

# Compliance is Not Enough: How to Harness ESG for Systemic Impact

A journey into the current state of ESG measurement efforts  
& how to leverage these efforts to drive deeper impact



**CHANGEMAKER  
COMPANIES**  
**POWERED BY** 

We invite you to explore how we might, together, move beyond counting input and output metrics and create systemic impact through core operations and resource management.

At Changemaker Companies – Ashoka’s corporate advisory arm – we believe that by combining the momentum around ESG with partnerships with systems changing civil-sector organizations, companies can unleash a culture of innovation that truly is advancing society and our relationship to the planet, while also ensuring competitiveness and profitability.

The perspective expressed in this report is fueled by comprehensive research, our advisory work with our corporate partners, and our connection to Ashoka Fellows, “impact natives” working to change underlying systems of the world’s hardest problems.

**Environmental, Social, and Governance (ESG)**  
are the three key dimensions in which corporate sustainability and ethics are evaluated.

 <b>Environmental</b>	 <b>Social</b>	 <b>Governance</b>
Emissions, environmental footprint, sustainability efforts	Diversity, employees, labor management practices, product safety, community impact.	Ownership, stakeholders, and ESG-related decision-making.
Examples of Environmental metrics:	Examples of Social metrics:	Examples of Governance metrics:
· Greenhouse gas emissions in scopes 1, 2 and 3	· Employee health and safety, including work-related injuries	· Board diversity and structure
· Water efficiency	· % of gender and ethnic identity represented in management and employees	· Ratio of CEO compensation relative to median for all employees
· Energy consumption and % from renewable sources	· Employee engagement in surveys	· ESG audit and risk management, including penalties and resolution and mitigation of incidents
· Waste management	· Employee turnover	· ESG policy development and adherence


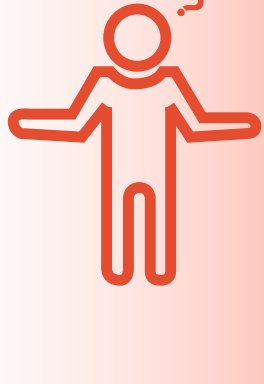
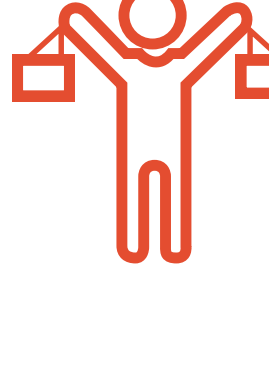
## The driving macro trends across a multi-stakeholder ESG system



## Unpacking the ESG Ecosystem

1

**People are demanding more ethical investment vehicles**



Consumer concerns across environmental and social issues are constantly evolving, and vary by country and demographic.

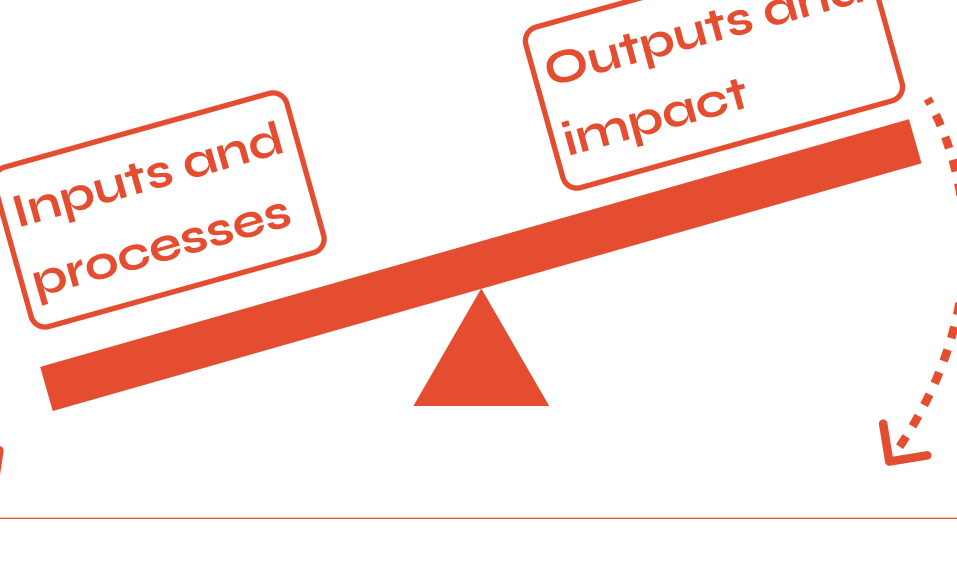
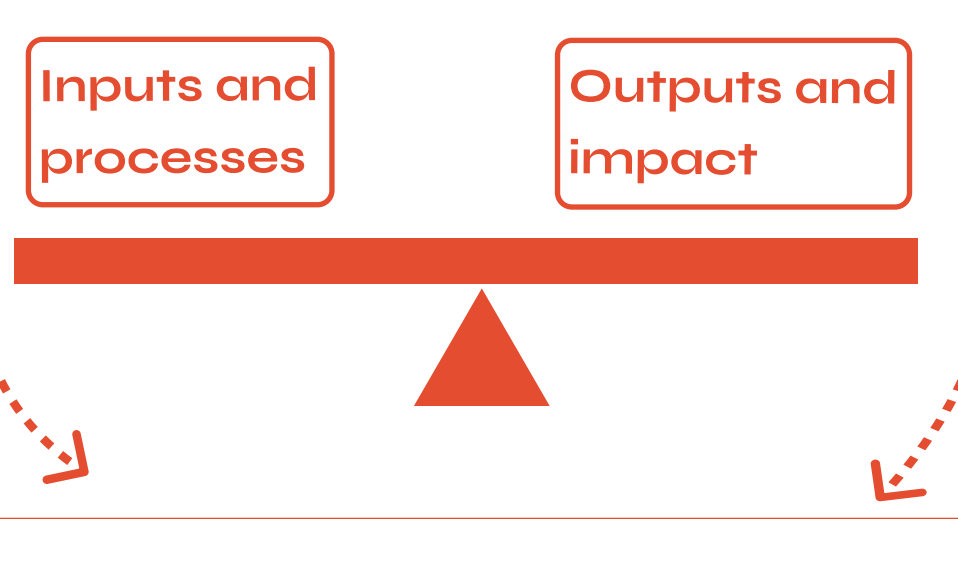
Corporations are often overwhelmed by the number of ESG criteria external stakeholders care about.

Thus, stretched to their limits, it is very hard for companies to act proactively, consistently, and with a focus on materiality, which is key to successfully adopting an ESG strategy that enhances positive value creation.

2

**Investors respond to market demand, but fail to create frameworks that capture triple bottom line value creation**

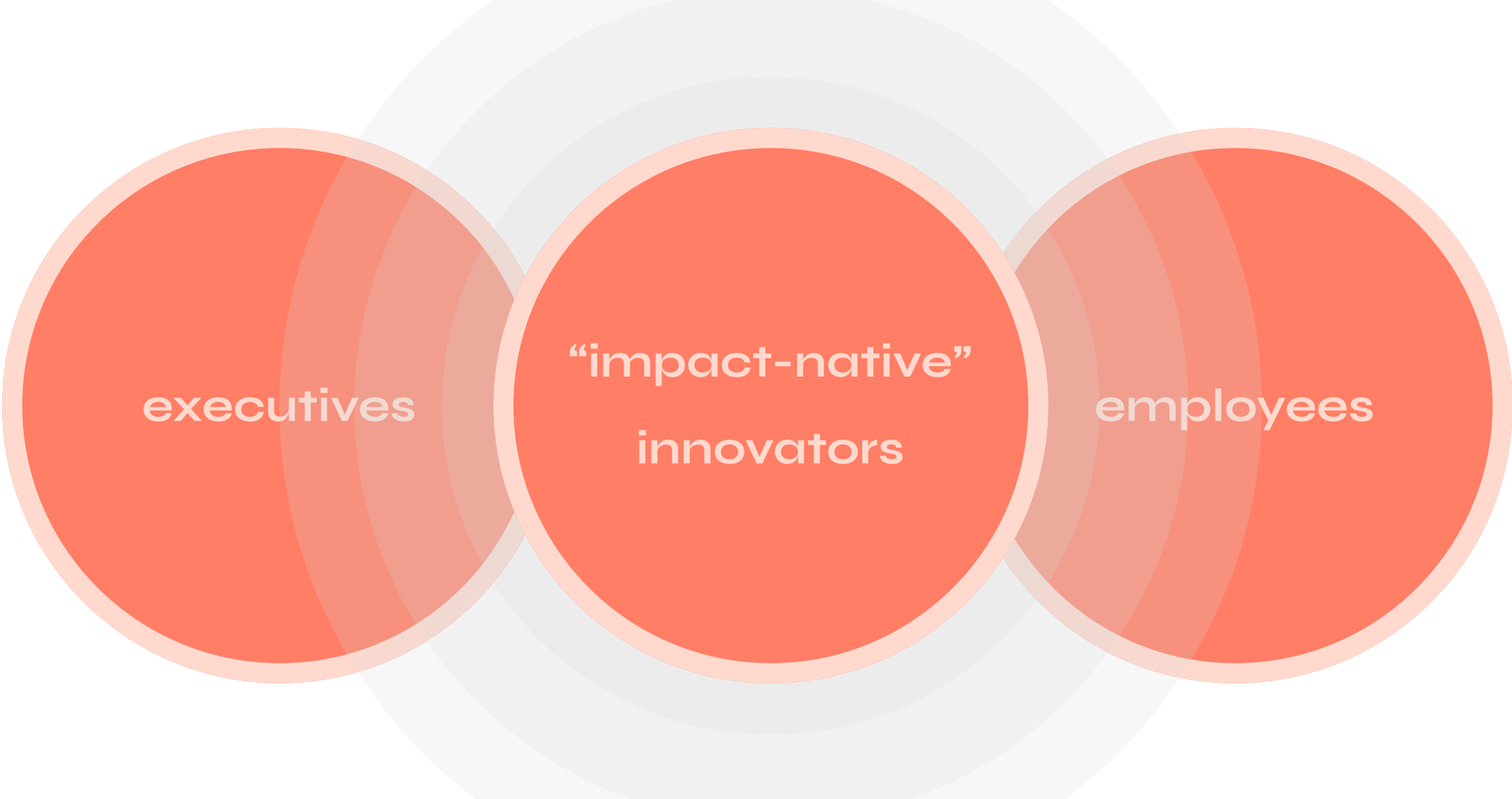
ESG uptake by corporates, assets managers, and investors determines the metrics, which fail to account for the underlying systems that must be altered to drive real impact through corporations' core business.

Current: A reputation-first framework	Goal: A shared value framework
 <p>Developed by asset managers, investors, and corporations</p> <p>Without measuring the outputs and impact, we do not see a connection of these metrics to company performance and innovation</p>	 <p>A new measurement framework, fueled by collective action, not just investor interest, can help us measure and value impact</p>

3

**Senior management drive ESG strategies, often prioritizing shareholder interests**

Prioritizing short-term financial growth leaves little room for long-term innovation and investment in impact. Engaging other stakeholders can emerge more impactful strategies tied to the companies value creation.



**Employees**

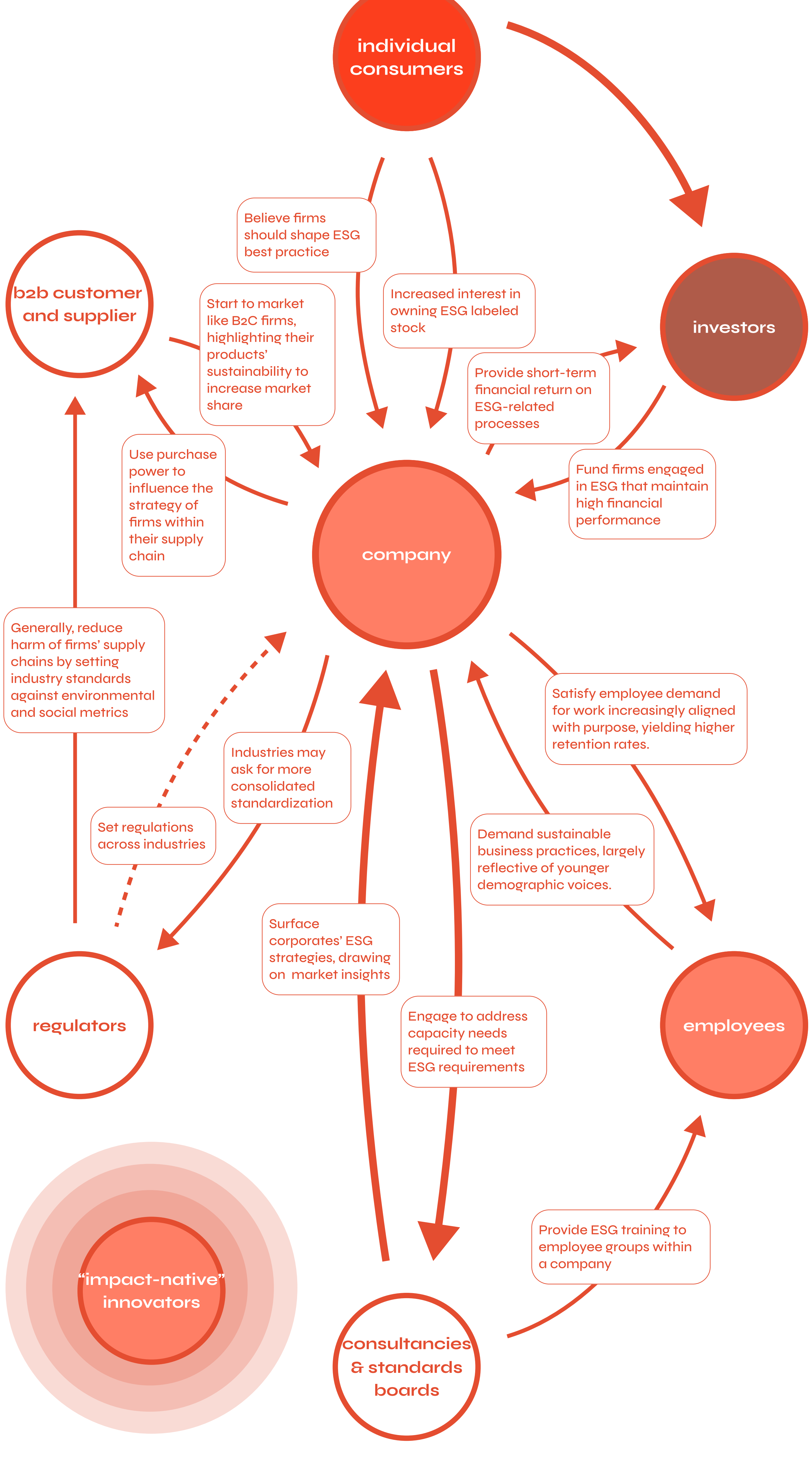
Employees want to embed purpose into their role. Companies are not able to meet this interest because ESG is not tied to a foundational strategy and operations. Employees can be positioned as strategic experts, not only reporting experts on ESG.

**Executives**

Senior management believe they are responsible for the ESG strategy due to their proximity to all stakeholders. Hypothetically, they are best positioned to balance the financial interests of the company with ESG reporting.

**“Impact-native” innovators**

Social entrepreneurs and non-profits are experts in generating value through impact, due their to close proximity to the issues and more flexible business models. Without engaging these organizations, companies will have a hard time achieving their most bold impact ambitions.




“It’s as if a person committed to a diet and fanatically started counting calories, but continued to eat the same number of Twinkies and cheeseburgers.” – Auden Schendler on measuring ESG, <Getting Green Done>


## Where is the impact? And, where do we go from here?

Changemaker Companies is excited to explore how the social and business sectors can work together to evolve the current ESG framework. How do we advance our thinking to consider long-term financial, social and environmental value creation while continuing to fulfill short-term measurements and reporting?


**What is ESG?**




An investor-driven, quantitative response to the current mindset of the market vis a vie social and environmental challenges



An input and process measurement framework




Short-term solutions, representing marginal process improvement




A framework that captures non-financial metrics, showing limited ties to corporations' core business


**What is NOT ESG?**




A purpose statement on how the company will positively create value (financial, social, and environmental)




An impact measurement framework



Regenerative solutions shifting underlying systems




A framework that captures positive value-creation across financial, social, and environmental metrics



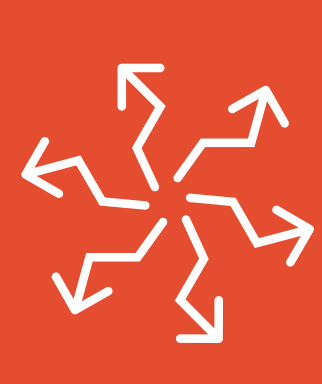
**Create a culture of Changemaking.**

- A transformative, impactful, and material ESG strategy will rely on corporations' capital and resource allocation, notably its employees.
- Employees must recognize and understand their role in enacting and shaping this strategy.
- Creating this culture requires a change management approach that embeds a mindset of stakeholder and planetary value as the shared assumption of the company and decision-making norms.




**Do not go at it alone.**

- The regenerative, profitable innovations we believe companies can and should drive cannot be created in a silo.
- Partnering with impact experts or “natives” can help companies clarify what impact is material and better understand the larger system that they are working to positively change.



**Let's realize the ambitious potential of ESG together.**

Ashoka and our network of social innovators want to leverage impact expertise to move this framework away from short-term measurement, and into a framework that guides companies to realize their purpose and to create impact through their core business.

About Changemaker Companies		Authors	
	Changemaker Companies (CMC) was inceptioned by Ashoka, a social impact pioneer, identifying and supporting 4,000 of the world's leading social entrepreneurs across 90 countries.	Jeanine Buzali	Director of Changemaker Companies, North America
	CMC leverages the insights gained on the patterns of social innovation across this network to accelerate the rise of an inclusive and regenerative economy, helping companies create business cultures where everyone is a changemaker. A culture where creating positive societal impact through business is the new norm.	Alex Richmond	Changemaker Companies Partnership Manager and Research Lead
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