact in the sector, but clear goals to progress towards as individual organisations, based on the selected theme. An example of one of the companies in the coalition, Alliander, is given as a case study below.

Learnings for the Water Sector

This case study shows how responding to common challenges, and being led by common goals can bring utility companies together. It also demonstrates how they can collaborate with regards to thinking about and measuring social value. This approach was unique, as it was structured around creating a number of parallel 'impact journeys' for the utility companies which allowed for a tailored approach for their organisation, while at the same time supporting collaborative working to set a sector vision on a specific theme. Additionally, it shows how companies that want to embark on a similar journey can follow a step-by-step approach with regards to measuring their impact. This approach starts with a 'hotspot analysis' and moves to quantitative measurements of a selection of impacts.

CASE STUDY: ALLIANDER

Output and impact-focused reporting

Alliander produces best-in-class reporting for an energy company. Its relatively short annual report prides itself on readability and transparency.

Focusing heavily on outputs and data-driven reporting it ensures that stakeholders are given an accurate picture of the working of the company, with as little room for 'spin', or uncertainty as possible.



Alliander's reporting breaks down

significant financial expenditure and other costs related to substantial projects: allowing stakeholders maximum oversight over the company's activities in the last fiscal year.

The unique contribution of Alliander is that they have published an [Integrated Profit and Loss Account](#) as part of their annual report for the past four years. They disclose the quantitative and monetised impacts on Natural, Human, Social, Financial, Intellectual and Manufactured Capital. They have worked together with Impact Institute, but have also developed their own capacity, by adding impact analysts to their finance team.

In addition, Alliander has started to integrate multi-capital frameworks into its decision-making frameworks.

Learnings for the Water Sector

Rather than a company reporting on what it is doing to generate social value, it is preferable to report on what value has been generated, and how that is aligned with a state corporate purpose and other objectives. With sufficient knowledge and with the involvement of the right people, organisations can also start to measure, value, report and manage their impact themselves.

CASE STUDY: ORSTED

SDGs and Ownership of the Purpose Agenda

Orsted is a Danish energy company that describes its “entire business [as] focused on addressing the climate emergency, the most pressing societal challenge of our time.



Our commitment to help create a world that runs entirely on green energy is our commitment to help limit climate change, which is central to progressing action on the UN Sustainable Development Goals (SDG)”. Alongside this [reference to the SDGs](#) in its purpose statement, Orsted reports extensively on how its work impacts them.

Key to the delivery of their objectives regarding sustainability is their appointment of one person to oversee their purpose agenda: their Environmental Hero. Responsible for the implementation of the net-zero ambition across the business, their ownership of the issue ensures that there is a clear chain of command on issues that impact different parts of the company in different ways and could otherwise be sidelined in day-to-day operational discussions.

Learnings for the Water Sector

A company making it clear why it cares about certain metrics for demonstrating societal value, such as the SDGs, demonstrates to its employees, and to its wider network of stakeholders, not just what it cares about, but why it should form part of a shared strategic vision for future operations. Likewise,

designating champions or heroes within senior management creates a line of sight over the disparate elements of business practice that need to be aligned in order to achieve radical business transformation, as well as providing a named individual for the most innovative employees to approach with new ideas.

CASE STUDY: DANONE

SDG Alignment

Danone explicitly aligns its 2030 Goals and KPIs to the SDGs in its [2019 Company Dashboard](#).

It highlights links between sustainability strategy and the SDGs and clarifies these links in the “Our Contribution to the UN’s SDGs” section of the reporting suite.

SERVE THE FOOD REVOLUTION WITH PARTNERS

2019 KEY HIGHLIGHTS

BUILDING BUSINESS COALITIONS AND INITIATIVES FOR GREATER IMPACT

- BUSINESS FOR INCLUSIVE GROWTH (B4IG)**
We partnered with the OECD to build a coalition of more than 40 companies, organizations and philanthropic organizations, to help tackle social inequalities and promote inclusive growth.
- ONE PLANET BUSINESS FOR BIODIVERSITY (OP2B)**
A unique international cross-sectorial, action-oriented business coalition on biodiversity with a specific focus on agriculture and soil health (21 members end April 2020).
- FARMING FOR GENERATIONS**
Support dairy farmers in the U.S., Europe and Russia in preserving and renewing resources, respecting animal welfare and ensuring economically viable farming for the next generations.

COLLABORATING WITH MULTILATERAL ORGANIZATIONS TO ADVANCE ON GLOBAL ISSUES

- ADVOCATE FOR INCLUSIVE DIVERSITY**
HeForShe
Emmanuel FABER UN Inaugural Thematic Champion
- PROMOTE REGENERATIVE AGRICULTURE AND HEALTHY, SUSTAINABLE DIETS**
Collaboration to improve global nutrition, encourage more diverse and healthier diets, and promote responsible farming.
Food and Agriculture Organization of the United Nations
FReSH: Initiative led by the WBCSD (World Business Council for Sustainable Development) and the EAT Forum.
- EDUCATE ON CLIMATE CHANGE**
Knowledge and skills sharing to empower both our employees and the UN Climate Change: Learn online community to take action against climate change thanks to better-informed food choices.
unitar
United Nations Institute for Training and Research

Danone further details its contributions with pages specific to each SDG. These highlight context, the sub-goal level criteria to which Danone contributes, relevant business themes from the SDG Compass and examples of relevant partnerships and activities.

Learnings for the Water Sector

Given the increased prominence of the SDGs as a measure of an organisation's commitment to demonstrating societal value, finding innovative ways of presenting this information in a clear and

precise way will become more important, especially for stakeholders who are less familiar with standard annual reports. Pull-outs and standalone documents are a great way of reaching a wider audience.

CASE STUDY: RB

Materiality

A key strength of RB's sustainability report is the alignment between outcomes of the [materiality assessment](#) (laid out clearly in graphical form) and content of the report.

The scope of the materiality assessment is also crucial: it is relevant to the company's strategically important stakeholders. This focused approach is best-practice as it ensures that organisations have to consider extensively the issues that impact their stakeholders the most, leading to a strategy which optimises societal value as far as possible and recognises the relative importance of issues.

Learnings for the Water Sector

Materiality assessments allow for companies to make it clear to their stakeholders, not just what they believe to be important but how they are balancing different competing systems and resources in their assessments. Providing that information in a clear and easy-to-digest format is vital for stakeholders to be able to gain an understanding of the often incredibly complex decision making processes at the heart of a business that they are directly impacted by, but may understand very little of the day-to-day operations of. It is the responsibility of water companies as providers of a vital service to provide this information in a way that stakeholders can understand, not for the stakeholders to educate themselves to a level sufficient for them to be able to make sense of systems that are unfamiliar to them.

CASE STUDY: ABN AMRO

Stakeholder Engagement

ABN AMRO is the first bank worldwide to extend its [Integrated Annual Review \(IAR\)](#) to include an Impact Statement. This Impact Statement, which has received limited assurance from an auditor, EY, reports on the value ABN AMRO creates and reduces for each of its key stakeholder groups: clients, employees, investors and society at large.

In order to have a solid foundation for this Impact Reporting and provide transparency about the methodology behind it, ABN AMRO also published an Impact Report. This report, published for



the second consecutive year, provides additional impact information and information on the methodology used to measure and quantify impact. Importantly, the report also shows ABN AMRO's contribution to the Sustainable Development Goals and its reduction of (true) societal costs.

ABN AMRO meets an important need in society, including investors and businesses, to be transparent about their long-term value creation to all stakeholders. The bank is a leader in the movement to provide quantitative and monetised impact reporting for different types of stakeholders.

Learnings for the Water Sector

The framework around which annual reports are constructed is up for debate and discussion. ABN AMRO provides an example of how impact reporting can be integrated into this, demonstrating

effective communication tools that are appropriate for all stakeholders, the overwhelming number of which are not shareholders.

CASE STUDY: PROCTER & GAMBLE

Gender Pay Gap

The most recent audit of Procter & Gamble's US gender pay gap suggested that there is no 'appreciable' gap across like-roles. This is used as the launch-pad for [a number of initiatives](#) in their company and supply chain: demonstrating how a statutory reporting requirement is only the beginning of what a company can choose to act upon in their own value chain.

P&G has prioritised women's economic empowerment, spending more than \$1.1 billion with women-owned businesses globally, and

partnering with WEConnect

International, the Women's Business

Enterprise National Council and UN

Women in 14 countries to provide

training for women entrepreneurs.

This demonstrates how a

commitment to paying women fairly can be taken further than just the direct employees of a large corporation like P&G.

The visibility of this work has been augmented by P&G donating nearly \$600,000 to support the US Women's Football team, who they sponsor via their Secret deodorant brand, in their action against the US Soccer Association on wage discrimination.



Learnings for the Water Sector

Advocacy can be a powerful part of demonstrating societal value. The philanthropic decisions made by an organisation speak to its purpose and culture, and, in the best case, act as an extension of their own social value creation.

CASE STUDY: CVS

CVS taking a stand on public health

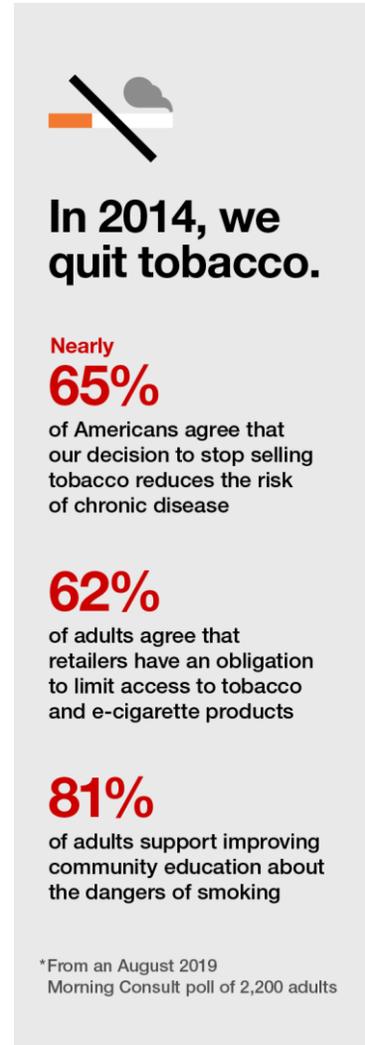
CVS, a pharmacist chain in the United States with nearly 10,000 stores, has been tobacco-free at all of its locations for over five years.

This [decision](#) led to 100 million fewer packs of cigarettes being sold in the US, in the first year since their removal, and was supported by a campaign that led to 228 colleges and universities becoming tobacco-free in the five years since the ban.

The decision, which was seen as controversial by a number of media outlets at the time has been overwhelmingly well-received by consumers. Nearly 65% of Americans polled agree with the decision to stop selling tobacco to reduce the risk of chronic disease, and 81% of adults support improving community education regarding the harms of smoking.

CVS has continued to build its platform around this issue, with increased campaigning and education for medicare recipients on the smoking-related disease, backed up by over \$100 million in investments in communities at risk of diabetes, obesity, and heart disease.

Learnings for the Water Sector



Consumers expect leadership. More than ever, companies are viewed by consumers as being an important actor in social movements. There are potentially significant advantages to being the first mover in a sector: gaining recognition and positive press coverage for bold decisions.

**Appendix III - Suggested
societal value and Impact
Framework**

Impact and water companies

After defining and embedding an articulated purpose, it is crucial that companies measure, value, report on and manage (improve) their impact. We define impact as the measurable contribution of a company to well-being in society. This annex will outline a potential framework that can provide a base-level understanding of impact. This framework is based on an open-source methodology that has been applied by large financial institutions globally and utility companies in the Netherlands. Its foundations are grounded in various open-source methodology documents published by the Impact Economy Foundation and Impact Institute (the most notable of these is the Framework for Impact Statements (Impact Institute, 2019)¹⁵ and the Integrated Profit & Loss Assessment Methodology (IAM): Core (Impact Institute, 2020)).¹⁶

This Appendix consists of three main parts:

- (i) Key concepts and definitions
- (ii) A step by step process to scope the impact of water companies
- (iii) Application of the Framework for Impact Scoping to water companies in England and Wales

How can water companies frame their impact?

Water companies have a vital role to play in supporting healthy living and managing natural resources.

¹⁵ Impact Institute (2019). *Framework for Impact Statements – Beta version (FIS Beta)*. Available at <http://www.impactinstitute.com/framework-for-impact-statements/>.

¹⁶ Impact Institute. (2020). *Integrated Profit & Loss Assessment Methodology (IAM): Core*. Available at <https://www.impactinstitute.com/ipl-assessment-methodology/>

At the same time, they must balance these positive effects with potentially negative considerations like affordability concerns for consumers and the responsibility to manage the extraction of scarce water resources to protect the interests of future generations. One effective way of managing these interests, and other effects resulting from the activities of water companies, is by measuring, valuing, reporting and managing the impact of these effects on the relevant stakeholders.

There is an increasing movement towards establishing frameworks and methods that can be used to measure the impact resulting from the activities of organisations, including water companies, to society. While a relatively new field, various initiatives have already developed frameworks for identifying, quantifying, valuing, and reporting impact. Some examples include the Global Reporting Initiative (GRI), Impact Management Project (IMP), Capitals Coalition (which includes the Natural Capital Coalition and Social & Human Capitals Coalition). The [Impact Economy Foundation \(IEF\)](#) focuses on creating a community of impact professionals and incubating a methodology for Impact Statements - that integrates impact into the financial accounts of companies. Another recent initiative is the [Impact-Weighted Accounts Project](#) at Harvard Business School, which has the mission 'to drive the creation of financial accounts that reflect a company's financial, social, and environmental performance'. The project is part of a broader Impact-Weighted Accounts Initiative (IWAI), which is a research-led joint effort by the Global Steering Group (GSG) and the Impact Management Project (IMP).

Some companies have adopted many of the recommendations endorsed by those initiatives and frameworks to respond to show stakeholders exactly how investing in them can contribute to wider social and economic goals. This is an important consideration for the water sector. Even though significant strides have been made by many individual companies and institutions to respond to this in the last decade, robust methodologies focusing on and adopted by the water sector are largely lacking.

A notable exception is Yorkshire Water. In its 2017 the company published its first Total Impact and Value Assessment (TIVA) report, which includes a number of quantified and monetised impacts per Capital.

Despite the lack of consensus on a framework and methodology for water companies, a framework can be developed that builds on current water sector practices and open source methodologies to introduce impact measurement in the context of the water sector in England and Wales. This is introduced in the next section.

A Framework to Measure the Impact of Water Companies:

Part I: Key concepts

Impact is the contribution of a company to well-being

As explained in the main report, a company's impact is the measurable contribution of a company to societal well-being. This includes the contribution of Social, Human and Natural Capital for clients, shareholders and society at large. Specifically, impacts measure a company's societal well-being by measuring changes in stocks of the aforementioned Capitals (e.g. financial Capital like profit, or natural Capital like CO₂ emissions). Measuring these changes in Capital provides insight into an organisation's performance that is significantly different than measuring at an output level. An impact pathway provides insight into this idea:

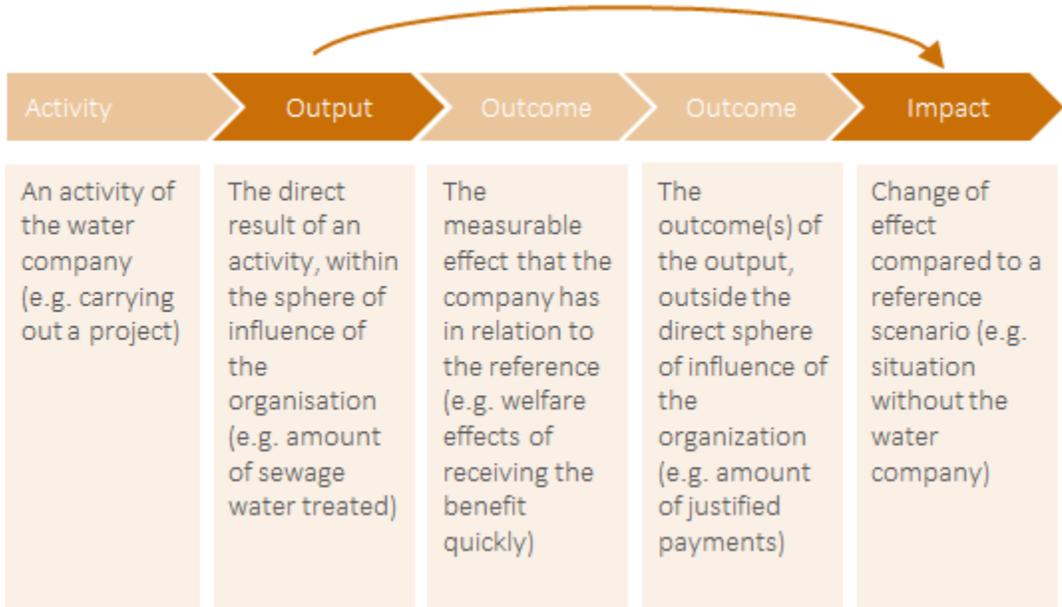


Figure 1: Impact measurement enables the turning of purpose statements into impact evidence. Impact pathways are a tool to assist in that.

Multi-stakeholder and Capital measurement

The shift to impact measurement leads to a different approach from more traditional approaches. The traditional focus on shareholders shifts more to a focus on multiple stakeholders and the narrow measurement of Financial Capital shifts to include the measurement of multiple Capitals.

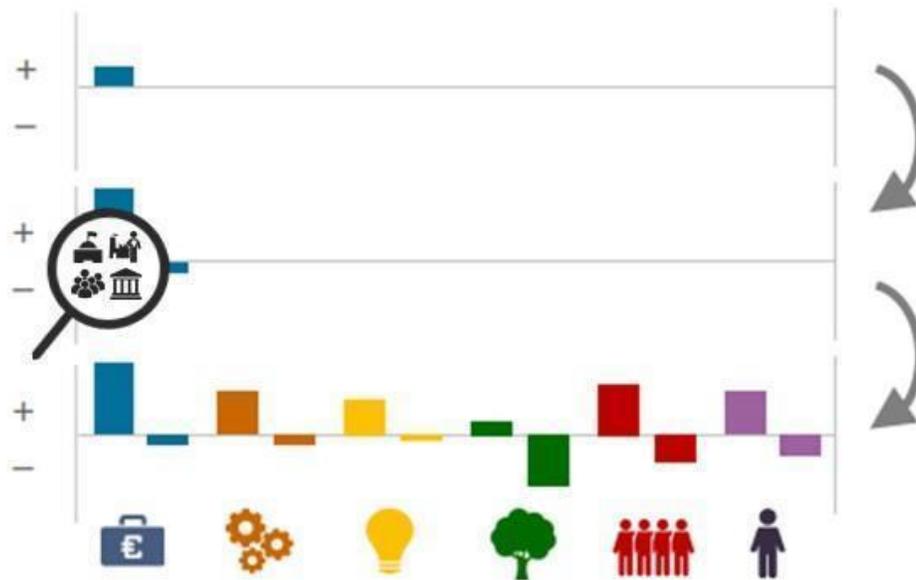


Figure 2: By valuing all impacts, these impacts can be compared.

Impacts are then categorised by Capital, based on the six Capitals from the International Integrated Reporting Council (IIRC).

Impacts are measured and then further categorised according to their effect on different stakeholders, such as employees, clients, governments, nature and broader society.

Part II: Impact Framing Process

Impact can be framed in two phases

The next pages explain the main steps for performing an impact measurement. These steps fall in two phases:

Framing:

1. Define the goal and target group of the impact measurement
2. Define the scope
3. Make a long-list of all impacts and identify the most relevant ones
4. Develop an impact frame, where you specify the data needs and calculation formulas

Interpretation:

5. Interpret and apply the results
6. Check the results, internally, or by an external party (optional)
7. Translate the results into an appropriate message to the target group

Preparation: Goals, target group (1) and scope (2)

Step 1: Define the goal and target group of the impact measurement

The first step defines why the measurement is relevant to the parties involved. It is important to define the target group, their interest in the impact measurement and a description of how the company can apply the results.

Step 2: Define the scope

Clear scoping boundaries are important. The relevant factors are time and space, the type of impacts, the involved stakeholders, and the reference scenario.

Time and space

Define the time interval and geography in which the impact is measured. The time interval requires special attention as the impact of water extraction may not take place directly but far into the future.

Level of impacts

Define the type of impacts you want to measure. A useful categorisation of impacts are the six Capitals outlined above.

Stakeholders

Specify the stakeholders that should be included, e.g. consumers, employees of the project, the government?

Reference scenario

Define the reference scenario to be applied (e.g. a situation where the organisation is not active and competitors take over its actions) to compare the effects of the company or project with. The reference scenario of a water company can, for example, be the provision of the same service by a governmental agency.

Preparation: long-list of all impacts (3) and calculation formulas (4)

Step 3: Make a long-list of all impacts and identify the most relevant ones

To assess the impacts, one needs to define the activities within the business or project that contribute to the realised impact. Once an overview of activities has been defined, an activity's impacts can be discovered by mapping their chains of effects.

We apply impact pathways to structure and visualise the impacts of activities (see figure 1 on page 102). Once a full overview of activities and impacts is in place, the next step is to select the most relevant impacts. A useful approach could be to evaluate 1) the relevance of each impact to the company and 2) the relevance of each impact to stakeholders. This informs which impacts should be measured.

Step 4: Develop an impact frame

To arrive at a quantitative impact measurement, the next step requires the determination of what units should be used to express the impacts in. It is important that the selected units provide the necessary information needed to meet your goals in a clear way. One could, for instance, choose to express impacts monetarily.

These processes will not be discussed further here, as the focus of this report is to introduce the concepts of purpose, impact and their importance. Therefore, the method outlined here is primarily a qualitative assessment of impact and purpose. An overview of how to formulate data needs, formulate calculation formulas and monetise impacts can be found in Impact Institute's IAM Core methodology.

The materiality of impacts is determined by stated importance, research and data

A materiality assessment indicates how important particular impacts are for a given organisation. The assessment must first define a list of relevant impacts. These impacts can be determined through

various means:

- The stated importance of an impact to a company and its stated influence over that impact
- The stated importance of an impact to stakeholders and its stated influence over that impact
- Secondary research and source analysis
- Analysis of the company's available data
- The impacts with the highest importance and company influence will be the most material
- A range of importance/influence will be drawn to determine which impacts are out of scope
- Sufficient organisational influence of impact importance by itself may be enough to place an impact in scope

Interpretation: Interpret (5), check (6) and communicate (7)

Step 5: Interpret and apply the results

Companies should check the results of their analysis to see how they resonate with earlier expectations and how to interpret the meaning of the results. After a thorough check and required revisions of the results (see step 6), the next step is to formulate a clear message from the results and implications of the results to the predefined target group (step 7).

In this step, it is key to consider what the uncertainty in the data is when making conclusions and to always communicate important assumptions and limitations of the impact measurement.

Step 6: Check the results, internally or by an external party (optional)

When the results of the impact measurement are ready, the results should be checked internally for: 1) accuracy of calculations; 2) accuracy of data points and, eventually, 3) the uncertainty of underlying data points and their robustness. When external communication or reporting has been finalised, it may be useful to engage a third party to review the results.

Step 5 and 6 are iterative; based on the check, results might change. This, of course, affects the interpretation of the results.

Step 7: Communicate the results into an appropriate message to the target group

In order to communicate results as a clear message to the target group, it is important to define your communication goals. Additionally, it is important to analyse the target audience. For example a company should ask "what is their interest in the impact measurement results and how do we communicate these results in order to meet their expectations?"

Part III: Application of Impact Framing Process to Water Companies in England and Wales

Impacts from Impact Institute's IAM Core provide the basis for a materiality assessment

A preliminary list of impacts applicable to water companies in England and Wales can be determined based on the IAM Core methodology, as shown below. This list is meant to serve strictly as an indicative example of impacts that can be material to water companies. It is not meant as a strict framework or an exhaustive list of material impacts.

It is worth mentioning that there are different lists of impacts available, although not all of them have been published. IAM Core is a reference publication that includes a methodology applicable to all types of organisations and is suggested as a basis for starting to consistently look at impact. It can eventually be tailored to each sector or organisation with a specification of impacts relevant to them. Yorkshire Water's TIVA publication provides a different set of impacts, as it was developed specifically for the organisation. However, as it is shown below, the impacts in IAM Core largely relate to the more specific impacts included in the TIVA.

Financial Capital

- Payments from clients
- Employee salaries (and related taxes)
- Net profit/loss

Manufactured Capital

- Client value of products and services

Intellectual Capital

- Development of immaterial assets and technology

Human Capital

- Creation of human Capital
- Well-being effects of employment
- Workplace health and safety incidents

Social Capital

- Change in brand value and customer loyalty
- Gender discrimination
- Ethnic discrimination

Natural Capital

- Use of scarce materials
- Use of scarce water
- Water pollution
- Contribution to climate change
- Land use and transformation
- Air pollution

List of impacts for each Capital

The definition of each of the indicative impacts per Capital is provided below, based on the open-source IAM Core methodology. For each impact, an example of it being measured and reported on in practice

is also provided. The examples are taken from Alliander’s annual report 2019 and ABN AMRO’s Impact Report 2019. Where the impact is absent from these two, a reference to Impact Institute’s IAM Core is given. A column has also been added to shed light into the relationship between impacts in IAM Core and impacts in TIVA publications of Yorkshire Water. The documents consulted include: [Appendix 10a: Total Impact and value Assessment](#), [Total Impact and Value Assessment - Methodology Report](#).

When additional impacts are included in TIVA, but they are not included as such in the IAM Core, this is indicated with a footnote. Possible differences in the categorisation of impacts per Capital are also highlighted in the footnotes. This mapping is the first interpretation of the relation between impacts in the IAM Core and those in TIVA done by the Impact Institute. Ideally, an exhaustive mapping of that relationship would include engaging with Yorkshire Water.

Financial Capital impacts

Impact	Definition	Related impacts in TIVA	Indicative examples in practice
Payments from clients	Payments from clients to the organisation in scope. From the perspective of the client, this is a negative flow of Financial Capital; hence this is a negative impact.	NA	ABN AMRO Impact Report 2019 <ul style="list-style-type: none"> • Measured in million euro ranges • Reported per Capital • Reported for four stakeholders: clients, employees, investors, and society • Based on the payments clients make to the organisation
Employee salaries (and related taxes)	Employee salaries include gross salary and a number of social security and pension contributions. This is a positive flow of Financial Capital to employees and the government (from taxes).	Salaries and National Insurance contributions, Pension contributions	ABN AMRO Impact Report 2019 <ul style="list-style-type: none"> • Measured in million euro ranges • Reported per Capital • Reported for four stakeholders: clients,

			<p>employees, investors, and society</p> <ul style="list-style-type: none"> Based on the salaries of ABN AMRO employees
Net profit/loss	If an organisation makes a net profit over a reporting year, this increases the company's stock of Financial Capital (positive impact). Part of this might, in turn, be used to pay dividends to shareholders. If the organisation makes a net loss, this reduces their stock of Financial Capital, and the impact is negative.	Profits ('operating surplus')	<p>Alliander annual report</p> <ul style="list-style-type: none"> Measured in million euros Reported per Capital Based on the amount of profit/loss over the measuring period
Income tax payments	Profit income taxes paid to the government by the organisation	Taxes and license payments	<p>ABN AMRO Impact Report 2019</p> <ul style="list-style-type: none"> Measured in million euro ranges Reported per Capital Reported for four stakeholders: clients, employees, investors, and society Based on the salaries of ABN AMRO employees

Intellectual Capital impacts

Impact	Definition	Related impacts in TIVA	Indicative examples in practice
Development of immaterial assets	The value of the (hypothetical) stock of developed intangible assets, technology, data, and market models represents future value creation for the organisation (and its investors). Depending on whether this increases or decreases in a reporting period, it can be a positive or a negative impact.	Research and development, Public knowledge ¹⁷	<p>IAM Core Impact Institute</p> <ul style="list-style-type: none"> Based on the change in the value of the intangible assets, like IP, owned by the organisation over the reporting period Can be measured in the resulting euro value

¹⁷ Additional impacts mentioned under Intellectual Capital in TIVA are Employee training, Public information, Knowledge decay. These are part of Human Capital creation in IAM Core.

Manufactured Capital impacts

Impact	Definition	Related impacts in TIVA	Indicative other examples in practice
Client value of products and services	When the organisation in scope delivers products or services in some form, this represents a flow of Manufactured Capital to clients (positive impact). The value of the Manufactured Capital is typically at least as large as the 'payments from clients', as economic theory states that transactions do not take place if the value of the goods or services offered does not match the price.	Bathing water quality, Recreation and amenity ¹⁸	Alliander annual report <ul style="list-style-type: none"> • Measured in million euros • Reported per Capital • Based on the payments clients pay for products and services

Human Capital impacts

Impact	Definition	Related impacts in TIVA	Indicative examples in practice
Creation of human Capital	Human Capital can be created by enhancing the experience of employees and through employee training. Several stakeholders profit from the resulting increase in productivity and higher earnings throughout a career.	Apprenticeships, Employee engagement score, Healthcare benefits ¹⁹	ABN AMRO Impact Report 2019 <ul style="list-style-type: none"> • Measured in million euro ranges • Reported per Capital • Reported for four stakeholders: clients, employees, investors, and society • Based on training, education, etc., provided to employees
Well-being effects of employment	The value of the well-being of employees from the positive effect on self-esteem, autonomy, social relations, and social status of their employment.	Employee 'well-being' programs, Health benefits (workplace H&S in IAM core),	Alliander annual report <ul style="list-style-type: none"> • Measured in million euros • Reported per Capital • Based on the change in well-being of employees

¹⁸ These impacts are categorised under Natural Capital in TIVA. Additional impacts included in TIVA under Manufactured Capital include Energy Generated and Fixed assets value.

¹⁹ Additional related impacts included in TIVA are Employee commutes, National service (army, civil), Performance review, Promotions, Sickness absence rate, Unpaid/Underpaid overtime, Wage inflation.

		Employee volunteer programs	as a result of being hired by the organisation
Workplace health and safety incidents	The value of the damage due to fatal and non-fatal occupational incidents and disease in the workplace. This constitutes a negative impact and an external cost.	Workplace fatalities, Workplace injuries, Sickness absence ²⁰	Alliander annual report <ul style="list-style-type: none"> • Measured in million euros • Reported per Capital • Based on the physical and mental damage resulting from health and safety accidents in the organisation

Social Capital impacts

Impact	Definition	Related impacts in TIVA	Examples in practice
Change in brand value and customer loyalty	Brand value and customer loyalty are indicators of how well the brand is perceived and trusted. An increasing value indicates higher long-term value creation potential. A decreasing value indicates lower potential than previously assessed.	Financial support for customers, Customer satisfaction ²¹	ABN AMRO Impact Report 2019 <ul style="list-style-type: none"> • Measured in million euro ranges • Reported per Capital • Reported for four stakeholders: clients, employees, investors, and society • Based on the difference in brand value and customer loyalty value over the measurement period
Gender and ethnic discrimination	Gender/racial discrimination refers to unequal access to jobs/promotions or lesser pay based on gender or race. A gender/race skill gap at the company in scope (direct impact) or as an indirect impact constitutes a negative impact and an external cost.	(Un)equal opportunity ²²	IAM Core Impact Institute <ul style="list-style-type: none"> • Based on the difference in the wages of male and female and/or non-ethnic and ethnic employees • Can be measured in the resulting euro value

²⁰ Additional related impact included in TIVA is Staff turnover.

²¹ Additional impacts mentioned under Social Capital in TIVA are Late payments to suppliers, Public education and Charity and volunteering. It is also mentioned that social impact is one of the hardest to measure and value and Yorkshire Water aims to focus on this in their next phase of work.

²² This is categorised under Human Capital in TIVA.

Natural Capital impacts

Impact	Definition	Related impacts in TIVA ²³	Examples in practice
Use of scarce materials	Use of scarce, non-recyclable materials makes them unavailable to future users. This constitutes a negative impact and an external cost.	Waste	ABN AMRO Impact Report 2019 <ul style="list-style-type: none"> • Measured in million euro ranges • Reported per Capital • Reported for four stakeholders: clients, employees, investors, and society • Based on the use of non-recyclable scarce materials in the organisation's full value chain
Use of scarce water	Use of scarce water resources makes them unavailable to other users. This constitutes a negative impact and an external cost.	Water consumption	ABN AMRO Impact Report 2019 <ul style="list-style-type: none"> • Measured in million euro ranges • Reported per Capital • Reported for four stakeholders: clients, employees, investors, and society • Based on the use of water in water-scarce areas in the organisation's full value chain
Water pollution	Negative impact on water quality (e.g., due to the emissions of pollutants) constitutes a negative impact and an external cost.	Water pollution, River quality	ABN AMRO Impact Report 2019 <ul style="list-style-type: none"> • Measured in million euro ranges • Reported per Capital • Reported for four stakeholders: clients, employees, investors, and society • Based on the change in water quality as a result of the organisation's full value chain

²³ Additional impacts mentioned under Natural Capital in TIVA are Water saving support, Leakage, Bathing water quality, River quality, Pollutants absorbed on our land, Recreation and amenity.

Contribution to climate change	The emission of greenhouse gases leads to climate change, which negatively affects people and ecosystems. It constitutes a negative impact and an external cost.	CO ₂ -emissions	Alliander annual report <ul style="list-style-type: none"> • Measured in million euros • Reported per Capital • Based on the amount of greenhouse gases released as a result of the organisation's full value chain
Land use and transformation	Land transformation from an original state with high Natural Capital value to a state with lower value constitutes a negative impact and an external cost. Similar costs are associated with the use of recently-transformed land	Biodiversity	ABN AMRO Impact Report 2019 <ul style="list-style-type: none"> • Measured in million euro ranges • Reported per Capital • Reported for four stakeholders: clients, employees, investors, and society • Based on the amount of land used/transformed as a result of the organisation's full value chain
Air pollution	Negative impact on air quality (e.g., due to the emissions of pollutants) constitutes a negative impact and an external cost.	Atmospheric pollution	ABN AMRO Impact Report 2019 <ul style="list-style-type: none"> • Measured in million euro ranges • Reported per Capital • Reported for four stakeholders: clients, employees, investors, and society • The reduction in air quality from the release of pollutants as a result of the organisation's full value chain
Other increase of Natural Capital	Other increases in natural capital due to the activities of the organisation	CO ₂ absorbed in our land	IAM Core Impact Institute <ul style="list-style-type: none"> • Can be measured in the resulting euro value • Reported per Capital

How water companies can practically apply this framework

To complement the impact framing process that lays out the steps for measuring, valuing and reporting

on impact, two practical examples are provided below. One example is provided for a Natural Capital impact, namely energy consumption based on Yorkshire Water TIVA publication of 2017, and one for a Human Capital impact, namely well-being effects of employment based on Alliander's Impact Analysis 2019. These examples are meant to showcase how these impacts have been measured, valued and reported in the context of a utility company.

Yorkshire Water: An example of a measuring a Natural Capital impact

One of the Natural Capital impacts measured by Yorkshire Water in the [TIVA methodology report](#) are CO₂-emissions that result from the use of fuel and electricity and contribute to climate change. To measure this, the company requires the following data points:

- a: Scope 1 emissions - operational in tons CO₂-eq
- b: Offset emissions from renewable energy export in tons CO₂-eq
- c: Scope 2 emissions - operational in tons CO₂-eq
- d: Scope 3 emissions - operational in tons CO₂-eq
- e: Emissions embedded in capital investment activity
- f: Capital investment in million pounds in tons CO₂-eq
- g: Emissions from manufacture and treatment of chemicals purchased and waste disposed (excluding sludge which is captured in our scope 1 operational emissions) in tons CO₂-eq
- h: Enabled emissions (household only) in tons CO₂-eq
- i: Central non-traded price of carbon pounds/ton CO₂-eq
- j: Central traded price of carbon (applies to grid electricity use) in pounds/ton CO₂-eq

Gathering this data requires tracking the energy consumption and creation for every action performed by Yorkshire Water. This is supplemented by secondary data where relevant. The price of

carbon is based on the [HM Treasury Green Book](#).

Calculation:

The following calculation method is provided in the TIVA methodology report:

Direct emissions = a

Indirect emissions = c + d + ((e * f)/1000) + g - b

Enabled emissions = h

Annual cost = (total emissions in non-traded sector * i) + (total emissions in traded sector * j)

Reporting:

Yorkshire Water expresses this in tons of CO₂-equivalent categorised under Natural Capital. They distinguish between activities in their own operations (direct impact), activities in their supply chain (indirect) and through the use of their services by clients (enabled impact).

Alliander: an example of measuring a Human Capital impact

One impact identified, quantified, and valued by the energy company Alliander is the well-being effects of employment. This impact measures the increase in personal well-being through an increase in self-esteem, social contacts, job satisfaction, and greater trust in society.

([Verantwoordingsdocument Alliander Impactanalyse 2019, p.20](#)).

To measure this, the company requires five data points:

- Number of employees employed by Alliander
- Job satisfaction at Alliander

- Welfare increases from employment
- Job satisfaction factor
- Well-being monetisation factor

Gathering this data requires tracking the first two data points at the company and identifying reliable data sources for the remaining points. Reliable data should ideally be internationally recognised standards or results from peer-reviewed, repeated studies.

Calculation:

Alliander details the method of calculation for this impact:

= number of employees employed by Alliander * Well-being monetisation factor *
(Welfare increases from employment + (Job satisfaction factor * difference in job
satisfaction between the Netherlands and Alliander))

([Verantwoordingsdocument Alliander Impactanalyse 2019, p.20](#))

Key in this calculation is the data point 'Well-being monetisation factor'. This is the factor that converts the impact from its measured unit into a monetary amount. Doing so allows Alliander to meaningfully compare this impact to others that have been exchanged to monetary amounts.

Reporting:

Alliander reports this impact alongside its other monetised impacts for all the capitals it measures (Financial, Intellectual, Manufactured, Human, Social, and Natural). Well-being effects of employment, like all of their other impacts, is also compared to its measured value from the previous

year. Doing this communicates to stakeholders how the company is managing and improving their impact over time.

Embarking on an 'Impact Journey'

A number of water companies that are interested in measuring, valuing, reporting and ultimately improving their impact, can jointly engage in a so-called 'Impact Journey'. An Impact Journey aims to measure the impact of multiple companies, per Capital and stakeholder, in a single unit, so that they can be compared amongst themselves and to one another.

Determining the impacts in scope is the first step to be taken (materiality assessment). In addition, companies can do a systematic qualitative analysis of the order of magnitude of their most material impacts (hotspot analysis), in line with the framework provided in this section.

Once the first sense of material impacts is defined, the method of their calculation can be determined and applied to a selected number of indicators. The companies can do this in collaboration and work on a harmonized approach for this while considering the specific context of each company.