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Industry Classifications in the Context of Impact Management

Uses, challenges and
recommendations

Executive Summary

November 2024

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This paper explains the significance of industry classifications in the context of impact management, explores current challenges faced by users of industry classifications for impact management purposes and offers a series of recommendations to address them.

Industry classifications categorise economic activities based on a set of definitions, principles and classification rules. They are used across both public and private sectors for multiple purposes including economic analysis and policy development, corporate reporting and business development, financial market analysis and investor portfolio management.

Because they help define what a company is and does, these classifications have also become indispensable for managing sustainability issues, particularly in the context of impact management. Industry classifications are referenced and used in various ways across a range of sustainability related standards, norms and resources. Specifically, they are used to define sustainable practices, identify sustainability-related issues, organise sustainability-related disclosures and analyse sustainability-related data.

Multiple challenges related to the use of industry classifications exist in the context of impact management. These challenges arise from a number of limitations presented by existing industry classifications, which broadly fall under four main categories: insufficient consideration of value chains, lack of granularity, gaps linked to the evolving nature of the economy and incomplete coverage of the economy.

These limitations may result in inaccurate or incomplete resources for impact management, which ultimately impede the effective management of organisations' impacts. Despite various approaches adopted by users to compensate for these limitations, none fully resolve the challenges encountered.

To fully address these challenges and ultimately promote more effective impact management, this paper argues that impact management considerations would need to be embedded directly into the design of industry classifications. In particular, two high-level principles are recommended to guide future reviews of existing industry classifications. Firstly, to align high-level sector groupings with distinct impact-relevant human and societal demands; secondly, to adapt the granular sector groupings based on relevant value chain components. Applying these principles would not only enable more efficient and effective impact management practices, but it would also promote the interoperability of industry classifications overall.

Finally, the paper makes the following recommendations to three main stakeholder categories:

- **Developers of official and market-based industry classifications** should take inspiration from the two principles to guide the revision process of their classifications.
- **Standard-setters and international organisations providing impact management resources** should work together to exchange on the specific needs and challenges they face with industry classifications in the context of their resource development, to further pilot the two principles and to engage developers of industry classifications and practitioners alike with their findings. They should also aim to converge on the industry classifications used, to enhance comparability across resources and provide greater transparency and relevance for users.
- **Enterprises, investors and financial institutions** should engage in on-going dialogue with both standard-setters and classification developers to provide feedback on the practical challenges of using current classifications for their impact management practices and suggest improvements.

If your organisation is interested in supporting this work, please get in touch with us: info@impactmanagementplatform.org