

IWAF IN PRACTICE | USE CASE SERIES

**IMPACT
MANAGEMENT WITH
THE IMPACT
VALUATION MODEL
(IVM).**

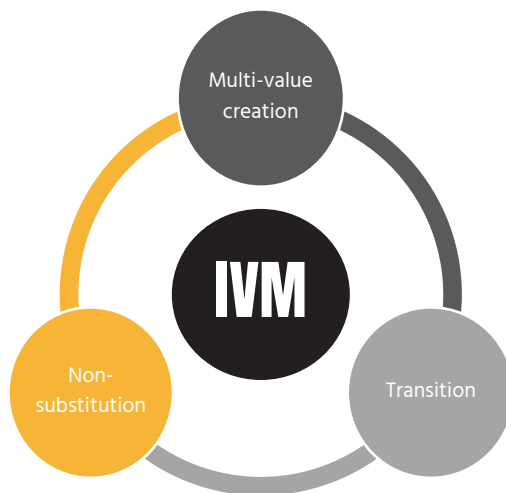
RSM & Impact Institute

INTRODUCTION

The profound social challenges of the 21st century call for a reevaluation of business practices, urging a transition from a narrow focus on immediate financial gains to a more comprehensive approach that prioritises impact. Responding to this imperative, the Rotterdam School of Management (RSM) and the Impact Institute developed the Integrated Value Model (IVM), based on the **Impact-Weighted Accounts Framework (IWAF)**. Guided by a forward-looking perspective on the value of new innovations and business models this comprehensive framework facilitates a multi-dimensional forecasting of value, encompassing social, and environmental impacts alongside financial considerations. The model presents itself as a strategic tool for companies to select the most impactful innovations, projects, and business models, thereby gaining a comparative advantage in the market.

THE INTEGRATED VALUE MODEL (IVM)

The IV Model integrates social and environmental impacts along with financial value, and as such can be used as a tool for companies to understand their impact and evaluate their investments. The IVM is based on the following principles¹:



The study conducted by RSM and the Impact Institute investigates the role of integrated value in facilitating transitions towards sustainable business practices,

¹Exact definitions of the principles can be found on [page 6](#): 'Multi-value Creation: Value creation is stimulated and is positive for all three value dimensions (FV, SV, EV). This is the long-term goal but is not always immediately possible for existing activities. Transition: Where value is destroyed, a transition pathway to recovery is established. The path to ending value destruction must be credible. Non-substitution: In principle, negative effects on one value dimension cannot be compensated for by positive effects on the other value dimensions.'



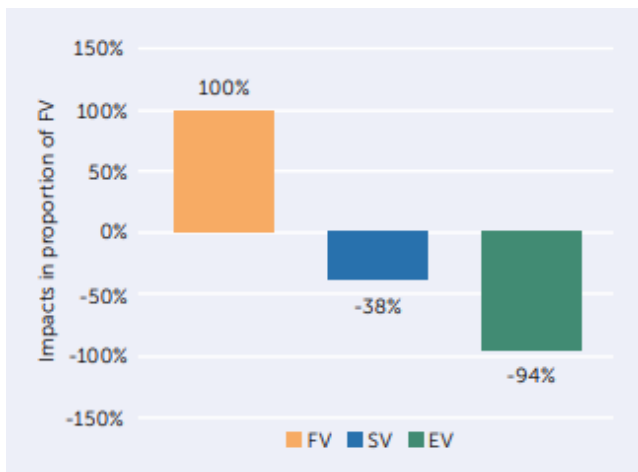
particularly in high-externality sectors like automotive and meat industries. By employing a data-driven quantitative Integrated Value Model (IVM), they **quantified and valued key externalities** in these sectors. The study addressed the following two questions:

- *Does integrated value help the transition to sustainable business models?*
- *Could a case be made for the CFO to embrace integrated value?*

MAIN FINDINGS

The primary findings indicated that the combined sum of negative social (SV) and environmental values (EV), when added to the positive financial value (FV), results in a negative overall value for society for the analysed sectors (see figure 1 below for the automotive case's results). In simpler terms, these sectors are, on average, creating more harm than good from an integrated perspective, suggesting that they are detracting value from society rather than contributing positively.

Figure 1: Data-driven impact valuation's results of the automotive case ([p.6](#)).



The **main takeaway** from the study suggests that utilising an Integrated Value Model provides a clear incentive for decision-makers, particularly CFOs, to initiate transitions towards more sustainable business models sooner rather than later. This approach underlines the importance of integrated value in steering businesses towards impact-driven enterprises, thereby making a strong case for

EXAMPLE - TESLA'S FIRST-MOVER ADVANTAGE AND EV PIONEER

Tesla's early commitment to electric vehicles (EVs) exemplifies the first-mover advantage. By prioritizing sustainability and anticipating the shift in consumer preferences, and sector transition Tesla positioned itself as a leader in the EV market. This strategic decision not only contributed to sustainability but also enhanced the company's long-term viability and brand value.



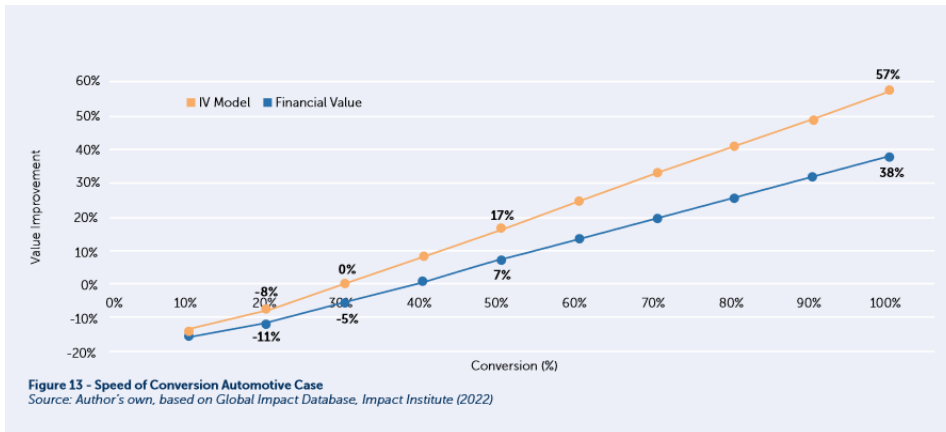
CFOs to adopt and value integrated methodologies in their strategic planning and operations.

BENEFITS OF USING THE IVM

Faster and Earlier transition to sustainable business models

- *Finding:* The IVM facilitates an earlier and faster transition to sustainable models (Figure 2). The cases studied, initially burdened with negative societal value or 'externalities,' pivoted swiftly towards sustainable models. This accelerated shift was driven by the recognition of an earlier break-even point of conversion and the higher long-term value improvements associated with sustainability.

Figure 2: Showcasing how the IVM (orange line) induces a **faster transition** toward a more sustainable business model than the FV Model (blue line) for the Automotive Case (p.20).



- *Benefits of using IVM:* By considering the substantial long-term upside of investments and looking beyond the short-term high initial investment, companies using the IVM strategically embraced sustainable practices. This emphasizes the importance of non-financial factors in driving timely and impactful business transformations.

Support Long-Term Viability (LTV)

- *Finding:* Relying solely on financial value optimization jeopardizes the long-term viability of companies, especially amidst environmental and societal challenges and sectoral transitions. Conversely, when "impact" is integrated in the fabric of a corporate model, the company's valuation increases. Additionally, company valuation is increasingly driven by intangible assets, with 90% of the S&P 500 market value attributed to intangibles in 2020.
- *Benefits of using IVM:* The IVM promotes a broader interpretation of 'value', urging organizations to embed measured, quantified and attributed societal and ecological impacts in decision-making. This equips decision-makers with a richer set of data points, aiding in



identifying business opportunities and preparing for risks, crucial for companies operating in sectors with high negative externalities.

Manage Value at Risks

- *Finding:* There is an increasing amount of evidence that externalities may become internalize. Regulations are catching up in terms of sustainability (e.g., CSRD, CSRD, extension of the EU-ETS, EU ban on combustion engine cars by 2035). At the same time, insufficient capital is allocated to solutions accelerating sector transitions.
- *Benefits of using IVM:* The IVM fosters a company's understanding of its own impacts and how the company is exposed to intangible assets and risks. The IVM thus enables executives to contribute to and capitalize on business opportunities associated with current challenges. It facilitates optimisation of not only social, environmental and financial impacts but also the overall business model.

In summary, RSM's and the Impact Institute's study on the added value of IWAF through IVM underscores the transformative potential of blending social, environmental, and financial aspects in decision-making. It serves as a testament to the framework's ability to empower companies, allowing them not just to adapt but to thrive amid the environmental and societal transitions on the horizon. Forecasting with IVM emerges as a beacon guiding businesses towards sustainable practices and resilient decision-making in an era demanding holistic value assessment. Beyond a mere reporting tool, the study conducted by RSM exemplifies the utility of IWAF as a tool to steer on impact, ensuring long-term viability and enhancing company valuation.

READ THE FULL STUDY [HERE](#).

