INTRODUCTION

IMPACT-WEIGHTED ACCOUNTS FRAMEWORK

Work-in-Progress - February 2022
Version 0.2.1
INTRODUCTION TO THE IMPACT-WEIGHTED ACCOUNTS FRAMEWORK

Measuring Value Creation Beyond Profit

Work-in-progress – February 2022 – version 0.2.1

About Impact-Weighted Accounts Framework (IWAF)

Impact-Weighted Accounts – or IWAs – are a way for organisations to quantitatively assess their impact: how they create value for all stakeholders. The uptake of compiling and publishing IWAs is a key step in the transformation of our economy into an impact economy: a sustainable economy that creates value for everyone.

The Impact-Weighted Account Framework (IWAF) helps organisations compile IWAs by providing key concepts, requirements, and guidance. This introduction to why Impact-Weighted Accounts are crucial sets the scene for the need to measure beyond financial value creation and capture that in a framework. This document is to be read in conjunction with the other publications of IWAF.
Incubating the Impact-Weighted Accounts Framework

The Impact-Weighted Accounts Framework is incubated by the Impact Economy Foundation (IEF) together with thought leaders and leading practitioners in an inclusive and scientific manner. IWAF is in partnership with the Impact-Weighted Accounts Initiative from Harvard Business School, Singapore Management University, Rotterdam School of Management, and Impact Institute.

Current draft – Towards a public consultation in April 2022

The current draft represents the progress as of February 2022. We are working towards an expert consultation in April 2022. More information on the consultation can be found on the website of IEF.

Authors and acknowledgements

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Cover image by Jakub Kriz

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Executive summary

Current financial value is created at the expense of society and the environment and is not sustainable in the long term. The alignment of financial value with other types of values and impacts are required to ensure sustainable economic development which happens within planetary boundaries and with a solid social foundation.

Organisations have the responsibility to measure and internalise unwanted effects of their activities on social and environmental values. Without measurement, both the positive and negative societal impacts are de facto valued at zero. This leads to an incomplete view of an organisation’s value creation and therefore are not addressed by company management or investors.

In the last decades, progress has been made in terms of moving beyond managing and reporting on financial value creation only. Many actors and regulators in the field are starting to practice a holistic take on value creation and sustainability reporting has matured.

However, several challenges remain with the development of current sustainable reporting. Firstly, current sustainability reports often lack the comparability and reliability that key user groups need to make decisions. Secondly, there is a lack of stakeholder engagement. Without the meaningful engagement of stakeholders, organisations can report and promise changes towards issues they deem important but never act upon.

The concept of impact can be used to solve the challenges. Impact reflects changes that affect the welfare of an organisation’s stakeholders. Organisations create or destroy value for society through their impact. These impacts can be measured and compared. IWAF specifically uses monetary valuation for comparability – see below for details. Impacts should be measured within an accounting framework with the aim of harnessing our economy to improve our society and planet. IWAF provides such a framework.

Therefore, there is still a need for a standardised framework to measure and report on environmental and social value and impacts, which will allow for clearly structured impact reports. Such a framework will create a complete and holistic picture of the overall impact of the reporting organisation.

The Impact-Weighted Accounts Framework (IWAF) aims to close this gap. The overarching goal of IWAF is to guide organisations to create their own Impact-Weighted Accounts (IWAs) and enable the materialisation of the benefits for their key stakeholders.

IWAF builds on many existing frameworks, methods, and research articles. Where possible, continuity is sought with existing conventions. Impact-weighted accounts framework (IWAF) ensures a complete and consistent impact assessment that considers all capitals and all stakeholders in society through Impact-Weighted Accounts. For example, the Impact-Weighted Account Initiative of the Harvard Business School and the Framework for Impact Statements developed by Impact Institute. It also represents an innovation for the pioneers of sustainability reporting who have already mastered the GRI Standards, the six capitals defined in the IIRC Framework, and the Equator Principles. The Framework also recognises the currently
adopted impact reporting frameworks, such as IRIS+, IMP, Capital Coalitions and SDG reporting. All these standards and frameworks fit in with the global sustainability commitments, such as the Paris agreement, the Sustainable Development Goals (SDGs) and the upcoming EU taxonomy.

Impact-Weighted Accounts (IWAs) are a set of comprehensive quantitative and valued accounts containing impact information about an organisation that the organisation and their stakeholders can use to make informed impact decisions.

IWAs consist of two building blocks:

- Integrated Profit & Loss (IP&L) expands a traditional profit & loss by considering value created for all stakeholders in the form of the six IIRF capitals
- Integrated Balance Sheet (IBaS) expands a traditional financial balance to include stakeholder value created over a longer term

There are benefits of reporting IWAs for different stakeholders:

<table>
<thead>
<tr>
<th>Reporting organisations</th>
<th>Investors</th>
<th>Other stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steer on purposeful and intentional impact</td>
<td>Understand long-term value creation for all stakeholders of the reporting organisation</td>
<td>Inform them about value creation for all stakeholders</td>
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<tr>
<td>Retain their social licence to operate</td>
<td>Assess the likelihood and speed of internalisation</td>
<td>Engage organisations or the public sector to stimulate equitable value creation.</td>
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<tr>
<td>Better understand internalisation risks and act upon them</td>
<td>Get additional insight in the long-term financial viability of the reporting organisation</td>
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<tr>
<td>Understand the value of their impact</td>
<td>Increased transparency of potential long-term risks.</td>
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<td>Meet transparency expectations of stakeholders</td>
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<td>Comply with future regulations</td>
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<td>Remain an attractive employer for future talent</td>
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Overall, organisations need to acknowledge that building Impact-Weighted Accounts are not instant. An organisation typically must undergo a phased process to be able to manage its impact in a manner that fits its purpose and goals and at its own pace. This framework encourages organisations to use elements of the framework for purposes of internal reporting and decision making as a first step towards its wider, and external, application. IWAs should be of interest to all organisations that are focused on long-term value creation.

“In the end, long-term stakeholder value is an important measure of success for both organisations and the entire economy.”
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1. Introduction

An increasing number of organisations report on the impact they have on society, but this is not an easy task. The Impact-Weighted Accounts Framework (IWAF) aims to address the first barriers that these organisations face: consistent, reliable, and comparable metrics. It also aims to increase the transparency for their stakeholders and decision-makers.

Therefore, we have prepared this set of documents to address the barriers. The framework is designed based on scientific evidence and to allow meaningful comparison between metrics. It helps organisations better understand their impact information. IWAF acts as complementary guidance to the existing standards on sustainability reporting which do not always focus on impact.

The overarching goal of IWAF is to guide organisations to create their own Impact-Weighted Account (IWAs). Here, impact-weighted accounts are a set of comprehensive quantitative and valued accounts containing impact information about an organisation that the organisation and their stakeholders can use to make informed impact decisions.

IWAF is dedicated as a public good for organisations of all sizes or structures and at all locations to implement accounting for the impact they cause or contribute to.
2. The context: Beyond Financial Value Creation

Why do we need impact-weighted accounts?

Over the last decades, we have seen strong economic growth in many parts of the world. Ideally, this would have been achieved within planetary and social boundaries\(^1\). Current financial value is (partly) created at the expense of society and the environment. This is not sustainable in the long term. We need to align financial value with other types of values and impacts that are currently often overlooked – because they have not consistently been measured or prioritised, amongst other reasons, simply because they cannot be measured.

Organisations have the responsibility to measure and internalise the unwanted effects of their main economic activities on social and environmental values (so-called externalities). This responsibility requires them to report on these externalities transparently and to start managing them to create value for all and to ensure economic development happens within planetary boundaries and with a solid social foundation.

\(\text{When the value of positive and negative impacts is not measured, these impacts are de facto valued at zero: negative externalities are not priced in and are therefore not addressed by company management or investors.}\)

Furthermore, organisations have been urged to report their contributions to Sustainable Development Goals (SDGs). There are an increasing number of companies that report their SDGs.\(^2\) However, this practice is currently with a substantial risk of “SDG Washing”: \textit{companies using the SDGs as a communication tool without much actual adaption to strategy or measurement of their impact towards the Goals}.\(^3\) With a proper framework and tools, organisations can have a clear understanding of their impacts, both positive and negative, which can be used to link their contribution to SDGs more concretely. They can adapt the strategy based on their impact information and act upon it towards achieving the Goals.

Progress

Globally a lot has happened in the past five to ten years in terms of moving beyond managing and reporting on financial value creation only. Financial market regulators, multilateral institutions, central banks, sovereign wealth funds, asset owners, major asset managers, and many listed organisations are starting to practice a holistic take on value creation.

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Sustainability reporting has matured thanks to regulatory requirements (like the EU’s taxonomy, Non-Financial Reporting Directive, and the EU’s proposed Corporate Social Reporting Directive (CSRD))⁴ and the rise of Environmental, Social, and Governance (ESG) investing, which depends on corporate ESG information. We have also seen a rapid increase in impact investments, which are estimated between 300 billion USD⁵ and 715 billion USD⁶ for 2020; similarly, social enterprises are on the rise.⁷

**Challenges**

Nevertheless, several challenges remain with the development of current sustainable reporting, some of which we aim to address with the establishment of IWAF. Firstly, current sustainability reports often lack the comparability and reliability that key user groups need to make decisions. The existing standards are not being applied rigorously - lacking consistent manner and language. Secondly, there is a lack of stakeholder engagement. Without the meaningful engagement of stakeholders, organisations can report and promise change on issues that they consider important but do not act upon. This could even, in extreme cases, lead to organisations greenwashing their activities.

**Needs and opportunities**

An urgent need exists for a standardised framework to measure and report on environmental and social value and impacts, and therewith complements the existing (financial) standards. With that need, there are currently many emerging and existing frameworks. However, current efforts have not achieved the goal for standardisation to measure and report impacts. Therefore, there is still a need for such a framework that will allow for clearly structured impact reports, where possible in monetary valued terms, that will create a complete and holistic picture of the overall impact of the reporting organisation.

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3. **Towards a Holistic View on Organisation Performance**

IWAs contain two types of accounts: Integrated Profit and Loss Accounts and Integrated Balance Sheet Accounts. IP&L Accounts are impact-weighted accounts that contain all material information of the impact an organisation has had during a period (‘all impacts of the organisation’). Integrated Balance Sheet Accounts serve also material information of the impact an organisation has had until a specific moment, enriched with potential impacts that it can have in the future at a specific moment, as well as any responsibilities that follow from this impact. This document specifically explains the integrated profit & loss (IP&L) approach to making an IWAs because of the high maturity level of the approach.

**Integrated Profit & Loss (IP&L) approach**

Seeing the opportunity of the need to measure and report on environmental and social value and impacts and complement existing financial standards, impact-weighted accounts aim to report these in a more explicit and transparent way by using the Integrated Profit & Loss (IP&L) approach. IP&L is an expansion of traditional profit & loss accounts in two ways (see also the figure below):

1. **By considering the value created for all relevant stakeholders of the reporting organisation.** For example, clients, employees, and society — in addition to the value created for investors.
2. **By including both financial and sustainability (environmental and social) value creation.** The IP&L approach includes the value in the form of six capitals, following the categorisation of the International <IR> Framework.

Most of the statements in IWAs follow the IP&L approach which provide a complete and consistent impact assessment as they consider all capitals and all stakeholders in society. Furthermore, the approach prevents netting of impacts and thus allows for differentiation between the negative and positive impacts of an organisation’s activities.

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In addition to gaining more understanding of its overall value creation and allowing more transparency, IWAs allow for better decision making and better accountability both within the reporting organisations and among their investors as the information is presented in a consistent manner and language.

Stakeholders that have a complete picture of the reporting organisation’s value creation in every area, can also better identify interrelations between those areas, and anticipate the organisation’s current value and long-term value creation potential. That is what IWAs are about: looking beyond sustainability risks and accounting for overall value and impact (both positive and negative, direct, and indirect, absolute, and marginal).

**Innovation and rigour**

This innovative accounting approach – and its rigorous implementation - is required to achieve an impact economy, a market economy that provides the values, information and incentives that optimise the common good and enables people to pursue their own preferences, ideas and projects to satisfy their needs and have a positive impact on society. With IWAs, we can help ensure that every organisation understands that its activities (as for any commercial activities) have impacts and consequences on society and the environment.

**Expand on current practices**

A lively debate is going on about the true quality and reliability of sustainability information provided by organisations, or the perfect set of standards the corporate reports should follow. IWAF builds on this discussion and on the advances made by widely used reporting standards, most notably the GRI Sustainability Reporting Standards, the SASB (Sustainability Accounting Standards Board) Standards and

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9 [https://impacteconomyfoundation.org/](https://impacteconomyfoundation.org/)
the IIRC Framework. The main differences between the available standards are their scope (broader sustainability themes or narrower ones, i.e., Carbon Disclosure Project (CDP)), applicability (across sectors, geographies, sizes of organisations, etc.), and their audience. These factors determine the materiality of issues covered in the report. The consecutive documents, the conceptual framework and the IWAF itself present the principles and definitions to be applied to IWAs. IWAs combine double materiality with monetary valuation of impacts where possible and target investors as an important user group of the data reported by organisations. As such, IWAF is fully aligned with the requirements of the European Commission on double materiality and reporting on negative impact, as proposed in the Corporate Sustainability Reporting Directive (CSRD).

The information provided by impact-weighted accounts is complementary to the information that reporting organisations currently provide, such as sustainability reports. These reports contain valuable information on how organisations perform on environmental, social and governance (ESG) aspects. IWAs expand on these reports by addressing the organisations’ value creation, or impacts. This complementary nature makes it easier for reporting organisations to start issuing IWAs, as they advance current practices without rejecting current reporting outputs.

**Sources of inspiration**

IWAF draws on the Impact-Weighted Account Initiative of the Harvard Business School, and the Framework for Impact Statements developed by Impact Institute. It also represents an innovation for the pioneers of sustainability reporting who have already mastered the GRI Standards, the six capitals defined in the IIRC Framework, and the Equator Principles. The Framework also recognises the currently adopted impact reporting frameworks, such as IRIS+, IMP, Capital Coalitions and SDG reporting. All these standards and frameworks fit in with the global sustainability commitments, such as the Paris agreement, or the Sustainable Development Goals (SDGs).

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11 Double materiality means that organisations have to report about how sustainability issues affect their business and about their own impact on people and the environment. Source: European Commission. (2021). Questions and answers: Corporate Sustainability Reporting Directive proposal.
4. Benefits of Impact-Weighted Accounts

Benefits to different stakeholders

While the above explained the societal need for IWAs, it should also be stressed that IWAs bring important benefits to reporting organisations and investors.

For the reporting organisations, Impact-Weighted Accounts can help, among others, to:

1. steer on purposeful and intentional impact;
2. retain their social licence to operate;
3. better understand internalisation risks and act upon them;
4. understand the value of their impact; and
5. meet transparency expectations of stakeholders;
6. comply with future regulations;
7. remain an attractive employer for future talent.

Early adopters of IWAF anticipate the future of corporate reporting and will benefit from a first-mover advantage in (1) giving an early chance to experiment and benefit from the learning, (2) building a thought-leadership position, and (3) attracting long-term sustainable investors.

In the long term, reporting impact in a common language and measurable way provides executives with an extra decision-making tool to anticipate short-term market pressure in the investing world. In other words, they can justify investments in long-term value creation. There are some investments for which impact would be realised in the mid- or longer-term at the expense of near-term profit for the organisation (just like any other positive NPV investments). These trade-offs would become apparent with impact reporting such as IWAs. Understanding these would enable executives within the reporting organisations to make sound decisions, and steer on the impact that fits with the organisation’s long-term value-creation proposition, vision, and mission. For discussion about risk and opportunities of reporting on sustainability information, please refer to Natural Capital Coalition (2016). Natural capital protocol principles and framework.

For investors, information from Impact-Weighted Accounts helps them to:

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For other stakeholders, such as clients, employees, governments, NGOs, society at large, environment, etc., Impact-Weighted Accounts can inform them about value creation for all stakeholders. In addition, these groups of stakeholders can engage organisations or the public sector to stimulate equitable value creation.

Realising IWAs’ benefits

IWAF’s purpose is to help guide organisations to create IWAs and enable them to materialise the benefits listed above. Impact Institute has recently developed a set of standardised impact statements\textsuperscript{13}, analogous to the widely applied financial statements. The current effort is to expand on these statements with a framework that helps organisations to explore creating their own IWAs. Impact statements provide the information organisations need to manage their impact, as well as the information their stakeholders need to assess this impact.

Effective impact statements boil down hundreds of sustainability indicators into a small set of measurable goals, enabling organisations to make trade-offs between the many ways they affect society, between the interests of various stakeholders, and between short- and long-term action. At the same time, effective impact statements provide sufficient information for organisations and their stakeholders to set their own priorities with respect to impact.

This would eventually lead to external disclosure\textsuperscript{14} – starting with organisations that do better than average to declare their Impact-Weighted Accounts. This would eventually serve as a signal that organisations not doing so are hiding something. We take a closer look at this dilemma – and others – in the Supporting Argumentation of the Framework.

The clear ambition should be to reduce all negative impacts to zero over time. Any negative figure is not acceptable in a long-term timeframe. Any negative impact needs to be remediated and restored, and stakeholders need to be compensated. The impact balance of each impact theme needs to be positive over time.


Why (monetarily) value impacts?

Not all impacts can be monetarily valued currently without running into ethical questions for multiple reasons. Firstly, it is often questionable to reach a single figure by adding up positive and negative impacts across diverse social and environmental impacts. Secondly, no widely accepted conversion rate between certain impacts and monetary units exists. Also, assigning a monetary value to the loss of dignity that forced labourers experience is not in the scope of the IWAF methodology. On other more complex issues, assigning a score, a rating, may be more workable in the short term and in the longer term as well.

Despite the challenges, some level of monetary valuation, however, is desirable. When impacts are assigned a monetary value, IWAF proposes ways to make the value as objective, reliable, and science based as possible. For example, by using globally accepted sources as references.

The main benefits of monetarily value impacts are:

- Having an accounting currency that is already used in the context of managing firms and investments.
- Compatibility with accounting systems and analytical tools (e.g., internal rate of return and net present value) that are configured to handle currency.
- Ability to focus on revenues from products and services that contribute to sustainable and equitable development.
- Emphasis on the fact that all business activities have social and environmental impact.
5. **Journey of Compiling Impact-Weighted Accounts**

**Practical progress on making IWAs**

Dozens of organisations are already experimenting with IWAs. Many of these can be found in a list compiled by Harvard Business School (2021).

The Framework for Impact Statements, one of the normative references for this Impact-Weighted Account Framework, has successfully been implemented by many organisations, from large to small corporations across the world. In addition, publications by the Impact-Weighted Accounts Initiative have assessed impact from an outside-in perspective. These include the product-level impacts of the two largest automobile manufacturers in the world; and employment related impacts for eight large US-based firms, further testing elements of this Impact-Weighted Accounts Framework.

Many organisations, including some referenced in the list above, still struggle to compile full Impact-Weighted Accounts. Our ambition is to give them extra guidance and inspiration.

**A note on time investments in compiling IWAs**

Rome was not built in one day, and neither are Impact-Weighted Accounts. We acknowledge that making IWAs can be a time and resource demanding process. Frankly, this should not come as a surprise, given that compiling financial statements is also a demanding process. IWAs have a wider scope than financial statements, although a lower level of precision is typically allowed (e.g., many impacts can be estimated, while financial numbers need to be built bottom-up from the underlying transactions).

**The impact journey**

The initial time investment of a reporting organisation to create their IWAs would depend on their previous experience with sustainability reporting and understanding, prioritising, and scoping their impacts, but also on which data they already have available and which data would still need to be collected.

An organisation typically must undergo a phased process to be able to manage its impact in a manner that fits its purpose and goals. This process is referred to as the impact journey and can take several years. An impact journey typically starts with identifying internal challenges (e.g., within their own operations, value chain partner, etc.). To overcome the challenge, the organisation needs to understand the challenge and its dependencies by measuring its impact which typically leads to small-scale internal reporting and decision-making. Once the organisation understands the implication of what they get from impact...

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measurement and reporting, it then evolves to a state in which thinking about impact is central in the organisation.

This framework supports organisations in all stages of the impact journey to proceed at their own pace. The requirements given in this framework should not be read as ‘all or nothing.’ Regardless of their starting point, organisations are encouraged to use elements of the framework for purposes of internal reporting and decision making as the first step towards its wider, and external, application. IWAs should be of interest to all organisations that are focused on long-term value creation. IWAs allow them to measure and report their overall impacts, and thereby better mitigate risks and capture opportunities.

\[ \text{Not everything that can be measured, counts – and not everything that counts can be measured.} \]

IWAF calls for a paradigm of at least attempting to measure all that should be valued. In the end, long-term stakeholder value is an important measure of success for both organisations and the entire economy.
About the Impact Economy Foundation

The Impact Economy Foundation (IEF) is a Public Benefit Organisation which has a vision to construct an impact economy, a market economy that provides the values, information and incentives that optimise the common good and enable people to pursue their own needs, ideas and projects.

The Impact Economy Foundation (IEF) believes that the uptake of compiling and publishing Impact-Weighted Accounts – quantitative impact assessment of organisation’s value creation to all stakeholders – is one of the key steps in the transformation of our economy into an impact economy. Therefore, the Impact Economy Foundation sets out to incubate the Impact-Weighted Account Framework (IWAF) – together with thought leaders and leading practitioners in an inclusive and scientific manner.

Impacteconomyfoundation.org