Measuring the Value of a Sustainable Facilities Management Approach

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EXECUTIVE SUMMARY

Key stakeholders (clients, investors, regulators and internal personnel) are those who drive the sector to measure sustainability in facilities management. Using a variety of research methods, this research examines the current state of why and how FM providers measure sustainability and identifies the road to improvement for greater 'buy in' from stakeholders in key decision-making roles. Much of the existing reporting and measurement approaches are driven by the FM provider. However, the reason 'why' something is reported/measured changes when considering all stakeholders.

Fundamental drivers include client demands during the bid stages, and regulation targeting improved transparency on ESG metrics. However, the UK Government's recent approach has been to leave it up to the company to determine the best approach of measurement and disclosure. This lack of guidance is leading to varied levels of disclosed data accuracy and relevance.

Institutional investors underpin all major organisations, but their pivotal role is currently undervalued when it comes to realising that they too want to know more about ESG risk and opportunities. They are a key source of finance, but this research identifies a disjoint between the content of FM organisations' reporting, and the kind of facts investors are seeking to conduct their analyses.

A premise to this research is the concept that data, especially monetised data, can assist in efficient decision making, and holds sway when creating business cases. As, although qualitative links have been established over the years making suggestions that x is inextricably tied to y, the decision maker tends to exclusively require a monetary benefit associated with their choices. This prevalent industry mindset refers to the New York Times Magazine article[1] by Milton Friedman (1970) which states that the role of business is to make money while conforming to basic societal rules.

[1] Milton Friedman, 1970. https://www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html

There is a clear interest from the FM sector to monetise sustainability data. However, there is a lack of consensus over what is deemed a priority. Currently environmental data such as energy, water, and waste consumption are a focus, considering their potential short-term payback periods with little investment. A challenge exists in the level of credibility reported data holds, as there is a lack of consensus around how to measure and monetise FM data. This debilitates like for like comparisons of performance and the data may be ignored. Therefore, careful consideration must be given to what is disclosed and not disclosed. A clearer focus on *contextualising* data would add the necessary depth of information required by stakeholders.

The SFMI recommends that to improve the value measured in a sustainable FM approach, companies ought to seek to monetise sustainability where possible and relevant, in a consistent manner, but it is not a silver bullet. Current disclosure and progress on increasing coverage of monitored sustainability datasets is immature. To resolve this, a long-term philosophy complimented by an understanding of stakeholder interests must inform the measurement of risks and opportunities using a financial lens, where possible. This process must also contextualise data against areas material to the FM service, ideally separate from the parent company. The next step of this research is to produce guidance on moving in this direction.

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RESEARCH CONTEXT

There is a current groundswell of concerns in the function of delivering facilities management activities, and the value that is gained from either an outsourced or in-house solution. This research targets the FM provider, investors in FM, and clients procuring FM as an audience in need of an increased understanding of how best to measure the value of a sustainable FM approach for all stakeholders. The research assumption is that a rounded ESG sustainable FM service, with informed data at its disposal, is a more attractive and resilient offering.

We have identified the different stakeholders and the drivers that push the sector to measure in the first place.

REGULATORS

International agreements, such as the Kyoto Protocol (1992), the UN Convention against Corruption (2003), and Paris Climate agreement (2015) cause national governments to establish catalysts to address the issues, e.g. laws or other voluntary frameworks. In the UK, the measurement of "sustainability" has its origins in the 1960s and 1970s environmental and health & safety movements (Silent Spring 1962, Health & Safety at Work Act 1974) which focused heavily on simply the impact and negative consequences of, most often, chemicals. When we think about the legal drivers for sustainability measurement in 2018, it has changed. We now consider it necessary to measure impacts and opportunities with a view to improving them. Environmentally, this includes laws such as CRC (2010) and mandatory GHG reporting stemming from the Companies Act 2006. Socially this includes RIDDOR Regulations (1995) and COSHH (2002).

There are a host of new regulations since the turn of the decade which expand on the UK Government's mechanisms for influencing the ways that companies can show improvements to contribute towards ESG sustainability:

- Energy Savings Opportunity Scheme 2014
- Social Value Act 2013
- Companies, Partnership and Groups (Accounts and Non-Financial Reporting) Regulations 2016

- Modern Slavery Act 2015
- Equality Act 2010 (Gender Pay Gap reporting)
- Finance Act 2016 amends (Apprenticeship Levy)

Regulation is frequently cited as the only driver for sustainability mechanisms in some organisations that are not "forward looking". Others have used the sustainability agenda as something that can drive innovation internally. Each regulation pushes up the value of measuring ESG sustainability in the modern FM business, as it engages C-level business leaders which can be a critical internal contributor to progression.

CLIENTS

The recipients of FM services (to an outsourced company – the client) are fundamental stakeholders. If a customer has a forward-thinking sustainability strategy, this strategy will also engage the supply chain which includes the outsourced FM themselves. An example of this process in action is through the drive for a client to obtain internationally recognised standards such as ISO 14001 (environment), OHSAS 18001 (health & safety), or other standards. As part of the ISO 14001 standard, the company seeking certification will be asked to show evidence for "how outsourced processes are controlled or influenced". As FM is an outsourced activity and a potential tier one supplier, the ISO standard will drive the client to query all suppliers on their contributions to their sustainability agenda.

A client's sustainability strategy can therefore dictate the value of measuring sustainability to an FM supplier. Client procurement teams hold significant power that can ensure functions which enable the measurement of sustainability are eventually "in scope". During the tender process, clients may require certain benchmarks before contracts are awarded. For example; accredited 14001, or achieving an SFMI gold standard, or taking part in a self-reporting process like GRI or CDP. Therefore, it is often a reputational or compliance driver causing clients to engage with sustainability and how they can monitor it through their supply chains.

INVESTORS

Institutional investors are always seeking to understand risk within their portfolio. Many are moving beyond mere compliance to help meet the growing number of ESG queries that ethically minded investors are wanting to understand. Investors are increasingly engaged with how the management of ESG issues can predict a potentially volatile business under the surface of good financial performance. There is a trend in the UK market for facilities management services to form only a proportion of a larger company's operations. Despite this, investors remain an influential driver in both FM-only companies as well as those FM organisations who report through a group structure.

In the last decade there has been a shift from the investment community towards the need to drive companies to report non-financial information. The aim is for investors and other stakeholders such as regulators, to understand potential risk through ESG issues and encourage improvement (what gets measured gets managed).

There have been major shocks in the business world based on ESG-linked issues. For example, the Volkswagens emissions scandal, or the treatment of passengers on a US airline. These issues are further put under the spotlight through the uncontrollable force of social media. In the facilities management sector, there has been a raft of profit warnings which is pushing investors to look deeper into businesses to find the root cause, and for the businesses to prove their value as a resilient investment choice. While ESG issues *may* not be root causes, the driver from the investment community has been the continuous search for data so that they can analyse companies from all angles beyond financial balance sheets.

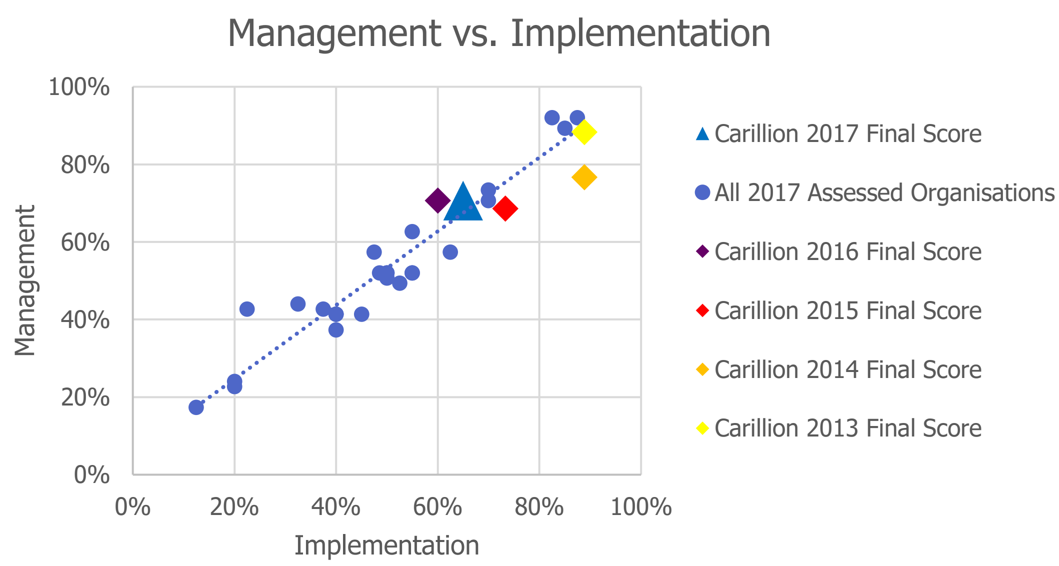
Measuring the Value of a Sustainable FM Approach

An example of the investment community coming together to drive measurement and disclosure of non-financial information is the Task Force on Climate Related Disclosure (TFCD). It was setup on behalf of the investment movement to identify the information needed by investors, lenders and insurance underwriters to appropriately assess and price climate related risks and opportunities. While the TCFD is focused on the danger of climate change risk, there are others - the Sustainability Accounting Standards Board (SASB), who develop and maintain sustainability accounting standards that help public corporations disclose financially material information to investors.

These initiatives have been spurred into creation by the raft of voluntary self-reporting requests from NGOs and private benchmarks. For example, CDP, GRI, DJSI, and Trucost. In some ways there was too much data that wasn't material to the company when put under the spotlight, so the TCFD need to channel the data to assess risk and opportunity.

The collapse of Carillion has sent shockwaves through the sector, the knock-on effects include, for one, the confidence that stakeholders have in a company with an outwardly award-winning sustainability strategy. The SFMI have assessed the performance of the FM services arm of Carillion for 5 years, and due to their insolvency, we can now reveal how they have performed in the SFMI over this time.

The graph below reflects how Carillion's public disclosures portray a reduction in managerial sustainability year-on-year. The approaches Carillion adopted to 'implementing' sustainability also following the same trajectory. This example highlights how ESG data could be used to inform investment decisions when a long-term understanding of measured performance begins to show signs of instability.



INTERNAL STAKEHOLDERS

Another stakeholder that can drive up the value of measuring sustainability are current and prospective employees. There is a valid case for businesses to act responsibly to attract and retain the best talent. Human capital is a vital component of the FM provider. If a company has a poor reputation on ESG issues (particularly affecting its staff), this will affect their ability to attract millennials, and the best staff. Recent IEMA research reveals that a sustainability professional's job satisfaction score is higher than the UK average[2]. Therefore, we can link internal stakeholders with the reputation and success of a modern growing company. A well-managed business that treats its employees fairly and manages its impact on the environment is seen as an attractive work place for the best talent of the new generation and will also act to retain experienced talent[3].

Business leaders and decision makers are critical internal stakeholders for both outsourced FM and in-house FM teams. They represent either an enabler to an agenda, or a barrier. It is important to think about what motivates these people. Market knowledge alongside this research, reveals that motivators are frequently based around the financial performance of their organisation and 'innovation'. In some cases, bonuses may be tied (in small percentages) to sustainability performance, however, these examples are not prevalent in the industry[4]. Therefore, the need for financialised sustainability data increases, as it would provide a more compelling case for leaders to engage with sustainability as a form of 'innovation' that pays.

The leaders above are also conscious of market positioning (a further internal driver), which has also contributed to a sector-wide focus on innovation. Competitive advantage is sought by many

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[2] IEMA, 2018. https://transform.iema.net/sites/default/files/iema_state_of_the_profession_survey_2018.pdf
[3] Forbes, 2017. https://www.forbes.com/sites/marissaperetz/2017/11/08/attract-and-retain-millennials-by-making-this-commitment/#655206181163
[4] McKinsey & Company Research, 2008. https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/leadership-and-innovation

organisations, however, there is a need to acknowledge the difference between an evidence-based advantage and a public relations-based advantage. The latter is more commonly susceptible to greenwashing or conceit. An evidence-based advantage is well-informed, and perhaps verified, thus positioning an organisation as a leader. This rise in importance of an FM company's 'market position' has been fuelled by their clients whose procurement activities often cite 'leading' or 'best practice' requirements.

Each stakeholder identified above, pulls the FM sector in different directions with their requirements to measure sustainability. Aside from the divergent internal employee, the common denominator is money, whether this be through; a fine (regulators), contract fee (clients), return (investors), or bonus (leaders). Insurers are another stakeholder that this research has not yet extensively investigated. The current understanding of their perspective portrays a basic level of ESG consideration (e.g. flood risk). Baselining and improving the sophistication of their ESG calculations for FM services will be investigated.

<u>MOTIVATORS</u>

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METHODOLOGY

Research Question: "How do we measure the value of a sustainable FM approach, for all stakeholders?"

This research illustrates why and how the FM industry measures sustainability, and what can be done to improve the current approaches. Practices, abilities, perceptions, and aspirations of FM Providers, FM clients, and FM investors have been investigated using a trilogy of research methods (desktop research, surveys, interviews).

DESKTOP RESEARCH

The scope of desktop research includes:

1. Academic, think-tank, and institutional studies, and popular media coverage of ESG-related issues.
2. 5 years of SFMI benchmarking data.
3. ESG policies for key investors of FM companies
4. Annual reports of companies assessed the SFMI
5. Previous SFMI research reports (Sustainable FM Procurement, Social Value in FM)

INTERVIEWS

12 interviews were conducted with FM and sustainability professionals, including an investor holding shares in 4 no. of the automatically assessed organisations benchmarked in the SFMI (Sustainable FM Procurement, Social Value in FM)

SURVEYS

2 surveys were completed. Where an 'importance' scale was utilised, this data is grouped into three categories; "1" and "2" = low, "3" = medium, and "4" and "5" = high.

1. Survey 1 (51 respondents, closed 28th February 2018) – Barriers to measurement, the ability of a company to use sustainability-based KPIs, and the perceptions of how monetisation of non-financial sustainability data can be of value for a company.
2. Survey 2 (45 respondents, closed 12th March 2018) – Ticket registration survey. Use and ease of sustainability data. Procurement, Social Value in FM)

FINDINGS

WHY DOES THE SECTOR MEASURE SUSTAINABILITY?

Selection Criteria for Contracts

Measuring leads to monitoring, which can inform decision making on continual improvement. Desktop, interviews, and anecdotal evidence portrays that measurement is required more frequently at the "bid stage" of an FM contract – when a supplier seeks to secure a new or renewing contract. Responses also show that clients are conscious of their own sustainability reputation, have higher demands of their FM providers, and often require greater sustainability credentials, which may only be illustrated through measured statistics and proven value.

Interviews also established that it is rare for sustainability measurement to be written into the contract as factors which impact the understanding of the supplier's performance, and less so in metrics that determine financial penalties or bonuses. This finding reiterates the SFMI 2016 sustainable procurement research (SFMI, 2016). This research found that sustainability is removed from the contract as part of a race to the bottom line cost. Therefore, with the emphasis on the bid stage, the client is using the sustainability credentials of the corporate as a proxy of sustainability without embedding it into the running of their own facilities, frequently due to procurement-stage cost-cutting exercises.

As an example, one interviewee demonstrated the need for a client to align the procurement process to meet their own standards of sustainability. The interviewee was a leading FTSE100 business with a very progressive and high-profile sustainability strategy. There is a high expectation of the company to keep high sustainability standards through the supply chain. Therefore, they attribute a 20% weighting of a contract decision to sustainability criteria and aim to increase it!

Gain Insight Quickly

Consolidating and digitising sustainability allows quicker decision making. Benchmarking is a key driver for measuring sustainability. Stakeholders (excluding regulators) illustrated earlier in this report, require the ability to benchmark as it helps to inform decision-making by acting as a time-efficient screening process. E.g. For clients outsourcing FM, it can inform a decision for the awarding of a contract. For investors it can act as a screening process for understanding risk and opportunity of potential investment. And internal teams can use benchmarks to assist in developing strategies and establishing competitive advantage. The benchmarking driver was common with internal sustainability team members who witnessed regular requests for sustainability data from teams completing external disclosures, and from bid teams responding to requests from potential clients.

Desktop research into Large-scale investors holding stakes in FM companies revealed that many have public expectations on ESG disclosures. The expectations tend to range in approach from investor to investor. The common ESG approaches that the researched investors adhere to are:

- To screen companies so that they can offer Social Responsibility Investment funds (SRI). Entry into a fund requires specific ESG criteria be met that is based on sustainability rankings, and ethical issues such as the sector they operate in or the product sold.
- Having light touch policies that acknowledge sustainability issues and provide key issues that they consider in their investment decisions. These include board governance practices, diversity of board, climate related risk.
- Having heavy touch integration of sustainability into the holistic investment approach, along with engagement expectations on issues that they deem as important. The investor will disclose that they will raise ESG issues, and vote on them at AGM if they feel that the issue is not being addressed.

These approaches portray the depth of understanding that investors value, regarding the measurement of sustainability in their assets. Our desktop study shows that investors require measurement of sustainability for a preliminary analysis to highlight the business risks and opportunities. Ultimately, they move towards the qualitative contextual information that provides understanding and will progress towards engagement and discussion. Intensive engagement approaches are limited due the time-consuming nature. Therefore, they rely on a screening process offered by data to highlight risk and opportunity.

All FM organisations are trying to win investment. This research indicates that these organisations can open new investment opportunities within improved disclosure on their capabilities as sustainable businesses.

BlackRock cites on their website that good ESG practices offer better risk-adjusted returns over time. This approach is highlighted by multiple institutional investors and plays a public part in their investment strategy. Social issues are continuously informing investment decisions. Aside from FM, the most recent is the decision from BlackRock to offer a fund that does not invest in gun manufacturing in the US. Pressures from Blackrock's stakeholders are opening these new ways to invest, which are arguably related to difference in political opinion on gun controls and recent violent domestic gun crime in the US.

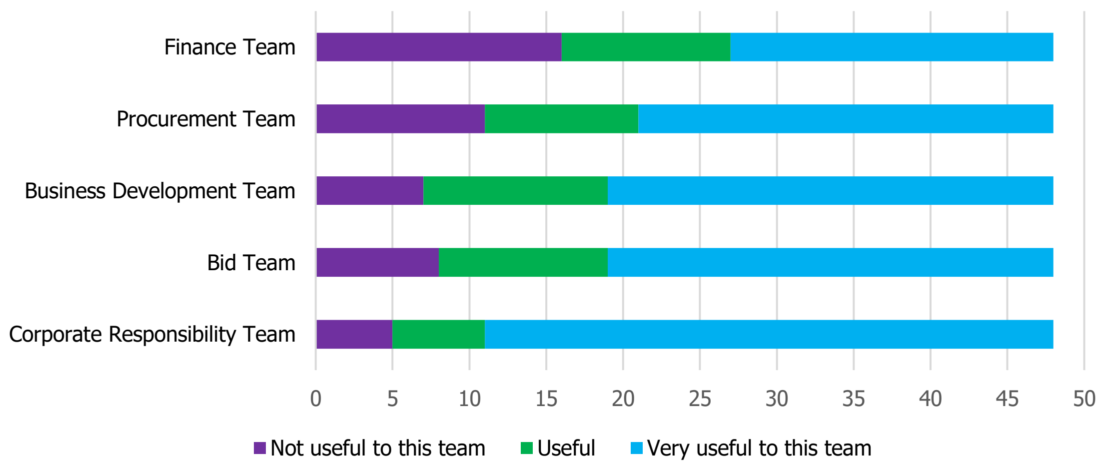
Monetising Sustainability

The data below reveals why monetising non-financial data has value. Figure 1 illustrates survey data on the opinions of business leaders on how useful monetised non-financial data will be to different teams in a company.

The data shows that respondents in a leadership position rate the use of monetised sustainability data highly for all internal teams listed. Ironically, out of all teams, the finance team is perceived as gaining less value from a theoretical increase in access to monetised performance data. This graph supports the *Selection Criteria for Contracts* finding, as bid teams and business development teams are perceived as slightly more value from monetised data.

Theoretically, if an FM provider were to prove, using data, that they can increase well-being which would save x £ across the life of a contract, it would represent a persuasive aspect in a tender response process. Data informing this monetisation process may include recruitment costs, or costs associated with staff training or re-training, and service continuity costs.

Fig. 1 - Which team would find monetised sustainability data most useful?



"staff well-being is a target area – there are clear links between well-being, absenteeism and productivity."

Interviewee Response.

"Continuity of FM workforce over the long term is a key factor to us. We're happy to pay for the long-term continuity, rather than have to pay higher short-term costs that come with a continuously changing work force".

Interviewee Response.

HOW DOES THE SECTOR MEASURE SUSTAINABILITY?

Sector Capabilities

The SFMI annually assesses UK FM providers' ESG performance based on 23 different criteria. Scores per criteria range from 0 and 5. Each 0 to 5 score, for each criterion, has a set of indicators that are based on the current market practices which need fulfilled before an organisation can score that mark out of 5. The SFMI team assessed these indicators for where "measurement" of that criteria are required to gain the corresponding score. The analysis shows that of the 23 criteria, the areas that the assessed organisations are most capable of measuring are:

Fig. 2 SFMI Benchmarking criteria with the highest proportions of measurement.

SFMI Criteria	% of companies sufficiently measuring and disclosing
Projects	85%
Energy	69%
Environmental Management System	65%
Employee Development	65%
Wellbeing	45%

Other criteria that rank very close to the top 5 are circular economy, and employment – both 42%.

Fig 2 shows that out of the assessed organisations, there is a significant shortfall in the public disclosure abilities in many areas of sustainability, (for example Health & Safety). Related to this finding, the second online research survey states that 92% of participants believe environmental issues are the easiest to measure compared to social and governance. Interviewees also highlighted that energy, fuel from transport, and waste are considered the most commonly measured ESG topics. These environmental aspects are by far the most mature area of sustainability measurement and therefore measured and disclosed by more companies in the FM industry. Social criteria are more difficult to measure and collect. On multiple occasions, interviewees discussed the argument that the business case for measuring social criteria is far less obvious, making it harder to pursue. However, the SFMI results present trends that social topics are emerging as more material issues to the FM business considering the human capital that FM providers rely on. 65% of SFMI businesses measure and disclose employee development, and 42% are measuring and disclosing employee well-being. Both areas are linked and show an emerging understanding of the value of measuring employee-based social impacts. However, the measurement of employee metrics remains in infancy.

Annual Reporting

The SFMI assessed 26 major FM providers in 2017. 20% of these are privately owned businesses. A private business has fewer E-S-G based regulations than a public company. For example, public companies will need to conform to the new Companies, Partnership and Groups (Accounts and Non-Financial Reporting) Regulations 2016. This regulation means 80% of SFMI companies are required to measure and disclose more areas of sustainability and its material risk than ever before. The requirements allow for different businesses to assess relevant information that describes development, performance, position and impact of their activity. However, with a lack of direction available, it gives the SFMI an important role to play in guiding the FM industry as a continuation of this research. This regulation requires measurement of the following rather non-prescriptive areas:

- environmental matters (including the impact of the company's business on the environment),
- the company's employees,
- social matters,
- respect for human rights, and
- anti-corruption and anti-bribery matters.

The figure below shows desktop analysis of FM organisations' annual reports and shows which areas are being measured and reported most frequently.

Fig. 3 SFMI Benchmark Criteria and how they are measured in FM organisations' annual reports.

Category	Criteria	Metric examples
Environment	Energy	• Energy used per £ revenue • Energy used per square meter • CO2e • Total energy/ carbon • Renewable energy produced
Environment	Water	• Water consumption
Environment	Waste	• Total waste • Recycled waste • Waste generation (tonnes / £)
Environment	Projects	• Case studies
Social	Health & Safety,	• Accidents in workplace

		• % accidents
Governance	Diversity	• Gender, age %
Social	Employee Development	• # employees receiving, sponsored training, • Training £ cost per employee, • Employee churn rate
Social	Communities	• £ Community Investment • Volunteering hours

The desktop research findings of Fig 3 concurred with other research methods. Environmental metrics are the most commonly reported, followed by the employee based social metrics. Some annual reports are monitoring boardroom diversity, and occasionally supplier diversity. Investor website desktop reviews suggest that diversity of the boardroom is important for investment decisions. Sustainable communities are also reported on.

Based on this review, the ability of a stakeholder to understand the value of FM is being limited by the current approach to completing annual reports. Only 20% of SFMI assessed organisations disclosed FM specific sustainability data in their 2017 annual reports. It is appreciated that many of them have acquired FM into the larger group – perhaps a construction company. However, this means that the sustainability impacts and the risk of the FM business is often lost and wrapped up into the wider parent company. Even with the onset of the non-financial reporting directive, this issue still will not be addressed as it also stipulates the requirement of parent level disclosure only. The SFMI has also found that there is a lack of context surrounding sustainability data in these annual reports. We spoke with an institutional fund manager as part of our research. We understood that there is a great deal of importance in providing a contextual understanding of non-financial data. This gives the investor insight into ESG risks, and importantly the opportunities that surround their business. Opportunity of ESG issues is often under sold from a company perspective and could be enhanced from the investors perspective.

HOW DOES THE SECTOR MONETISE SUSTAINABILITY?

A previous Fig 3 shows that there are already examples of monetising sustainability in the FM industry. The most common examples are environmental metrics - energy spend, CO_2 emitted per £ revenue, waste disposal costs, and some social metrics including training spend per employee, and community investment in £ or time equivalent. Monetising consumption data has been a key driver to increased investment in efficiency projects that have reduced environmental impact. The approach has been a successful influence in the business case for investment. Though a common trend is for business to concentrate their investment on the low cost, and short-term payback projects.

Interview accounts have provided evidence of how waste data has been monetised as part of an FM contractual arrangement.

Employee well-being monetised into productivity via absenteeism is another example of valuable measurement techniques that are desirable in the industry. Tracking employee well-being is important for an FM provider, so that they may express added value to a client.

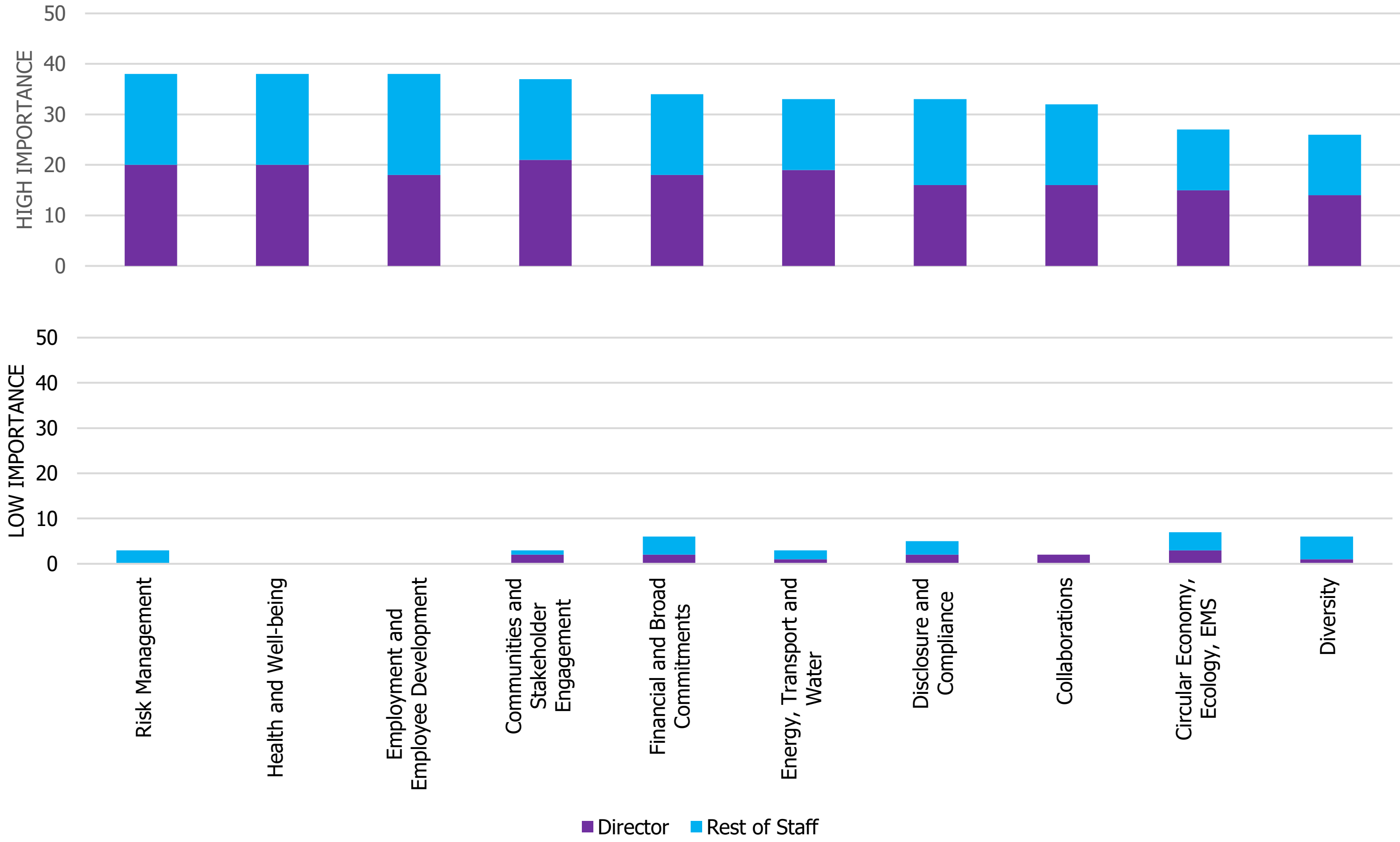
The first online survey shows which categories of sustainability are deemed the most important by the senior business leaders. Figure 4 shows that senior business leaders from FM related businesses show little continuity in their opinions over which sustainability criteria gives most value when monetised. This suggests that there is no consensus across the industry as to what areas would be best explored. For example, the third and fourth highest importance areas are contrasting dependent on seniority in the business. "Rest of Staff" view the monetisation of employment initiatives and employee development sustainability as more important than their bosses, whereas, "Directors" view the monetisation of community initiatives and engagement with stakeholders as more important than the rest of the staff.

"Food waste is measured on a weekly basis and is monetised into a £ cost per kg of waste. The final figure is then benchmarked against the industry average. There is also the need to keep this figure under the industry average."

Interviewee Response.

In contrast, the most frequently 'low importance' scored area is a monetised understanding of circular economy, ecology, and EMS activities.

Fig. 4 - Which areas of sustainability are most important for monetisation?



What is more understood, is the potential applications for how monetised sustainability data can be used. Fig 1.0 (pg.16) shows that bid teams and business development teams can potentially utilise monetised data, along with CSR teams. Findings further reveal how these groups would use monetised sustainability data.

Fig. 5 - Where would monetised sustainability data be used?

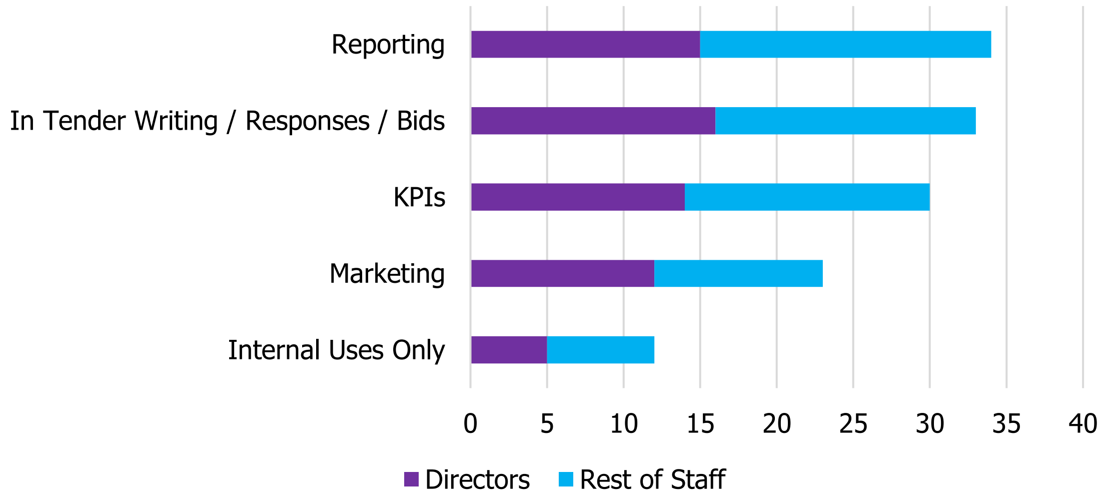


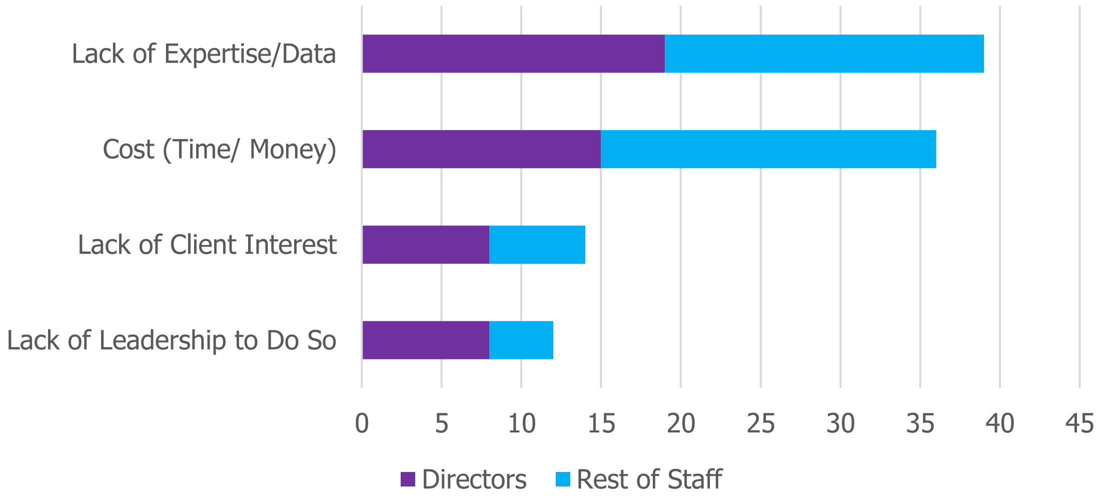
Fig. 5 above illustrates how when both the business leaders and the rest of the employee answers are compiled together, it shows that external reporting and tender opportunities are the top potential applications of use.

HOW CAN THE SECTOR IMPROVE?

This research set out to investigate how we measure the value of a sustainable FM approach by investigating why and how sustainability is currently measured. To improve measurement there are some key steps required.

The SFMI believes that there are competitive advantages in being able to measure a sustainable FM approach. Different stakeholders have different needs for data, but the first way to improve how to measure the value is to first identify the different stakeholders requiring ESG information, then their needs for data. Those organisations who operate an ISO 14001:2015-conformant environmental management system can utilise the "compliance obligations" within, to expand the sustainability strategy.

Fig. 6 - What are the barriers to collecting non-financial data?



Improving measurement with Regulators

Regulators have increased the amount of data that large businesses are required to collect and disclose. This comes in the form of new transparency legislation that covers a variety of topics. However, while the regulations have increased, the recommended approach to how companies respond to them has remained ambiguous and left to the individual companies / industries to interpret and decide upon. The resourcing decisions for measuring is therefore passed to the companies. Time and cost is identified as a barrier to monetising different criteria of sustainability. Therefore, the SFMI shall utilise this opportunity to build a framework and guide the industry towards an approach that will help FM to disclose efficiently to regulators, clients and investors. Fig. 6 above illustrates survey data on the barriers to collecting non-financial data in an organisation. The graph shows how resourcing issues far outweigh a lack of interest from clients or business leaders.

Improving measurement with Clients

Clients may respond well to monetising key areas of sustainability that are material to the business and can give value in a contract – especially at the bid stage. However, monetisation of data isn't always the solution. There must be careful consideration as to whether it can be monetised, and whether it will provide a compelling case for the needs of the client. Matching philosophical views on whether areas *should* be monetised is important to establish, which will differ per client.

Measuring the true value from a sustainable approach will come through embedding measurement in the contract. In 2017, the SFMI produced a report which highlighted a framework that can be used to embed sustainability into an FM contract and give more value to the FM service, using this approach will increase the true value of a sustainable FM approach in the eyes of the procurer. It is often currently seen as an extra cost and therefore removed. But if sustainability is embedded into a contract, then so will the measurement the data.

Improving measurement with Investors

Institutional investors see contextualised data as important to supplement ESG metrics. The SFMI would recommend considering this when portraying data externally. For example, if providing metrics on staff training investment, then relating it to the business strategy and linking result from this investment, will provide this context. Perhaps longer-term contract retention has increased in correlation with staff upskilling and retention rates. Context offers a chance to understand a company's ability to respond to risk and opportunity. It is also important to consider the assessment of FM business as part of a wider parent company when identifying risk and opportunity.

Improving measurement with Internal Teams

Employees and business leaders have different needs when it comes to measuring sustainability. While leaders may focus on meeting their own targets and bonus motivators, and thus have an interest in monetised data, other managers and employees are a driving force for measurement of areas that may not require monetisation. The role of the ‘business case’ is important in internal teams for seeking leadership engagement. However, there are companies listening to their employees calls for increased initiatives to target, for example, wellbeing despite the infancy of the discourse.

KEY FINDINGS

1. **Monetise What You Can..**. Most stakeholders converge on the need to monetise sustainability, as each is driven by financial ambition. Therefore, the pressure to achieve this is always present. Monetisation of sustainability can help a company to prove the value of a sustainable FM approach, and has helped in criteria focussed on reducing consumption such as energy, waste and water. Business leader motivators will often be linked to their targets and bonus scheme, which at present is financially-focused which leads to the success of the monetisation approach.

2. **...but Monetisation Is Contentious**. Not all sustainability criteria should be monetised nor requested for monetisation. Understanding the stakeholder needs for ESG data will help to determine which criteria can give value when a monetary figure is placed on it. There is a lack of consensus in the sector over which ESG criteria will give value if monetised. The SFMI seeks to drive an agreed approach as a key part of its research output in 2018. This will give the sector an improved, transparent, reputation.

3. **Context is Required**. The FM sector are currently under-valuing the level of interest stakeholders have in knowing the rationale for disclosing chosen ESG metrics. They require disclosed content that is contextualised to assist with informed decision making. It is rare for corporations to segregate FM ESG performance data from the over-arching company data. This makes it difficult to determine the value of a sustainable FM approach through public disclosure.

4. **Current Regulatory Approach**. The most common publicly disclosed sustainability metrics are primarily driven by regulators. However, barriers revolve around resourcing the measurement, both in terms of cost and expertise. This indicates that the regulatory approach to push organisations to measure it however they want within the rules, is producing questionable results, and the industry needs guidance.

5. **Cost-Cutting Contract Models**. A contract that embeds sustainability will ultimately allow better communication of measured data between provider and onsite stakeholders. Clients are a key driver for measurement, and transparency is a critical aspect of continual improvement. However, if the client is unaware how to embed sustainability, the provider of FM will provide a low-cost short-term approach, rather than one that can contribute to the client's bottom line.

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ABOUT THE SFMI

The Sustainable Facilities Management Index (SFMI) is the only UK facilities management (FM) industry benchmark of sustainability, utilising 23 Environmental, Social and Governance (ESG) criteria that include risk management, contracts and management systems. The SFMI provides a robust and transparent assessment of FM providers within the UK market.

Now in its sixth year, the SFMI continues to drive sustainability performance improvements within the sector by showcasing achievement and highlighting best practice. It also seeks to stimulate a positive change, through performance and perception. Several of the major companies assessed have chosen to become Partners - spearheading further research and collaboration on target areas.

Following on from the success of previous research projects, this year’s SFMI Partners are steering a committee focused on how best to measure the value of a sustainable FM approach.

The Sustainable FM Index

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