INTRODUCTION

IMPACT-WEIGHTED ACCOUNTS FRAMEWORK

June 2022

(Public consultation version)

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June 2022 (Public consultation version)

Current draft: Public Consultation from 2 June 2022 – 9 September 2022

The Impact Economy Foundation (IEF) is facilitating a public consultation to gather feedback on the documents, improve their applicability and further grow the support for impact management and reporting.
All readers and experts are kindly invited to participate in the consultation. Please see here for a set of consultation questions we ask you to answer. In addition, all other suggestions for improvement are welcome through email (iwaf@impacteconomyfoundation.org).

About the Impact-Weighted Accounts Framework

Impact-Weighted Accounts (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 Accounts Framework (IWAF) helps organisations to compile IWAs by providing the key concepts, requirements and guidance.

Developing the Impact-Weighted Accounts Framework

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

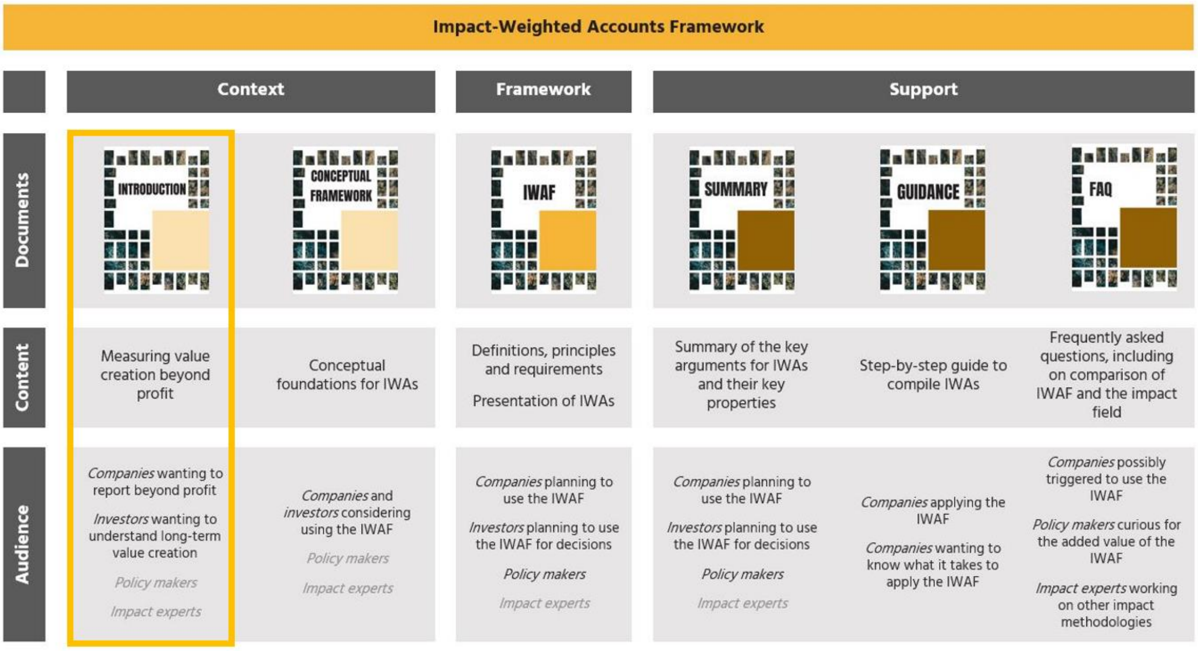

Figure 1: An overview of the different documents within the Impact-Weighted Accounts Framework. This document is the *Introduction to the Impact-Weighted Accounts Framework.*

Authors and acknowledgements

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Cover image by Jakub Kriz

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About the Impact Economy Foundation

The Impact Economy Foundation (IEF) is a Public Benefit Organisation that 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 IEF believes that the uptake of compiling and publishing IWAs—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, together with thought leaders and leading practitioners, the IEF sets out to incubate the IWAF in an inclusive and scientific manner.

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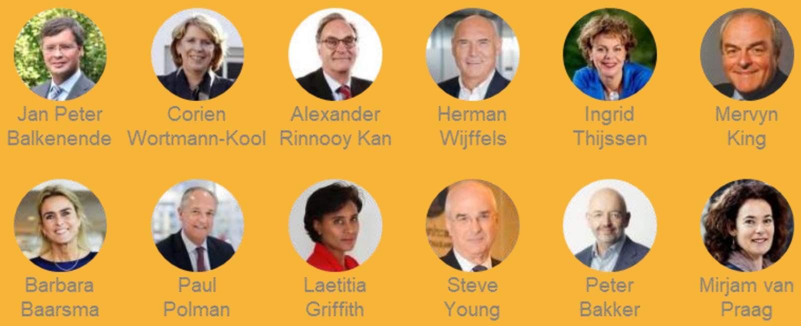

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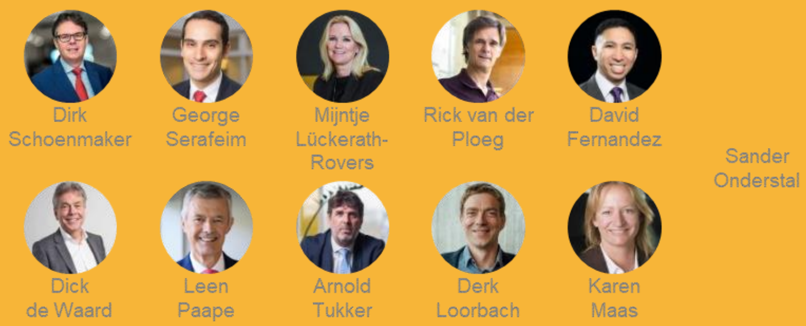

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Executive summary

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 that happens within planetary boundaries and with a solid social foundation.

Organisations have a 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 in reality valued at zero. This leads to an incomplete view of an organisation's value creation and therefore they (the societal impacts) are not addressed by company management or investors.

In the last few decades, progress has been made in moving beyond managing and reporting on financial value creation only. Many actors and regulators in the field are starting to practise a holistic approach to value creation, while 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 may report and promise changes towards issues they deem important but never act upon.

The concept of *impact* can be used to address these 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. The 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. The 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 IWAF aims to close this gap. The overarching goal of the IWAF is to guide organisations to create their own IWAs and enable the materialisation of the benefits for their key stakeholders.

The IWAF builds on many existing frameworks, methods and research articles. Where possible, continuity is sought with existing conventions. The IWAF ensures a complete and consistent impact assessment that, through IWAs, considers all capitals and all stakeholders in society, for example, the Impact-Weighted Account Project of Harvard Business School and the Framework for Impact Statements developed by Impact Institute [1]. It also represents an innovation for the pioneers of sustainability reporting who have already mastered the Global Reporting Initiatives (GRI) Standards [2], the six capitals defined in the International Integrated Reporting Council (IIRC) Framework [3], and the Equator Principles [4]. The Framework also recognises the currently adopted impact reporting frameworks, such as IRIS+ (the generally accepted system for impact investors to measure, manage, and optimize their impact) [5], Impact Management Project (IMP) [6], Capital Coalitions [7] and SDG reporting [8]. All these standards and frameworks align with the global sustainability commitments, such as the Paris Agreement [9], the Sustainable Development Goals (SDGs) and the upcoming EU taxonomy [10].

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. They consist of two building blocks:

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

The benefits of reporting IWAs for different stakeholders are to:

Reporting organisations	Investors	Other stakeholders
Steer on purposeful and intentional impact	Understand long-term value creation for all stakeholders of the reporting organisation	Gain information about value creation for all stakeholders
Retain their social licence to operate	Assess the likelihood and speed of internalisation	Engage organisations or the public sector to stimulate equitable value creation
Better understand internalisation risks and act upon them	Get additional insight in the long-term financial viability of the reporting organisation	
Understand the value of their impact	Provide increased transparency of potential long-term risks	
Meet transparency expectations of stakeholders		
Comply with future regulations		
Remain an attractive employer for future talent		

Overall, organisations need to acknowledge that building IWAs are not instantaneous. Typically, an organisation 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 and based on scientific evidence and to allow meaningful comparison between metrics. It helps organisations better understand their impact information. The IWAF acts as complementary guidance to the existing standards on sustainability reporting that do not always focus on impact.

The overarching goal of the IWAF is to guide organisations to create their own Impact-Weighted Accounts (IWAs). Here, 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.

The 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 [11]. However, 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 simply because, among other reasons, 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 that economic development happens within planetary boundaries and with a solid social foundation.

When the value of positive and negative impacts is not measured, these impacts are in reality 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 on their contributions to SDGs. There are an increasing number of companies that do report their SDGs [12]. However, this practice is currently with a substantial risk of "SDG washing": *companies using the SDGs as a communication tool without much actual adaption to strategy or measurement of their impact towards the Goals* [13]. 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 practise a holistic approach on value creation.

Sustainability reporting has matured thanks to regulatory requirements (such as the EU's taxonomy, Non-Financial Reporting Directive, and the EU's proposed Corporate Sustainability Reporting Directive

[CSRD])[14] 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 USD [15] and 715 billion USD [16] for 2020; similarly, social enterprises are on the rise [17].

Challenges

Nevertheless, several challenges remain with the development of current sustainable reporting, some of which we aim to address with the establishment of the IWAF. Firstly, current sustainability reports often lack the comparability and reliability that key user groups need to make decisions. Lacking consistent manner and language, the existing standards are not being applied rigorously. 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 more 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 thereby complement the existing (financial) standards. There are already many emerging and existing frameworks seeking to address that need. 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.

3. Towards a holistic view on organisation performance

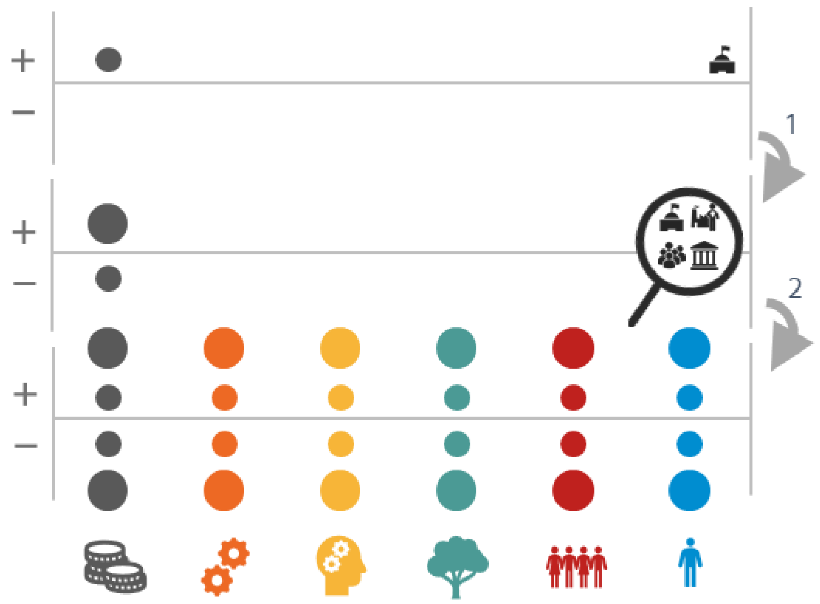
IWAs contain two types of accounts: the Integrated Profit & Loss (IP&L) Accounts and Integrated Balance Sheet Accounts. IP&L Accounts are impact-weighted accounts that contain all material information on the impact an organisation has had during a period ("all impacts of the organisation"). The Integrated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

Integrated Profit & Loss approach

Seeing the opportunity to measure and report on environmental and social value and impacts, and to complement existing financial standards, IWAs aim to report these in a more explicit and transparent way by using the IP&L approach. The 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 the six so-called capitals, following the categorisation of the International <IR> Framework [3].

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.



Integrated Profit & Loss Approach

In addition to gaining more understanding of its overall value creation and allowing for 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 (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.[1] 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

There is a lively debate about the true quality and reliability of sustainability information provided by organisations, or the perfect set of standards corporate reports should follow. The 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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[1] https://impacteconomyfoundation.org/ [18]

the IIRC Framework.[2] The main differences between the available standards are their scope: broader sustainability themes or narrower ones (e.g., 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[3] with monetary valuation of impacts where possible, and target investors as an important user group of the data reported by organisations. As such, the IWAF is fully aligned with the requirements of the European Commission on double materiality and reporting on negative impact, as proposed in the CSRD.

The information provided by IWAs is complementary to the information that reporting organisations currently provide, such as sustainability reports. These reports contain valuable information on how organisations perform on ESG aspects. IWAs expand on these reports by addressing the organisations' value creation *and* 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

The IWAF draws on the Impact-Weighted Account Project of the Harvard Business School [21], and the Framework for Impact Statements developed by Impact Institute [1]. It also represents an innovation for the pioneers of sustainability reporting who have already mastered the GRI Standards [2], the six capitals defined in the IIRC Framework [3], and the Equator Principles [4]. The Framework also recognises the currently adopted impact reporting frameworks, such as IRIS+ [5], IMP [6], Capital Coalitions [7] and SDG reporting [8] and the goals outlined by the Principles for Responsible Investment [22], the UNEPFI's Principles for Responsible Banking [23] and the Value Balancing Alliance [24]. All these standards and frameworks fit in with the global sustainability commitments, such as the Paris agreement [9], or the SDGs [25].

[2] A joint statement on the intent of major standard providers to work together can be seen in CDP, CDSB, GRI, IIRC and SASB. (2020). Statement of Intent to Work Together Towards Comprehensive Corporate Reporting. *Facilitated by IMP, the Impact Management Project, World Economic Forum and Deloitte* [19].

[3] 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 [20].

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, IWAs can, among others, help to:

- (i) Steer on purposeful and intentional impact
- (ii) Retain their social licence to operate
- (iii) Better understand internalisation risks and act upon them
- (iv) Understand the value of their impact
- (v) Meet transparency expectations of stakeholders
- (vi) Comply with future regulations
- (vii) 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 benefiting 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 (as with any other positive net present value 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 manage 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, refer to Natural Capital Coalition (2016). Natural capital protocol principles and framework [26].

For investors [27], information from IWAs helps them to:

- (i) Understand long-term value creation for all stakeholders of the reporting organisation
- (ii) Assess the likelihood and speed of internalisation
- (iii) Get additional insight in the long-term financial viability of the reporting organisation
- (iv) Increase transparency of potential long-term risks

For other stakeholders (clients, employees, governments, NGOs, society at large, environment, etc.), IWAs can inform them about value creation for all stakeholders. In addition, these stakeholders can engage organisations or the public sector to stimulate equitable value creation.

Realising IWAs' benefits

The IWAF's purpose is to 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 [1], 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 distil 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 impact priorities.

This will eventually lead to external disclosure [21], starting with organisations that do better than average to declare their IWAs. This would eventually serve as a signal that organisations not doing so are hiding something: we take a closer look at this and other dilemmas in the Supporting Argumentation of the Framework.

The clear goal 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 value impacts (monetarily)?

For multiple reasons, not all impacts can currently be monetarily valued without encountering into ethical questions. 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 (or rating)—rather than a monetary value—may be more workable in the short term, but also the longer term.

Despite the challenges, however, some level of monetary valuation 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 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
- A focus on revenues from products and services that contribute to sustainable and equitable development
- An emphasis on all business activities having 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 are included in a list compiled by Harvard Business School (2021) [28], [29].

The Framework for Impact Statements, one of the normative references for the IWAF, has successfully been implemented by many organisations (from large to small corporations) across the world. In addition, publications by the Impact-Weighted Accounts Project have assessed impact from an outside-in perspective. These include the product-level impacts of the two largest automobile manufacturers in the world [30], and employment related impacts for eight large US-based firms [31], further testing elements of this IWAF. However, many organisations, including some referenced in the list above, still struggle to compile full IWAs. Our aim is to give them extra guidance and inspiration.

A note on time investments in compiling IWAs

"Rome was not built in a day", and neither are IWAs. We acknowledge that making IWAs can be a time- and resource-demanding process. 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: for example, many impacts must be estimated, while financial figures 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 its previous experience with sustainability reporting and its understanding, prioritising and scoping of their impacts, as well as on which data it already has available and which data it would still need to collect.

Typically, an organisation must undergo a phased process 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 usually starts with identifying internal challenges (within their own operations, value chain partners, etc.). To overcome the challenge, the organisation needs to understand the challenge and its dependencies by measuring its impact that typically leads to small-scale internal reporting and decision-making. Once the organisation understands the implication of what it gets from impact 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.

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.

Index – IWAF abbreviations

Abbreviations not used in headings

CDP	Carbon Disclosure Project
CSRD	Corporate Sustainability Reporting Directive
ESG	Environmental, Social, and Governance
GRI	Global Reporting Initiatives
IEF	Impact Economy Foundation
IIRC	International Integrated Reporting Council
IMP	Impact Management Project
IP&L	Integrated Profit & Loss
IWAs	Impact-Weighted Accounts
IWAF	Impact-Weighted Accounts Framework
SDG	Sustainable Development Goal
SASB	Sustainability Accounting Standards Board

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About the Impact Economy Foundation

The IEF is a Public Benefit Organisation that 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 IEF believes that the uptake of compiling and publishing IWAs—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, together with thought leaders and leading practitioners, the IEF sets out to incubate the IWAF in an inclusive and scientific manner.

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