IMPACT MANAGEMENT WITH IWAF

June 2024

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About the Impact-Weighted Accounts Framework

The Impact-Weighted Accounts Framework (IWAF) represents an innovative approach designed to redefine value in organisations, from a focus on maximising financial value to optimising societal impact. IWAF provides the key concepts, requirements, and guidance for organisations to quantitatively assess their impact: how they create or detract value for all stakeholders.

IWAF values the impact of an enterprise across six distinct capitals—financial, manufactured, intellectual, human, social, and natural—throughout the entire value chain. By measuring and evaluating these impacts in monetary terms, IWAF provides a harmonised, standardised impact language, thereby facilitating trade-offs as well as the integration of impact information at the core of strategic decision-making. The focus of IWAF extends beyond mere assessment and reporting; it actively facilitates effective impact management. This framework thereby ensures that all key stakeholders can comprehend and steer on the full spectrum of a company's impacts.

Therefore, adopting IWAF is a critical step for any organisation aiming to evolve into an impact enterprise. This guidance steers enterprises towards a future where every decision is impact-driven, crucial for cultivating an Impact Economy in which work, innovation and entrepreneurship is used as effectively as possible towards resolving our societal issues and creating well-being for all.

Developing the Impact-Weighted Accounts Framework

IWAF is incubated by the Impact Economy Foundation (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.

Cover image by Jakub Kriz

1) Impact Institute, 2) Harvard Business School, 3) Kempen Capital Management, 4) Singapore Management University, 5) Rotterdam School of Management, 6) Impact Economy Foundation (Board), 7) Tilburg University, 8) Impact Economy Foundation (Academic Council), 10) Open University and EUR, 11) Nyenrode University, 12) University of Amsterdam, 13) Leiden University, 14) Groningen University

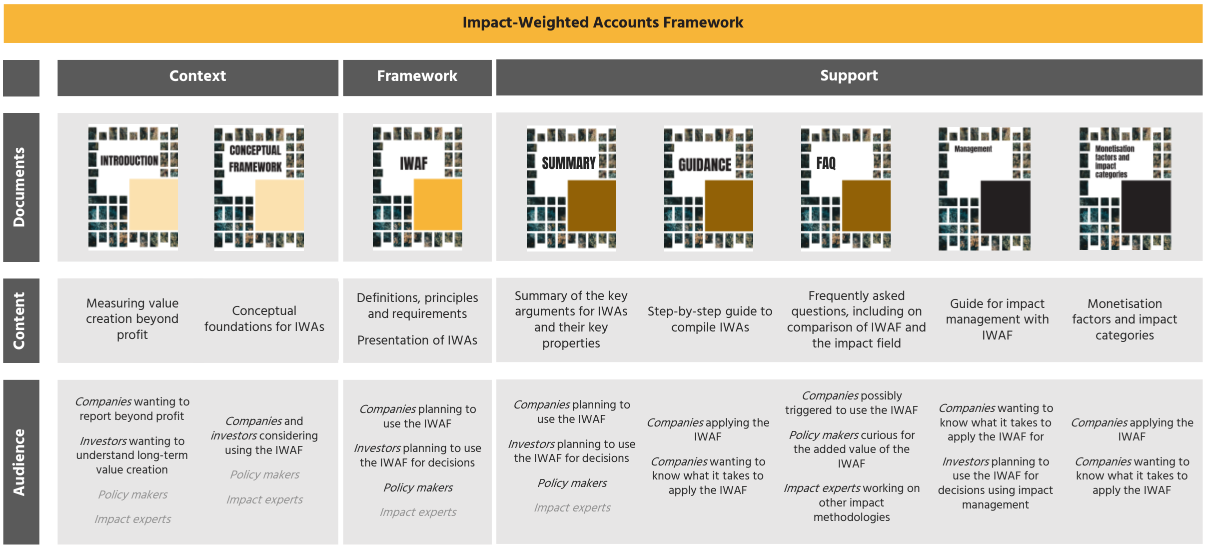

Figure 1: An overview of the different documents within the Impact-Weighted Accounts Framework. This document is the Guide for Impact Management with IWAF.

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Abstract

About the present document

This paper presents the Impact-Weighted Accounts Framework (IWAF) as a framework for impact management besides impact reporting, supporting companies in integrating their impacts in key business operations with precision and accountability. The paper outlines the foundational elements of IWAF, highlighting its essential guiding principles and strategic decision-making rules. Moreover, the document introduces a comprehensive toolkit for effective impact management, showcasing tools such as the Integrated Profit and Loss (IP&L) Statement, Impact Return on Investment (IRoI), and Impact Targets, among others. Crucially, this paper delivers strategic insights into the optimal use of each tool, providing companies with detailed guidance on applying these mechanisms in diverse contexts to enhance their positive impact. Bridging theoretical concepts with practical applications, the paper elaborates on the integration of IWAF within organisational structures, underscoring its significant contribution to strategic planning, risk management, and governance. The primary goal of this guide is to equip companies with a clear, actionable framework, enabling them to lead in sustainable and responsible business practice.

The Guide to Impact Accounting presents the ten steps for compiling Impact-Weighted Accounts (IWAs). Notably, the tenth step 'manage impact' is not covered in this guide, recognising its complexity and the need for a specialised focus. The subsequent paper serves precisely as that dedicated exploration of the 'manage impact' step (Figure 1).

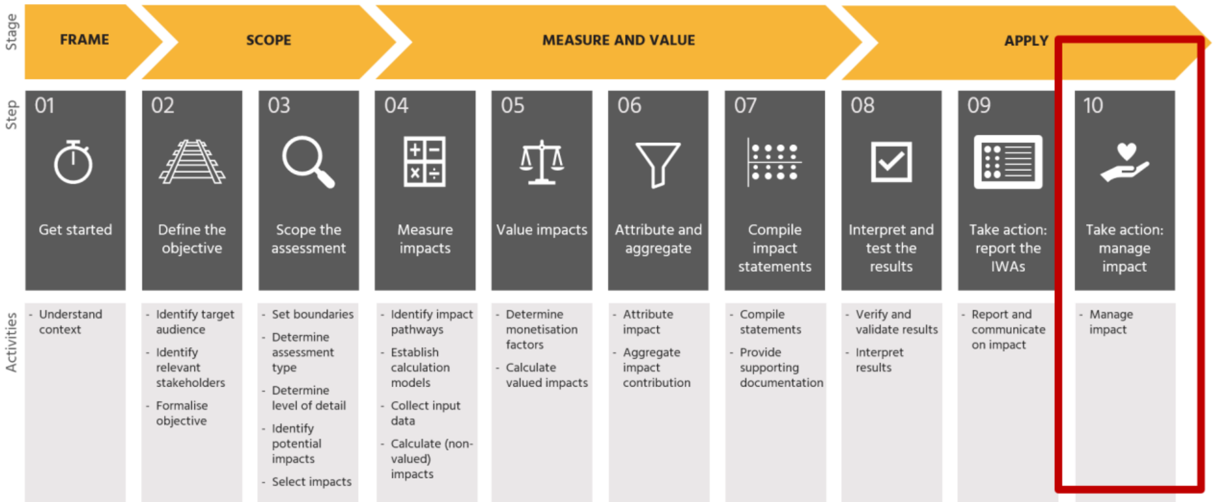


Figure 2: The ten steps to Impact Accounting with IWAF.

Readers new to the framework's material are invited to first read the two accompanying documents: Redefining Value: An Introduction to the Impact-Weighted Accounts Framework that presents the rationale behind IWAs, and the Conceptual Framework for Impact Accounting that introduces the central concepts such as impact, the Integrated Profit & Loss (IP&L) and the Integrated Balance Sheet accounts.

Impact Management with the **Impact-Weighted Accounts Framework (IWAF).**

Executive Summary

Evolving landscape: the coming of age of CSRD for impact reporting

In the evolving landscape of corporate sustainability, the introduction of the EU's Corporate Sustainability Reporting Directive (CSRD) marks a significant milestone in transparency and accountability, setting a precedent for corporations around the world. However, the path to genuine value-driven corporate practices extends well beyond mere disclosure, urging businesses to integrate impact at the heart of business decision-making, ranging from investment and strategic planning to procurement and R&D decisions. Amidst this context, the Impact-Weighted Accounts Framework (IWAF) emerges as a crucial tool, designed to bridge the gap between sustainability ambitions and impactful actions by setting the grounds for impact management in corporate practices.

Empowering change: The role of IWAF in Impact Management

This paper demonstrates the potential of IWAF to innovate corporate sustainability by facilitating a shift from impact reporting to impact management for impact-first strategies. IWAF equips organisations with the means to systematically assess, value, and integrate their societal and environmental impacts into every aspect of decision-making. By adopting a methodology that quantifies and values impacts in monetary terms, IWAF offers a practical pathway for companies to internalise externalities, aligning their operational strategies with broader impact goals.

Toolkit for transformation: IWAF's approach to Impact Management

The narrative of this paper progresses by examining the foundational principles underpinning IWAF—principles that challenge the status quo of sustainability practices by advocating for an integrated view of value creation. This includes shifting the focus from simply accounting for inputs and outputs to assessing actual impacts[1], embracing a double materiality perspective, and adopting a no-netting approach to ensure transparency and accountability in considering both positive and negative, direct and indirect impacts. Through these principles, IWAF lays the groundwork for a value-driven business ecosystem that safeguards stakeholder welfare. Building on these foundations, the paper introduces a comprehensive toolkit for effective impact management with IWAF, presenting tools such as the Integrated Profit and Loss (IP&L) Statement, Impact Return on Investment (IRoI), and Present Integrated Value (PIV), among others, which expand on traditional finance tools (Figure 3).

[1] 'Impacts' are defined as the difference an enterprise can make for its stakeholders, by having an effect on what is valued in society. Impacts can be across different dimensions, such as natural, social and human capital; they can be direct or indirect, positive or negative. Consult the Conceptual Framework for Impact Accounting publication for a clear delineation of the definitions of the framework's fundamental concepts.

TRADITIONAL TOOLS	IMPACT TOOLS
Net Present Value	Present Integrated Value
Return on Investment	Impact Return on Investment
Profit and Loss Statement	Integrated Profit and Loss
Input/ Output Targets	Impact Targets

Figure 3: Transitioning from traditional finance to impact tools with IWAF

Strategic integration: Applying IWAF across key business pillars

Now equipped with the tools for impact management with IWAF, the paper offers a guide on integrating these across key organisational pillars—strategy, key decision-making processes, risk management, and governance (Figure 4). This integration is exemplified through the strategic application of IWAF in identifying, quantifying and valuing impacts, setting targets, and executing initiatives that are aligned with the organisation's sustainability aspirations. Additionally, the paper accentuates the significance of IWAF in important day to day decision making such as R&D, Procurement, or CAPEX decisions making. Then, the guide discussed the framework's ability to enhance risk management practices, where understanding and mitigating risks related to environmental and social externalities are imperative. Finally, the paper delves into ways in which the tools presented in the previous section provide solutions in aligning remuneration schemes with impact goals, and how the implementation of IWAF can lead to more accountable, transparent, and impactful governance practices.

A new era in business: Advancing towards an Impact-Driven Business Paradigm

Concluding, this paper positions IWAF as a transformative framework that not only enables the transition towards impact-driven enterprises but also exemplifies the shift in corporate sustainability from a compliance-based to a proactive impact management approach. By providing practical tools and guidance for decision-making, IWAF stands as a beacon for enterprises striving to reconcile their economic objectives with their social and environmental responsibilities, marking a significant stride towards becoming an impact-driven enterprise.

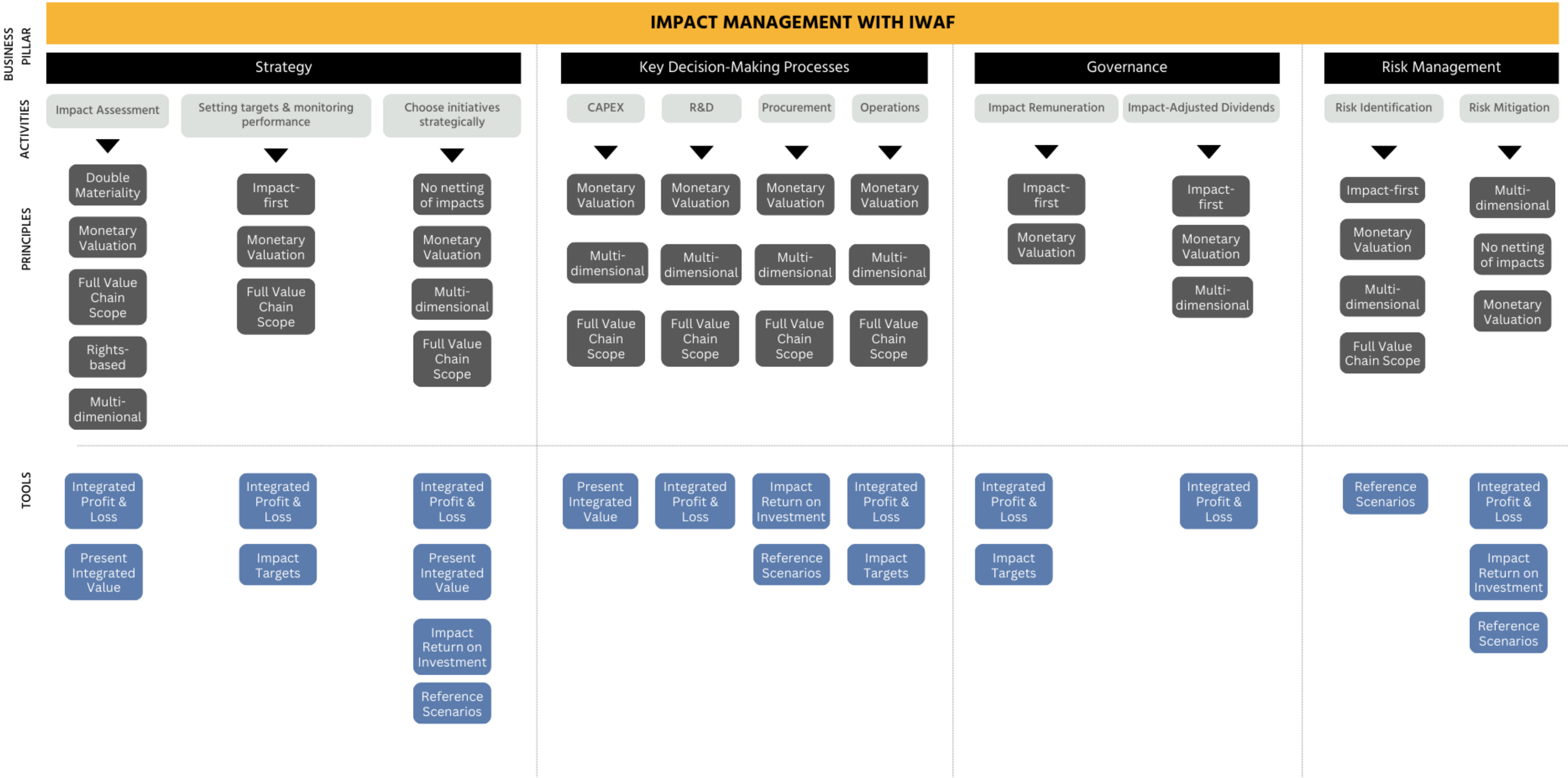


Figure 4: Integrating Impact Management across key business pillars.

Introduction

The evolution of corporate sustainability

In recent years, corporate sustainability practices have evolved from peripheral activities to central strategies within the business landscape. This transition has been significantly shaped by regulatory changes and societal expectations, most notably illustrated by the EU's Corporate Sustainability Reporting Directive (CSRD). CSRD represents a watershed moment in corporate responsibility, mandating enhanced disclosure and transparency on enterprises' impacts on the environment and society. This shift underscores a broader movement towards sustainability that transcends traditional financial reporting, aiming to integrate environmental, social, and governance (ESG) factors into the core of corporate decision-making.

Despite these advancements, a critical challenge remains: "reporting alone does not change the world." This phrase encapsulates the current predicament faced by corporations worldwide. While disclosure and transparency are essential, they are merely the first step. Transparency without substantive action is akin to a map without a compass; it outlines the terrain but fails to guide. There is a notable void in proper guides for impact management, a deficiency that exacerbates this challenge. As stakeholders demand more than just insights into corporate practices, the need for concrete, impactful actions has never been more pressing.

Bridging the gap with IWAF

Addressing this gap between ambition and action requires more than just good reporting practices; it demands a systematic approach to embedding sustainability into the fabric of organisational decision-making. This is where Impact Management becomes critical. It guides companies in measuring, managing and optimising their initiatives for positive societal and environmental impacts. Enter the Impact-Weighted Accounts Framework (IWAF), a revolutionary tool designed to transform the landscape of corporate sustainability, through effective Impact Management. IWAF does not merely suggest a different way of reporting but proposes a paradigm shift in how companies approach impact. By providing decision-ready information, IWAF enables enterprises to measure, value and steer their societal and environmental impact with the same rigour as their financial performance.

About this paper

This paper aims to bridge the current gap in the sustainability landscape by offering practical tools and guidance for impact management across key corporate business units: Strategy, Risk Management, Governance, and Key Decision Making Processes. By leveraging IWAF, companies can transition from mere reporting to becoming impact enterprises. Through this paper, we provide a comprehensive overview of IWAF and its potential to catalyse a new era of responsible and impactful business practices.

Why should organisations manage their impacts?

Impact Management is relevant for all companies, investors and financial institutions (hereafter referred to as 'enterprises') for several compelling reasons:

- **To operate responsibly and advance the Impact Economy:** By effectively managing and steering on impacts, enterprises operate within planetary and above societal thresholds, safeguarding and increasing stakeholders' welfare, thereby advancing toward an Impact Economy.
- **To increase resilience and mitigate risks**: Effective management and steering on impacts equip enterprises with the foresight and capabilities to identify and prevent potential sustainability-related risks before they materialise. This proactive approach, coupled with strategic action, strengthens organisations' resilience and ensures long-term viability.
- **To drive innovation and market opportunities**: Embracing an impact-first as an innovative engine allows enterprises to rethink and innovate their products, services, and operational models. Managing and steering on impacts not only drives (true) growth but also opens up new market opportunities by aligning business practices with the evolving expectations of consumers, investors, and the wider community.

More information on the benefits of Impact Accounting with IWAF can be found in the publication Redefining Value: An Introduction to the Impact-Weighted Accounts Framework (IWAF).

1. IWAF's foundations for impact management

1.1. Foundational principles

The foundational principles outlined below serve as the cornerstone for effective impact management within enterprises, guiding their journey towards more sustainable and value-driven operations. By introducing these foundations, we aim to provide a clear and structured framework to assist enterprises in transitioning from traditional business metrics to a more holistic, integrated approach that incorporates the welfare of all stakeholders. This shift is essential for companies looking to align their operations with the broader goals of societal and environmental well-being, thereby redefining their role in the global economy towards more responsible and impactful practices.

Impact-first	Double Materiality	Monetary Valuation	No netting	Multi-dimensional	Rights-based	Full Value Chain Scope

1.1.1. Impact-first

For a an Impact Economy, it is essential that enterprises focus on measuring, reporting, and steering based on impacts—defined as the changes in societal and environmental well-being—rather than merely on inputs and outputs. This paradigm shift is critical in advancing the approach towards gauging an enterprise's true influence on society and the environment. Traditionally centred on the tangible, financial aspects of business operations, such as investments made (inputs) and products sold (outputs), traditional metrics fall short in capturing the real impacts these activities have on the well-being and rights of stakeholders. Impact management, as advocated by IWAF, fills this gap by shifting the focus towards the organisational impacts on stakeholders' welfare. This involves a dual focus: safeguarding stakeholders' rights—encompassing essential elements such as human rights, labour freedoms, and equitable economic participation—and enhancing stakeholders' well-being, which includes the value derived from employment or, the client value derived from the services provided. By transitioning to this impact-centric perspective, enterprises can foster a more sustainable and equitable business ecosystem that values and promotes the welfare of all stakeholders.

1.1.2. Double materiality perspective

Materiality pertains to the importance of a subject in relation to the rights or well-being of relevant stakeholders. A material topic is an environmental or social issue that either affects a company or could potentially be affected by it. Traditionally, when impacts are considered, they are most often viewed solely from a financial materiality perspective (outside-in). That is, enterprises focus on the topics that have the potential to impact the future earnings of the company, irrespective of how they influence the welfare of their stakeholders. Yet, to ensure that the power of markets is harnessed for the common good and to deliver on the promise of 'business as a force for good', it is imperative that enterprises also manage their impact on society and the environment (inside-out perspective). This involves adopting a double materiality approach where an impact is deemed material not only if it affects financial performance but also if it significantly influences the welfare of stakeholders.

1.1.3. Monetary valuation of impacts

The monetary valuation of impacts signifies a critical evolution in aligning impact with financial value within organisational decision-making processes. The Impact-Weighted Accounts Framework (IWAF), offers a methodology to systematically quantify and monetise a company's societal and environmental impacts, thereby enhancing their comparability and standardisation. This pivotal advancement not only streamlines the integration of social and environmental considerations into traditional financial analyses but also revolutionises impact management through the introduction of a uniform metric for impact valuation.

The standardisation unlocked by IWAF significantly enhances transparency and accountability. More importantly, it enables more informed decision-making by clearly delineating which actions yield the greatest benefit or require urgent attention. This transformation ensures that impacts are no longer sidelined but are incorporated into the core considerations of the enterprise. Monetising impacts enables the comprehensive management of impact with the same rigour and importance accorded to financial value[2].

1.1.4. No netting of impacts

The 'no netting' principle of IWAF mandates that companies cannot offset negative impacts with positive ones, ensuring that each impact is assessed individually rather than being negated. This approach enhances the accuracy and transparency of sustainability reporting and counters the misleading representations often seen in conventional frameworks. By evaluating each impact on its own merits, enterprises are held fully accountable for their entire spectrum of impacts, prompting them to take substantive measures to mitigate negative effects in all areas. This principle underpins the commitment to authentic sustainability practices by preventing companies from merely balancing their books environmentally or socially, instead encouraging genuine improvements and responsible corporate behaviour.

1.1.5. Multi-dimensional approach

The multi-dimensional approach forms the basis of impact management, emphasising the interconnected value of the six capitals: intellectual, manufactured, financial, social, human, and natural and reflecting effects on different stakeholder groups. Importantly, this approach promotes an aggregated view of value creation, acknowledging that impacts in one capital can significantly influence impacts in another.

1.1.6. Rights-based

[2] For a detailed overview of the benefits, including those of monetary valuation, unlocked for both investors and companies by adopting IWAF, please consult the Redefining Value: An Introduction to the Impact-Weighted Accounts Framework (IWAF) publication.

The rights-based Principle under IWAF holds that all human rights impacts are inherently material and must be accounted for accordingly in impact management. This principle compels enterprises to methodically identify, evaluate, and respond to human rights concerns at every level of operation, reinforcing the imperative to uphold human dignity in all business contexts.

1.1.7. Full Value Chain Scope

The Full Value Chain Scope Principle as established by IWAF requires companies to evaluate their impacts across the entire value chain, encapsulating both upstream and downstream activities. This holistic approach ensures that enterprises can effectively oversee their impacts and thoroughly understand the interdependencies involved in their value creation processes, leading to more informed and responsible management of resources and stakeholder relations.

Having established the foundational principles of impact management, we now transition to the operational aspect: the decision rules for impact management. These rules serve as guiding frameworks to apply the abovementioned principles effectively, and operationalise the promises of an impact-driven business paradigm.

1.2. The decision-making rules

The introduction of decision rules is essential as enterprises transition from the traditional, straightforward objective of maximising financial value to the goal of optimising a combination of values, including social, human, natural, intellectual, manufactured and financial. They act as guiding principles that enterprises can refer to when informing their decisions, actions, and strategies for generating positive impacts whilst minimising negative impacts. Each principle encapsulates core values and priorities crucial for realising an Impact Economy. Incorporating these rules into operational and decision-making processes allows enterprises to enhance their effectiveness, accountability, and credibility in managing their impacts, transitioning from mere financial maximisation to holistic value optimisation.

To guide enterprises in this pursuit, the following order of decision rules is recommended:

1. Prioritise stakeholders' rights by ensuring decisions uphold fundamental human rights and avoid/minimise any infringements.

2. Maximise stakeholders' well-being to positively impact the communities and individuals affected by the organisation's activities and its value chain.

3. Maintain operational sustainability by balancing financial returns with impact, avoiding a sole focus on profit maximisation while ensuring financial stability and resilience.

The prioritisation of these decision rules is designed to ensure that enterprises operate within planetary boundaries and above social thresholds. By first securing the fundamental rights[3] and well-being of stakeholders, enterprises create a robust foundation for value-driven growth.

These decision rules collectively provide a comprehensive framework for guiding decision-making and shaping organisational behaviour towards responsible and sustainable impact management. By applying these rules, decision-makers can navigate dilemmas effectively and choose strategically and smartly initiatives that align with principles of sustainability, equity, and societal well-being.

[3] In the context of IWAF, "rights" encompass those outlined in the UN Universal Declaration of Human Rights and extend to labour rights as specified in the International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work. "Rights" also include those pertaining to a safe, clean, healthy, and sustainable environment, as detailed in the 2018 UN Report by the Special Rapporteur on human rights obligations relating to environmental enjoyment, and as recognised by the UN General Assembly in 2022. Accordingly, IWAF's decision rules are designed to establish a robust operational foundation for value-driven growth, ensuring that enterprises operate within ecological boundaries and above social thresholds. For more details on IWAF's key concepts, definitions and principles consult the Conceptual Framework.

2. Tools for Impact Management

Transitioning from the foundational principles that underpin impact management, we now delve into the practical mechanisms that enable these principles to be actively implemented and integrated within an enterprise. The upcoming section introduces the essential tools for impact management, designed to operationalise impact strategies vital for impact-first business practices.

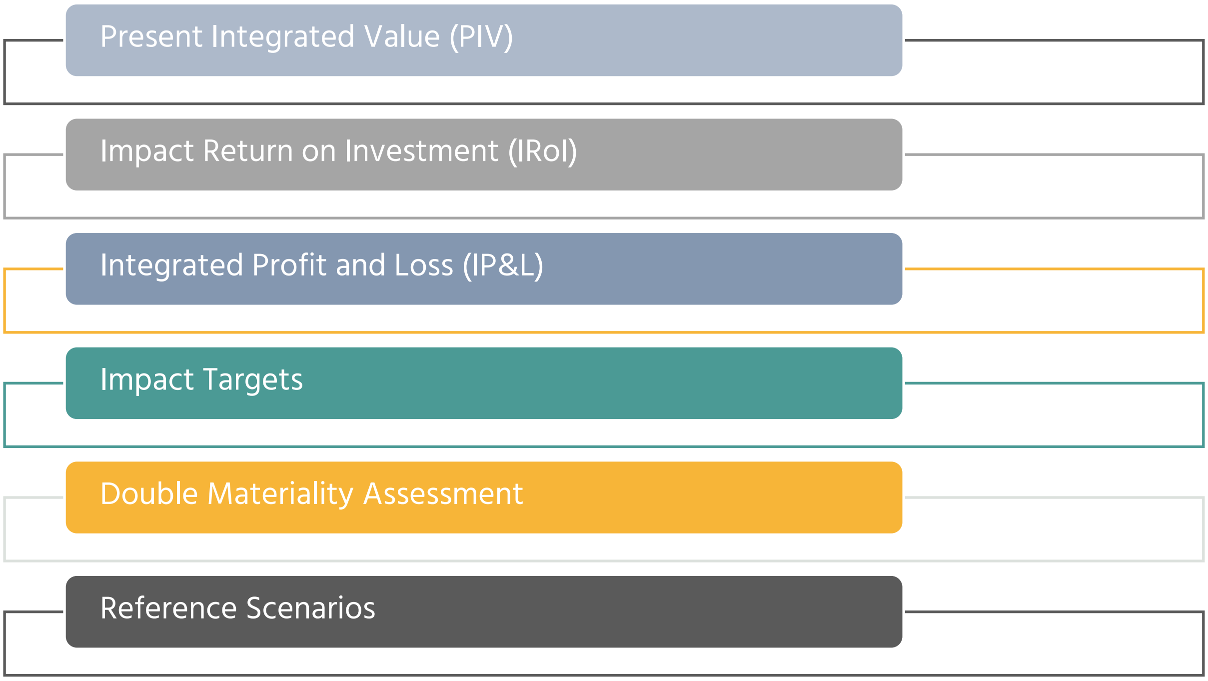


Figure 5: Toolkit for Impact Management with IWAF

2.1. Present Integrated Value (PIV)

2.1.1. Understanding the Present Integrated Value (PIV)

Present Integrated Value (PIV) modifies the traditional Net Present Value (NPV) to include a broader spectrum of impacts. The PIV formula is an extension of the NPV equation, tailored to encompass the comprehensive impacts of an investment:

$$PIV = \sum \left(\frac{\text{Integrated Value Created at time } t}{(1+r)^t}\right) - \text{Initial Investment}$$

2.1.2. Integrating Impacts into Investment Calculations

PIV expands investment analysis by incorporating the value created (or destroyed) in social, human and environmental domains alongside traditional financial metrics. By assigning monetary values to social and environmental impacts, IWAF allows the transition from NPV to PIV which provides a more holistic view of an investment's overall impact. This approach ensures that businesses can assess the true cost and benefit of their investments, accounting for their full range of impacts on stakeholders and the environment.

Moreover, the integration of PIV into investment calculations is not merely a technical adjustment; it is a strategic imperative. Non-financial components and 'intangibles', such as social and environmental factors, can significantly influence corporate longevity and success[4]. By accounting for these dimensions, enterprises can make more informed decisions that reflect the true costs and benefits of their actions, thereby enhancing sustainable value creation and contributing to their long-term viability and success.

2.1.3. Step-by-step guidance for Present Integrated Value (PIV)

To effectively perform a PIV analysis, one must first estimate the impacts on social, human, and natural capitals resulting from the investment or project and then integrate these into the cash flow forecasts. For instance, considering a project like the construction of a new hydroelectric dam, potential negative impacts on natural capital could include carbon emissions contributing to climate change, alterations in water quality and quantity, and land use changes.

To incorporate these impacts into a Present Integrated Value (PIV) calculation for a specific project, follow these steps:

1. **Identify Material Impacts**: Begin by identifying the project's material social, human, and natural impacts.

[4] https://www.rsm.nl/fileadmin/Faculty-Research/Centres/EPSVC/A_toolkit_for_transition_-_how_the_integrated_value_model_enriches_corporate_decision-making_and_promotes_sustainable_business-1.pdf

2. **Estimate and Monetise Impacts:** Assess the magnitude of the identified non-financial impacts across the entire lifespan of the project. Then, assign monetary values to these impacts to reflect both positive and negative impacts on social, human, intellectual, manufactures, financial and natural capitals.
3. **Determine Time Horizon:** Establish the appropriate duration for assessing the non-financial impacts, acknowledging that they might extend beyond the project's or investment's operational lifespan and may last longer than their financial counterparts.
4. **Select Discount Rates:** Identify suitable discount rates for social, human, and natural capitals, taking into account their unique attributes. The subsequent section offer detailed advice on selecting these rates.
5. **Calculate Present Value:** Compute the present value of non-financial impacts using the chosen discount rates.

By following these steps, the PIV calculation extends beyond traditional financial analysis to include a comprehensive assessment of non-financial impacts. This approach ensures a more holistic and inclusive evaluation, allowing for better-informed decision-making that accounts for the full spectrum of a project's impacts.

2.1.4. Choosing the discount rate for PIV calculations

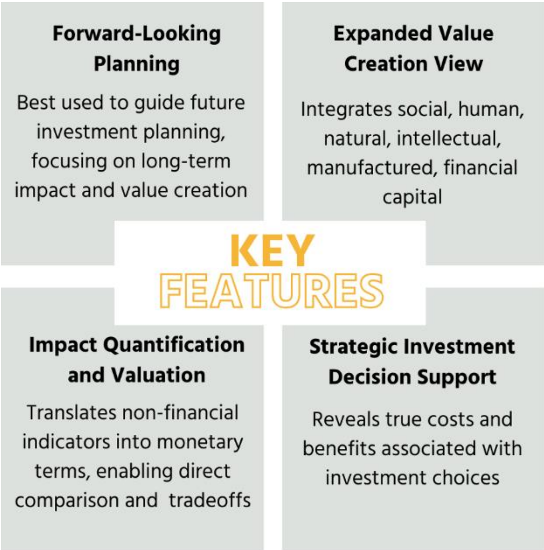
The discount rate plays a crucial role in the Present Integrated Value (PIV) calculations, as it influences the current valuation of future cash and non-financial capital flows. While financial capital discount rates are well-established, determining appropriate rates for social, human, and natural capital demands thoughtful deliberation. This is due to the unique risk profiles and uncertainties associated with each type of capital.

Differentiated discount rates must be employed for non-financial capitals to accurately reflect their specific risks and time considerations. These types of capital represent interests beyond traditional shareholder value, extending to the wider society and future generations, thus necessitating a broader perspective in their valuation.

As highlighted by Dasgupta (2021)[5], there is a consensus among economists that for long-term projects impacting the public good adopt a social discount rate between 1 to 3%. A lower rate is favoured as it gives greater weight to future environmental and social benefits, encouraging more substantial investments towards sustainability and environmental stewardship. This approach ensures that future benefits are weighted more substantially, fostering a greater focus on long-term sustainability and well-being.

2.1.5. PIV as a Strategic, Forward-Looking Tool

[5] Dasgupta, P. (2021), *The Economics of Biodiversity: The Dasgupta Review.* Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/962785/The_Economics_of_Biodiversity_The_Dasgupta_Review_Full_Report.pdf



What makes PIV truly valuable is its role as a forward-looking tool, especially strategic for planning the year ahead. By evaluating investments through the PIV lens, enterprises can make informed decisions that align with their long-term impact goals. This approach encourages businesses to consider the broader implications of their actions, fostering sustainable growth and positive societal impact.

Incorporating PIV into the toolkit for impact management empowers businesses to not only track their financial health but also their impact on society and the environment. This dual focus can guide strategic decisions, investment choices, and operational changes in the upcoming year, ensuring that the business moves forward in a responsible, profitable manner.

Example Box:

ElectroGrid Inc. is evaluating two projects to improve grid reliability and customer satisfaction. Project A introduces real-time outage response through Advanced Metering Infrastructure, while Project B strengthens infrastructure against weather disruptions with underground cabling. ElectroGrid Inc. employs a Present Integrated Value (PIV) analysis over a 5-year period to determine which project to pursue, taking into account the financial, social, and natural capital values.

The Initial investment for project A is €111.000 and for project B it is €115.000.

Step 1 & 2: Identifying and Measuring the Size of the Associated Impacts

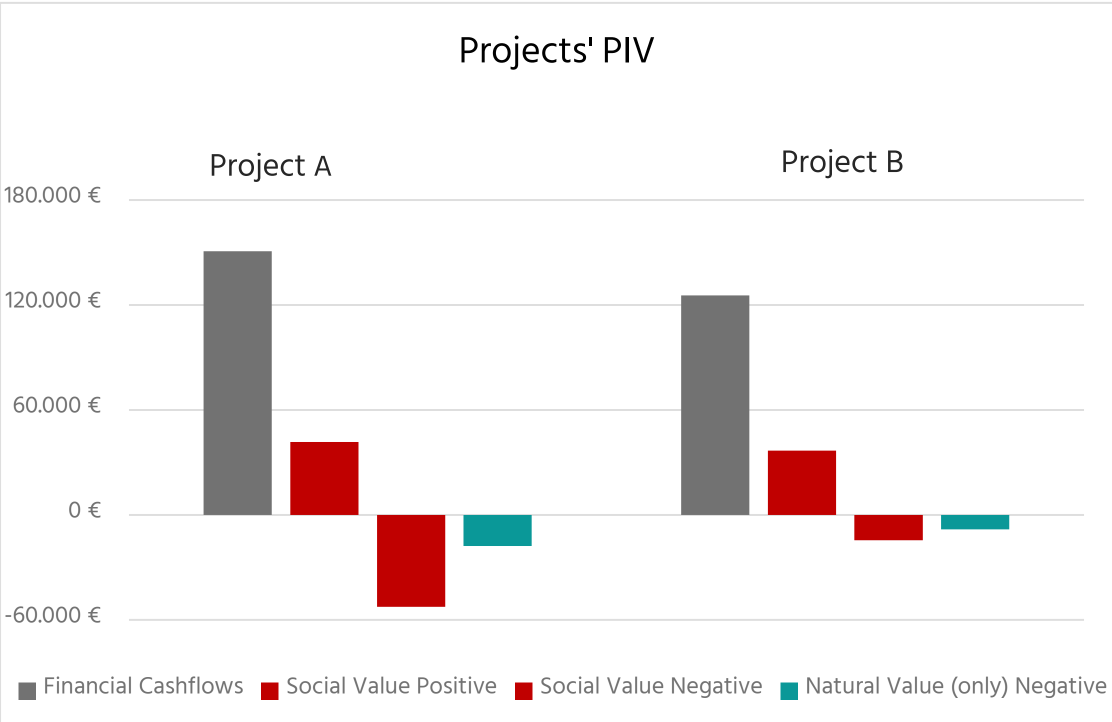
For both projects, ElectroGrid Inc. will consider the financial impact as well as the anticipated impacts on the social and natural capital. The detailed breakdown of the monetised impacts per capital for both projects is included in Annex A.

Step 3 & 4: Choosing the Discount Rate

A 5-year time horizon aligns with ElectroGrid's strategic planning and the lifespan of both projects' technologies. An 8% discount rate applies to financial projections, reflecting ElectroGrid's investment risks, while a more conservative 2% rate is used for non-financial impacts, considering their long-term value.

Step 5: Calculate the Present Integrated Value of the Project

After establishing the total monetised impacts for Project A and Project B (Step 1 & 2), ElectroGrid Inc. moves forward with the PIV calculation. The process involves two key steps: firstly, discounting the future impacts of each project to their present value at the rates determined in Step 4; and secondly, subtracting the initial investment costs from these discounted values.



Decision-making with PIV in view:

In the decision-making process guided by the PIV results, ElectroGrid Inc. prioritises minimising negative impacts to address potential rights infringements before considering enhancements in positive well-being impacts. Though project A offers higher financial returns, it comes with significant negative social and natural impacts. Conversely, project B, while offering slightly lower financial returns, has a much more favourable balance of social and natural impacts. Given ElectroGrid's emphasis on sustainable and community-friendly operations, Project B might be preferred despite its lower financial output, due to its lesser negative impacts in social and natural capitals.

2.2. Impact Return on Investment (IRoI)

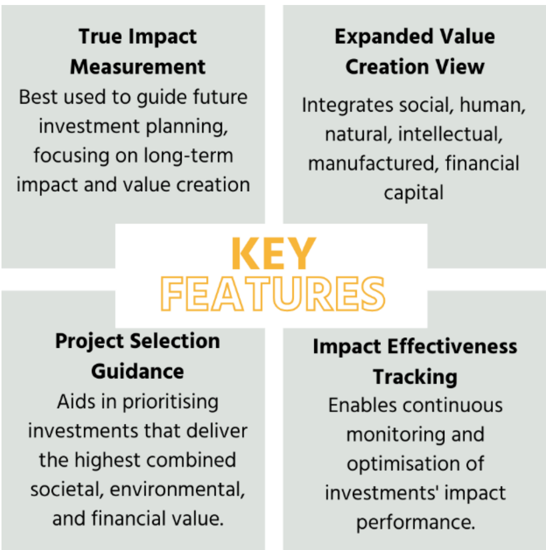
2.2.1. Understanding Impact ROI (IRoI)

Impact Return on Investment (IRoI) is a transformative tool designed to measure the efficiency and effectiveness of an investment's impact on social and environmental factors, alongside financial returns. Unlike traditional Return on Investment (RoI), which focuses solely on the financial profitability of investments, IRoI extends this analysis to include the broader impacts on society and the environment. This approach provides a more holistic view of an investment's performance, evaluating success not just in financial terms, but in terms of positive societal change.

Impact Return on Investment (IRoI) measures the efficiency of an investment's impact on both social and environmental fronts relative to its financial cost. The formula to calculate IRoI is:

$$IROI = \frac{Integrated\ Value\ Created\ - Investment\ Cost}{Investment\ Cost}$$

IRoI expands on the traditional ROI framework by adding 'Integrated Value Created' to the numerator. In this formula, 'Integrated Value Created' encompasses the monetary value of all social, environmental, and financial benefits derived from the investment. The Investment Cost remains in the equation, reflecting the total financial expenditure required to initiate and sustain the investment.



2.2.2. Integrating Intangible Benefits into Financial Analysis

IRoI quantifies the previously intangible benefits and costs associated with an investment, such as improvements in community well-being, education levels, or environmental and natural degradation. By assigning monetary values to these social and environmental impacts, IRoI enables businesses to incorporate these factors into their overall investment analysis. This quantification allows for a comprehensive comparison between different investments, considering their total impact on all stakeholders involved.

2.2.3. Decision-Making with IRoI

Incorporating IRoI into the decision-making process revolutionises how investments are evaluated and chosen. By considering the social and environmental returns alongside financial gains, businesses can prioritise projects that deliver the greatest overall (true) value. This shift encourages companies to invest in projects that not only yield financial success but also contribute positively to society and the environment, aligning business strategies with sustainable development goals.

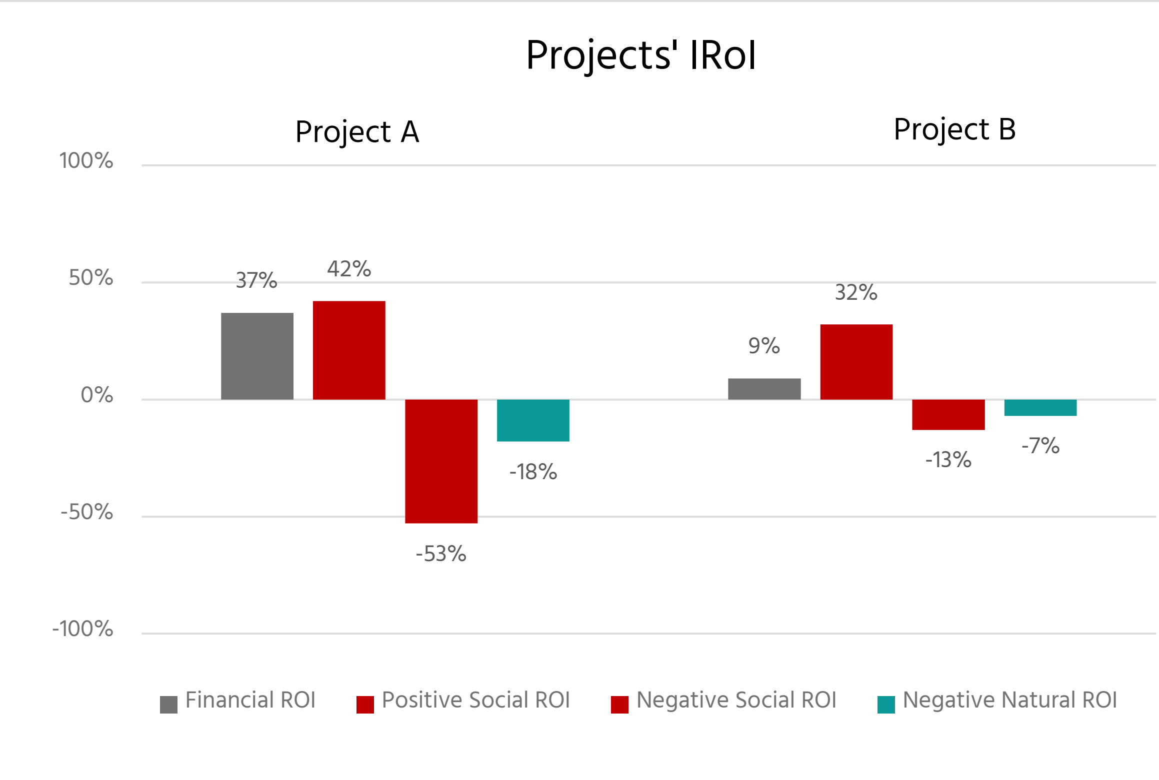
2.2.4. IRoI as a Strategic Tool for Impact Management

The application of IRoI allows companies to systematically assess the effectiveness of their social and environmental initiatives in monetary terms. This assessment can guide strategic decisions, helping businesses to allocate resources more effectively towards projects with higher integrated returns. Moreover, by monitoring IRoI over time, companies can track their progress in achieving impact objectives, facilitating continuous improvement and greater accountability.

Example Box: Continuation of ElectroGrid Inc.'s Evaluation Process: IRoI Analysis

Following the PIV analysis, ElectroGrid Inc. further evaluates the effectiveness of Projects A and B using the Impact Return on Investment (IRoI). This tool helps quantify the returns on each type of impact, providing a more detailed perspective on the benefits and costs related to social and natural capitals, in addition to financial returns.

IRoI Results Analysis:



Decision-making with IRoI in view:

The IRoI analysis for ElectroGrid Inc.'s projects provides crucial insights into their broader implications. Project A, despite its strong financial (37%) and positive social returns (42%), exhibits substantial negative impacts on social (-53%) and natural (-18%) fronts, suggesting that its high profitability could come at a significant cost to community relations and environmental health.

Conversely, Project B, while offering a slightly lower financial return (32%), shows a more balanced impact profile with less severe negative social (-13%) and natural impacts (-7%). These results highlight Project B as a potentially more sustainable choice that aligns better with ElectroGrid's long-term goals of community engagement and environmental stewardship, making it a prudent selection over the more financially lucrative but riskier Project A.

The conclusions drawn from the Impact Return on Investment (IRoI) are in harmony with the findings of the Present Integrated Value (PIV) analysis, further affirming the comprehensive and balanced benefits of Project B over Project A within ElectroGrid Inc.'s strategic framework.

ElectroGrid is positioned to leverage these insights to enhance its strategic planning, project management, and stakeholder communication. By publicly sharing the results of such integrated analyses, ElectroGrid not only boosts its transparency but also sets a benchmark in the industry for holistic project evaluation.

2.3. The Integrated Profit and Loss (IP&L)

2.3.1. Understanding the Integrated Profit and Loss (IP&L)

The Integrated Profit and Loss (IP&L) Statement (Figure 8) is an advanced tool that redefines traditional accounting frameworks to encompass a broader spectrum of value creation. It extends beyond the conventional Profit & Loss approach by integrating the value created or diminished across six capitals: manufactured, intellectual, financial, social, human, and natural. This multifaceted assessment ensures that a company's complete impact—on all its stakeholders—is captured, quantified and valued. There has been a growing adoption of the IP&L Statement across diverse sectors, with notable examples including ABN AMRO, Alliander, Wire Group, Vitens, and Enexis, applying it for enhanced reporting, strategic decision-making, and investment planning[6].

KEY FEATURES

Strategic Quarterly Assessments
Best used as a backward-looking, performance evaluation tool, every quarter

Expanded Value Creation View
Integrates social, human, natural, intellectual, manufactured, financial capital

Informed Strategic Decisions
Translates non-financial indicators into monetary terms, enabling direct comparison and tradeoffs

Wide Application Scope
From individual projects to company wide operations

The IP&L employs the methodologies[7] set forth by the Impact-Weighted Accounts Framework (IWAF) to accurately value these impacts. This involves converting diverse effects—such as carbon emissions (natural capital), employee well-being (human capital), and brand reputation (intellectual capital)—into monetary terms. By doing so, the IP&L provides a holistic picture of a company's performance, revealing not just financial outcomes but also how the enterprise contributes to or detracts from society and the environment.

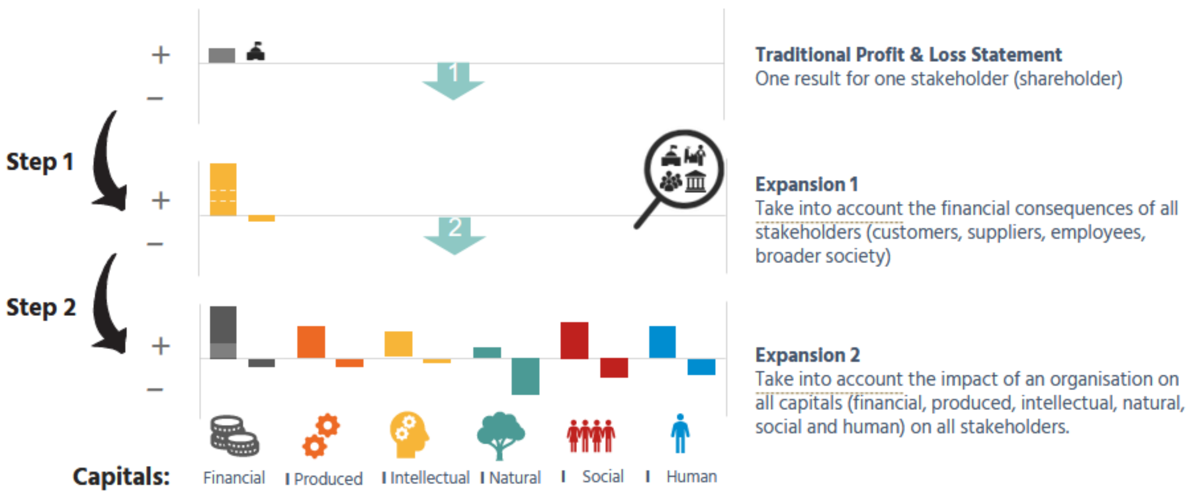


Figure 6: The Transition from a traditional P&L to an Integrated Profit & Loss (IP&L) Statement.

[6] For a detailed exploration of the Integrated Profit & Loss Statements implemented by various companies, please visit the 'IWAF in Practice' section on the Impact Economy Foundation's website: https://impacteconomyfoundation.org/iwaf-practice/

[7] https://trueprice.org/monetisation-factors-for-true-pricing/

2.3.2. The Power of an Integrated Profit and Loss Statement

The Integrated Profit and Loss (IP&L) statement revolutionises traditional business assessments by presenting impacts in an aggregated, yet nuanced manner. This approach offers a comprehensive overview of value creation, delineating how a company affects various forms of capital: manufactured, intellectual, financial, social, human, and natural. Unlike conventional financial reports, the IP&L facilitates a deeper understanding of the interdependencies between different types of capital, enabling businesses to identify how shifts in one area can influence impacts in another.

2.3.3. The Strategic Importance of Quarterly IP&Ls

Now, why break these assessments into quarters? Typically, financial management processes begin with the development of an annual budget, which sets the course for the upcoming fiscal year. However, this financial blueprint is scrutinised and adjusted regularly, typically on a monthly or quarterly basis. This systematic evaluation provides continuous insights into a company's economic health and facilitates timely strategic adjustments.

This regular, disciplined approach to financial review is vital, yet if we apply it solely to financial metrics, we risk prioritising financial value creation at the expense of social and environmental integrity. If non-financial aspects are only assessed annually, there's a significant risk that enterprises might sideline their impact goals when they come into conflict with financial targets, especially if the latter are monitored and adjusted more frequently.

Therefore, integrating the same level of frequency in evaluating both financial and non-financial performances is essential. By conducting Quarterly Integrated Profit and Loss (IP&L) assessments, companies ensure that social and environmental impacts are given equal consideration alongside financial results. This approach prevents the overshadowing of impact targets by financial goals throughout the year and encourages the simultaneous pursuit of economic viability, social equity, and environmental sustainability. Regular IP&L assessments ensure that any negative impacts are promptly identified and addressed, and that the enterprise's broader impact targets remain aligned with its financial objectives, fostering a balanced and integrated approach to corporate performance and accountability.

2.4. Impact Targets

2.4.1. Understanding Impact Targets

Impact targets serve as a vital tool in impact management by providing clear, actionable goals that are directly tied to the improvement of societal welfare. They challenge organisations to go beyond traditional business metrics of inputs/outputs and focus on generating real, and tangible positive changes. For instance, a supermarket that sets an impact goal to halve obesity rates within its community is focusing on societal impact, whereas one that merely targets to increase its range of healthy alternatives is setting an input-based goal.

2.4.2. The Strategic Importance of Impact Targets

Impact targets are fundamental in instilling a mentality that emphasises the importance of causally linking or estimating the impact on societal welfare to the inputs, outputs, or outcomes of organisational activities. This approach not only fosters a deep understanding of how business operations directly or indirectly affect environmental and social conditions but also encourages organisations to think critically about the broader consequences of their actions.

While establishing precise causal links may not be an exact science, the effort to quantify and value these impact pathways is immensely valuable. By committing to this analytical rigor, enterprises can develop a more nuanced understanding of their influence on the world around them, allowing them to make more informed decisions and adapt their strategies effectively.

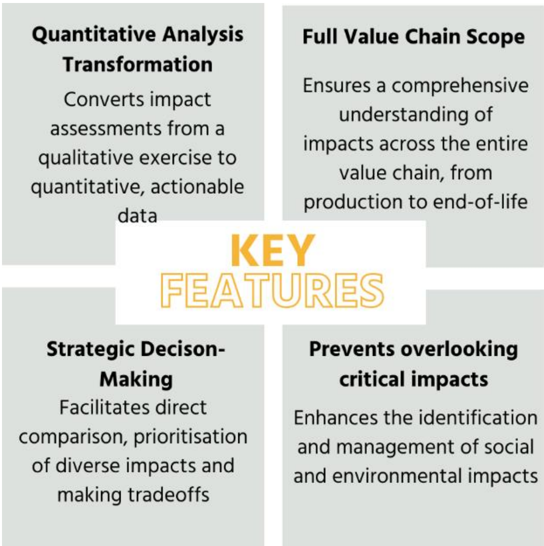
2.4.3. Setting Threshold Levels for Impact Targets

In additional to establishing impact targets, companies should also define threshold levels that acts as intermediary goals and provide a comparative baseline against a reference scenario – typically one where no activity takes place (absolute scenario). These threshold levels can represent minimum acceptable standards or staged performance milestones that are crucial for giving clear direction and actionable steps for executives and teams aiming to achieve the set impact targets. By comparing current performance against these thresholds, enterprises can better gauge their progress, adjust their strategies in real-time, and maintain momentum towards achieving their impact goals. This approach helps in setting realistic and achievable milestones and in monitoring the incremental positive progress or unintended consequences of their actions. By ensuring that operations do not fall below these thresholds, companies can sustain continuous improvement and alignment with their strategic objectives.

2.5. Double Materiality Assessment

2.5.1. Understanding Double Materiality under IWAF

The Impact-Weighted Accounts Framework (IWAF) significantly enriches the double materiality assessment (DMA) process through two pivotal enhancements: valuing impacts in **monetary terms** and mandating a comprehensive evaluation across the **entire value chain**. These advancements propel the DMA beyond its conventional role as a mere reporting tool, significantly boosting its relevance for strategic decision-making.



2.5.2. Monetised Materiality Assessment

Incorporating monetary valuation into the DMA, as advocated by IWAF, significantly refines the process of prioritising identified material impacts. By introducing a common unit of measurement, monetised DMAs facilitate the direct comparison of varied impact types. For instance, comparing the impact of converting land for industrial purposes against CO2 emissions presents a significant challenge without a unified metric for comparison. However, by valuing these impacts with IWAF, an organisation can understand its contributions to the loss of biodiversity and climate change or land transformation compared to carbon emissions, expressed in a single, commensurable unit such as monetary value.

This clarity transforms the assessment from a qualitative exercise into a quantitative analysis, guiding enterprises to allocate resources more effectively and address the most pressing sustainability challenges first. This approach ensures that interventions are not just well-intentioned but are also strategically focused on areas where they can deliver the highest value in terms of social, environmental, and economic welfare. Therefore, a monetised materiality assessment is perfectly suited to guide companies in their impact management as it provides insights into the relative weight of impacts, crucial for prioritising actions and directing investments towards impact-driven practices.

2.5.3. Full Value Chain Assessment

IWAF mandates that enterprises extend their double materiality assessment across the entire value chain, not just limiting it to their direct operations. This comprehensive approach is crucial because it captures a more accurate representation of an enterprise's total impact on society and the environment. By examining both upstream and downstream, companies can identify and manage risks and opportunities that would have gone unnoticed if the assessment were confined to operational boundaries alone. This wider lens is particularly important for grasping impacts like biodiversity loss, which, although widespread, might not be considered material when viewed solely through the lens of direct operations in specific industries.

Example Box: Consider a bank assessing its biodiversity footprint. If the assessment were confined to the bank's direct operations, biodiversity loss might not be deemed material due to the nature of banking services being less directly linked to natural ecosystems. However, when expanding the scope to include the full value chain, the bank can evaluate the environmental impacts of its lending and investment activities. This broader view might reveal significant contributions to biodiversity loss through financed activities in industries like agriculture, mining, or construction. Such insights underscore the importance of full value chain assessment in capturing the true scale of an enterprise's impact, enabling more responsible and informed strategic decisions that contribute to the mitigation of global environmental challenges.

2.6. Reference Scenarios

Reference scenarios, encompassing absolute and marginal impacts, are important tools for nuanced impact management. They allow enterprises to measure the real impacts of their activities against specific baselines or industry standards, providing a clearer picture of their relative impact performance.

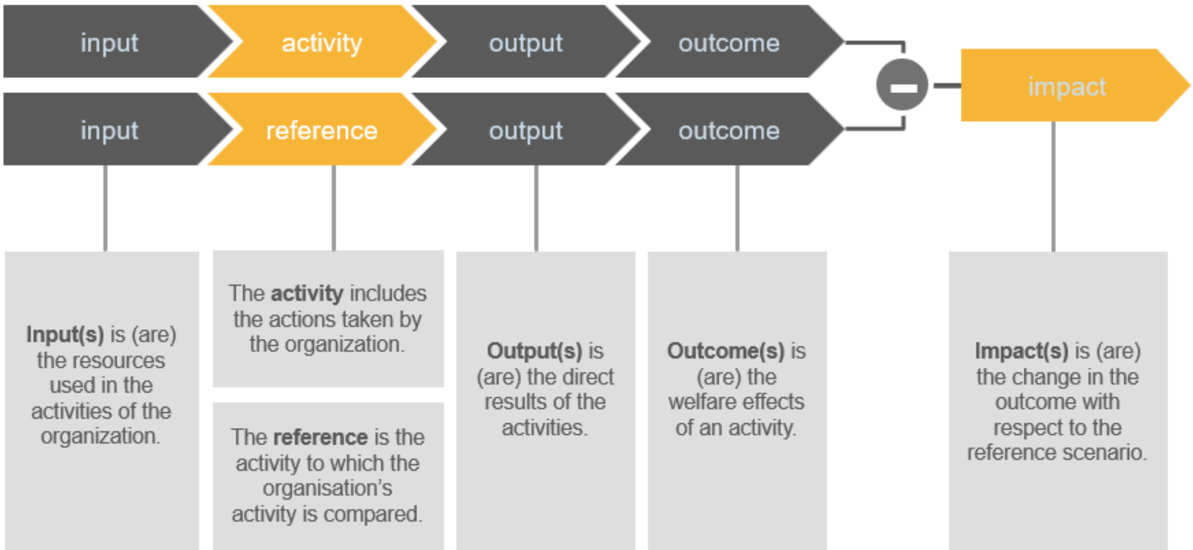


Figure 7: Defining, inputs, outputs, outcomes and impacts following IWAF.

2.6.1. Absolute Impact

This measures an enterprise's impact against a scenario where the enterprise does not exist ('no activity'), offering insight into the direct consequences of its operations. It helps in understanding the enterprise's standalone contribution to societal, environmental, and economic impacts.

2.6.2. Marginal Impact

Contrasts the enterprise's activities with reasonable alternative scenarios, such as industry averages or the performance of competitors. This is crucial for assessing how an enterprise's efforts stack up against a broader context, enabling a comparison of its efficiency and innovation relative to peers.

2.6.3. The Strategic Importance of Reference Scenarios

The reference scenarios are particularly useful when an enterprise is faced with strategic choices, such as entering new markets, launching new products, or making significant R&D investments, reference scenarios can provide a comparative backdrop. This helps in assessing the potential impacts of these decisions versus maintaining the status quo or choosing an alternative path.

Incorporating reference scenarios into impact management enables a more accurate and context-aware analysis. It aids in identifying not just the nature of impacts but also their significance relative to different

scenarios. By providing a benchmark for comparison, reference scenarios help enterprises to pinpoint areas of strength and opportunities for improvement. They make the case for their utility as they guide strategic decisions, enhance transparency, and facilitate more informed discussions with stakeholders about the organisation's true impact on society and the environment.

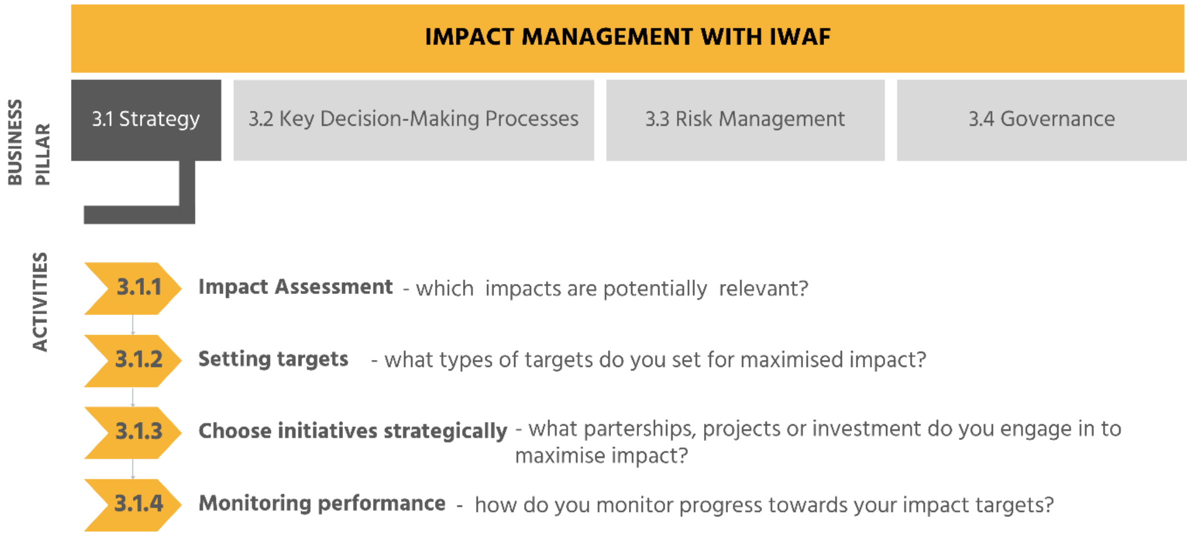
In conclusion, the tools for impact management presented here, from Present Integrated Value (PIV) and Integrated Profit and Loss (IP&L) statements to Impact Return on Investment (IRoI), impact-based KPIs, monetised materiality assessments, and reference scenarios, provide enterprises with a comprehensive framework to operationalise their impact strategies. These tools enable enterprises to transition from abstract promises to concrete, impact-first business practices, ensuring that their operational goals align with broader societal and environmental objectives. By integrating these tools into their impact management frameworks, businesses can assess, track, and enhance their contributions towards a sustainable and equitable business paradigm.

3. Impact tools in practice

The implementation of the Impact-Weighted Accounts Framework (IWAF) across different organisational pillars necessitates a tailored approach to ensure its principles and tools effectively permeate strategic planning, key operational decision-making, risk management, and governance. This section provides guidance on how to apply IWAF within these fundamental areas, promoting a cohesive and comprehensive adoption of impact-focused practices.

3.1. Strategy

Integrating impact management into strategic planning is essential for businesses aiming to navigate the modern economy sustainably and meaningfully. This integration ensures that a company's strategic objectives are aligned with its impact goals, fostering long-term sustainability and value creation. The following section delves into the practical steps of embedding impact management, using IWAF, within organisational strategy.



3.1.1. Impact Assessment

The strategic application of the Impact-Weighted Accounts Framework (IWAF) within a company begins with a comprehensive impact assessment. This assessment underpins all subsequent strategic planning and implementation, ensuring that a company's operations align with its broader impact goals. While the process is akin to the materiality assessments conducted in the context of sustainability reporting, here the focus shifts primarily to management over communication or disclosure. IWAF enhances traditional materiality assessments, providing deeper insights and affirming its significance as a tool for effective impact management.

To conduct a comprehensive impact assessment enriched by IWAF, follow these sequential steps, utilising specific IWAF tools and principles to identify, analyse, and prioritise impacts effectively[8]:

1. Initiative with a **double materiality assessment** to identify and prioritise impacts, considering both how external environmental and social issues might affect the company's financial performance and how the company's operations impact the environment and society.
2. **Extend to Full Value Chain Scope**: Look beyond direct operations (Scope 1 and 2) to include indirect impacts throughout the upstream and downstream activities (Scope 3).
3. **Value Impacts**: Translate the identified impacts into monetary values to streamline understanding of the scale and irremediability of the impacts, facilitating the comparison and prioritisation, based on their relative value.
4. **Incorporate a Rights-Based Approach**: As part of your impact materiality perspective, ensure that any impacts violating human rights are deemed material.
5. **Prioritise based on monetised values:** Use monetised values to prioritise impacts, focusing on addressing the most significant ones first. In line with IWAF's decision rules, any identified impacts on human rights must be prioritised.

Example Box: A European clothing manufacturer adopts IWAF to enhance its impact strategy. Starting with a double materiality assessment, the company extends its review to include impacts beyond its direct operations. Specific impacts such as 'effects on human health' from chemicals used in production, 'contribution to the scarcity of natural resources' from synthetic material sourcing, and contribution to water pollution' are newly highlighted. These impacts, previously underrepresented in their materiality matrix, are now recognised as material. By applying IWAF principles, the manufacturer effectively reassesses and acknowledges the value of previously externalised societal and environmental costs, aligning their operational focus with these material impacts.

3.1.2. Setting impact targets

After completing the initial assessment, setting impactful and relevant targets is an essential component of integrating impact management into an organisation's overall strategy. Impact targets are established based on the organisation's identified key leverage points, which have been determined to have the most significant potential impacts on stakeholders' welfare.

- **Impact Targets:** The organisation should develop specific goals that address the material impacts identified during the assessment phase. These targets should focus on achieving tangible changes in stakeholders' welfare that result directly or indirectly from the organisation's activities. The aim is not merely to track resources allocated or intermediate outputs but to generate real improvements in societal welfare.

[8] The steps outlined follow the guidance on how to conduct a materiality assessment as set forth in the Guide to Impact Accounting, which provides a more detailed methodology for conducting impact assessments. See Sections 3.3.-3.4. in the Guide to Impact Accounting.

To ensure these targets are meaningful and grounded in reality, they should be set in relation to both absolute impacts (i.e., the impact of having no activity at all) and marginal impacts (i.e., impacts relative to competitors or viable alternatives).

Example Box: The European clothing manufacturer sets an impact target to reduce its contribution to water pollution by 40% within five years, using current levels and a baseline of no activity as references. This target also benchmarks against the industry average to highlight the marginal impact relative to competitors.

3.1.3. Choosing Initiatives strategically

Strategic planning translates intentions and targets into actionable plans. This means planning how to adjust the enterprise's practice such as its activities, projects, investments, or partnerships, (referred to throughout this section as 'Initiatives') in line with the impact targets that were set. In this way, action plans provide the roadmap for implementation.

- **Comprehensive impact review:** Use the IP&L statement for a retrospective analysis, detailing the impacts on each capital of past initiatives. This review, which differentiates between positive and negative impacts, offers insights into the initiatives' impacts on all key stakeholders, providing a foundation for informed future initiatives.
- **IRoI Analysis to plan future initiatives:** By quantifying the effectiveness of potential Initiatives compared to their costs, guiding the selection and prioritisation of Initiatives that offer the highest integrated value. Adopting IRoI thus ensures that strategic initiatives are both impact-driven and financially viable.
- **Contextualisation with Reference scenarios:** Use reference scenarios to measure the relative effectiveness of their Initiatives against hypothetical alternatives. This helps in understanding the relative significance of their impacts and informs better strategic choices by contextualising their actions within the broader industry, societal benchmarks or, alternatives of inaction.
- **Adherence 'No Netting' in decision making:** Follow the IWAF principle that forbids the netting of impacts across different capitals. When evaluating initiatives, recognise that improvements in one capital cannot justify deteriorations in another. For instance, an initiative that significantly benefits the natural capital but adversely affects human capital should be reconsidered.

IWAF in Practice: IWAF steered Alliander, a large, Dutch grid operator, in choosing a resistor array for Vlieland's energy needs, an island known for its precious natural conservation areas. Traditional network upgrades would have required laying a cable through these protected ecological zones. Guided by IWAF, Alliander opted for a resistor array solution over traditional network upgrades balancing technological requirements with ecological preservation. Alliander's strategic application of IWAF in Vlieland's energy project demonstrates the framework's value in steering choices of Initiatives that consider and balance a wide range of values. This approach illustrates IWAF's role in facilitating strategic decision making that that optimise social and environmental welfare.

3.1.4. Monitoring performance

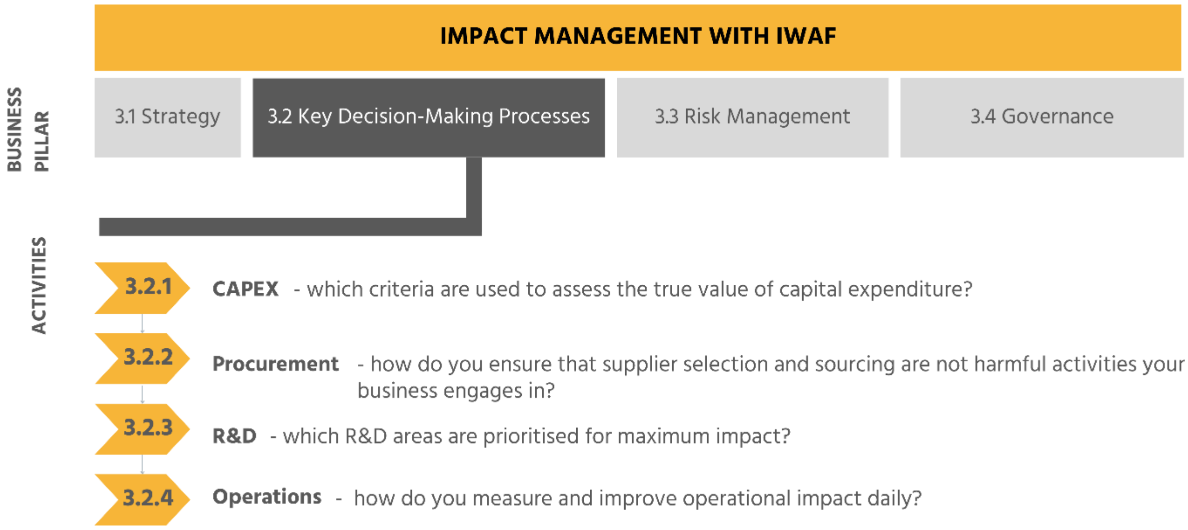
Post-implementing it is critical to monitor, learn and adapt. Monitoring entails the continuous measurement and evaluation of an enterprise's Initiatives and performance to gauge progress towards its objectives. This information should then be utilised to refine the enterprise's strategy and actions, enhancing the chances of meeting these objectives. Enterprises should use the same indicators used during their initial assessment process to track their performance.

- **Strategic Key Performance Indicators (KPIs)** : Develop KPIs linked to your impact targets to track the effectiveness of implemented Initiatives. These metrics are essential for gauging progress towards impact goals and ensuring that strategic actions yield meaningful improvements in sustainability.
- **Monetary Valuation of KPIs**: The role of monetary valuation is critical in establishing a clear causal link between the inputs, outputs, and outcomes of an organisation's activities and their broader impacts. By assigning monetary values to these different stages, organisations can quantify their contributions in economic terms. This valuation is essential for understanding the scale and significance of the impact relative to the investment and resources deployed.
- **IP&L analysis across scales and timeframes**: Conduct IP&Ls for a nuanced understanding of specific initiatives. By integrating financial, social, human, and natural capitals into project evaluation, enterprises can gain insights into the comprehensive impacts of their actions. This enables them to identify variances, make strategic adjustments, and foster a culture of continuous improvement. Leveraging IP&Ls ensures that project monitoring is thorough, enabling informed decision-making and alignment with broader sustainability goals. Applying IP&Ls across diverse scales—from individual projects and business units to the entirety of the enterprise —and at various timeframes, including quarterly and annually, guarantees comprehensive project monitoring. This adaptability in the scope and frequency of monitoring, as afforded by IWAF, equips enterprises with the necessary information for proactive, timely, and informed decision-making, ensuring alignment with overarching impact objectives.

Example Box: To effectively monitor progress towards its impact target, the European clothing manufacturer establishes specific KPIs. For the target of minimising its contribution to water pollution, key performance indicators include the percentage reduction in harmful chemicals used and improvements in wastewater treatment efficiency. These KPIs are assessed quarterly and are monetarily valued to quantify their contribution to reducing their environmental impact.

3.2. Steering Key Decision-Making Processes

Moving from strategic planning to practical application, this section illustrates how IWAF guides daily operational decisions- ranging from CAPEX decisions to procurement, R&D, and general operational activities. The following diagram presents how IWAF can be embedded in these key decision-making processes, ensuring that organisations not only aim for impact at the strategic level but also reflect these ambitions in their day-to-day operations.



Adopting IWAF in key decision-making processes empowers companies to navigate complexities of modern business with a compass calibrated toward societal and environmental value. Through the strategic application of IWAF in CAPEX decisions, procurement, R&D initiatives, and operational strategies, enterprises can ensure that every action taken is a step towards a more impact-driven business paradigm. This section has underscored the potential of IWAF to transform business practices by embedding impact considerations into the fabric of organisational decision-making.

For leaders and team members alike, the depth of insight provided by IWAF is instrumental. It empowers a shift in mindset, from short-term gains to long-term value creation. Operational choices become opportunities to demonstrate impact leadership, fostering a culture where every action is assessed through the lens of its wider implications. The framework thus serves as a compass for guiding ethical, sustainable, and financially savvy decisions, positioning the company as a leader in the movement towards an Impact Economy.

IWAF IN CAPITAL EXPENDITURE DECISIONS

Companies can use IWAF, to incorporate PIV in assessing CAPEX decisions, ensuring investments are evaluated for their long-term impact on social, human, natural, manufactured, intellectual and financial capital values, to prioritise those investments that deliver the highest integrated value.

Using IWAF in this way can support the case of e.g.,:

- Acquiring companies demonstrating high integrated value.
- Exploring and enter new markets with a clear understanding of the impact potential, securing sustainable growth opportunities.
- Allocating resources towards initiatives with the greatest positive impact potential.
- Proactively managing and mitigating transition risks.

IWAF IN PROCUREMENT DECISIONS

Companies can use use IWAF to conduct an IP&L in procurement processes, selecting suppliers and materials that meet the highest integrated value, thereby amplifying the responsibility of their supply chains.

Using IWAF in this way can support the case of e.g.,:

- Sourcing raw materials from suppliers who demonstrate positive integrated value.
- Selecting partners based on a quantifiable evidence of their reduced negative imapcts and increased positive impacts.
- Procuring goods characterised by the highest levels of integrated value.

IWAF IN R&D DECISIONS

Companies can use use IWAF to leverage IROI and reference scenarios for R&D decisions, steering investments into projects with the greatest potential for integrated value creation.

Using IWAF in this way can support the case of e.g.,:

- Prioritising the development of products or services that have the highest integrated value.
- Channeling resources into researching and creating impactful solutions.
- Venturing and commercialising on alternative resources and technologies that offer the highest integrated value.

IWAF IN OPERATIONAL DECISIONS

Companies can use IWAF to conduct the IP&L statements and IPIs for ongoing operational adjustments, ensuring that daily activities are impact efficient, aligned with impact goals, and contribute to continuous improvements in a company's impacts.

Using IWAF in this way can support the case of e.g.,:

- Enhancing internal processes to maximise impact efficiency.
- Embracing operational practices with the highest intergated value.

3.3. Risk Management

Risk management in enterprises traditionally focuses on external factors that can affect a company's development, financial performance, financial position, access to finance, and cash flows. In this light, the Impact-Weighted Accounts Framework (IWAF), with its intrinsic focus on the organisational activities' effects on the environment and society (an inside-out perspective), might initially seem misaligned with traditional risk management's outside-in perspective. However, this section will demonstrate the critical relevance of IWAF's impact-first approach to risk management, particularly in risk identification and mitigation stages.

3.3.1. Risk identification

The Impact-Weighted Accounts Framework (IWAF) enhances the risk identification phase of risk management by **monetising** a broad spectrum of impacts, including those often deemed intangible or external to a company's core operations. This monetisation extends beyond simple direct costs and revenues to embrace wider effects on stakeholder well-being and rights, effectively turning externalities into measurable, actionable data.

The act of internalising these externalities—transforming them from abstract concepts into quantifiable monetary terms—marks a significant shift in how risks are identified and understood. By assigning monetary values to impacts such as social security, land transformation or changes in fixed assets, IWAF makes these issues tangible and measurable within the framework of corporate risk management.

The benefits of this approach in the risk identification phase is substantial. Initially, it allows companies to see the full landscape of potential risks and opportunities, including those that are not immediately apparent when only direct financial costs and benefits are considered. For instance, a risk that might seem minor or peripheral in traditional assessments could be revealed as significant once its broader social or environmental impacts are valued and quantified in monetary terms.

This internalisation of risks through monetary valuation, as facilitated by IWAF, represents a proactive and forward-looking stance in risk management since companies can anticipate and prepare for potential impacts before they materialise. This shift from reactive to proactive risk management is particularly critical when dealing with transition risks, which encompass evolving and often unpredictable events like climate change, regulatory changes, social unrest, technological advancements, shifts in public expectations and consumers trends.

IWAF in Practice: *ABN AMRO, a leading Dutch bank, showcases in its 2023 and sixth consecutive Impact Report[1], how integrating environmental and social impact data significantly enhances sustainability risk identification and measurement processes. By creating risk heatmaps that quantify potential environmental, social, and climate risks in monetary terms, they identify high-risk sectors even before impacts materialise. This approach highlights the importance of monetised impact data in pinpointing transition risks and human rights concerns, showcasing the application of IWAF principles in financial risk management, and underscoring the critical role of impact valuation in proactive risk identification and mitigation within the banking sector.*

Enhancing this process, IWAF introduces reference scenarios, including absolute and marginal impacts, to deepen risk identification. Absolute scenarios evaluate the company's operations against a hypothetical baseline without the company's existence, offering insights into the organisation's unique impact footprint. Marginal scenarios compare the company's performance with industry standards or competitors, highlighting areas for improvement or innovation in sustainability practices. Integrating these reference scenarios into the risk identification phase enables companies to conduct a more informed and nuanced assessment of impact risks.

Concluding the risk identification phase, IWAF facilitates a nuanced and informed assessment of a company's impact risks. This process not only foregrounds previously unaccounted-for risks but also sets the stage for strategic risk mitigation. By making negative externalities comparable through monetary valuation, companies can effectively prioritise risks. This clarity enables the allocation of resources and the development of targeted mitigation strategies for the most significant risks, seamlessly transitioning from risk identification to strategic risk mitigation.

3.3.2. Risk Mitigation with IWAF

Transitioning from the risk identification enabled by IWAF, which equips companies with the insights needed to prioritise risks effectively, we now proceed to the next critical phase: "Risk Mitigation with IWAF." This section explores how the framework's comprehensive approach informs the development of nuanced mitigation strategies, seamlessly bridging the gap between identifying potential risks and actively addressing them.

IWAF takes risk mitigation planning one step further by advocating for a comprehensive approach that spans across multiple capitals—financial, manufactured, intellectual, human, social, and natural—and considers the broader impact on stakeholders. Unlike traditional risk management frameworks, such as the Task Force on Climate-related Financial Disclosures (TCFD)[9], Taskforce on Nature-related Financial Disclosures (TNFD)[10], and more recently the Task Force on Inequality-related Financial Disclosures (TIFD)[11], which focus on individual capitals in isolation, IWAF promotes an interconnected view, recognising the intertwined nature of various types of capital.

[9] https://www.fsb-tcfd.org/

[10] https://tnfd.global/

[11] https://thetifd.org/

This holistic perspective is crucial in avoiding the pitfall of mitigating risks in one area only to inadvertently exacerbate issues in another. By maintaining a multi-capital, full value chain, impact-focused approach, IWAF ensures that mitigation strategies are inclusive and prevent unintended negative impacts. This approach not only safeguards against unintended consequences but also fosters strategies that simultaneously protect and enhance value across all impact dimensions.

Incorporating IWAF into risk management processes enables organisations to craft mitigation strategies that are not only responsive to immediate risks but are also preventive against broader, interconnected impacts. This foresight strengthens organisational resilience and positions companies for sustainable growth, turning nuanced risk management into a strategic asset.

Example Box: Consider a global soda company confronts the challenge of water scarcity, a critical risk given water's essential role in its production processes. In response, the company contemplates the privatisation of local water resources in a drought-prone area to secure its water supply. At first glance, this strategy appears to be a prudent approach to mitigate the risk of water shortages, ensuring the company's long-term operational stability.

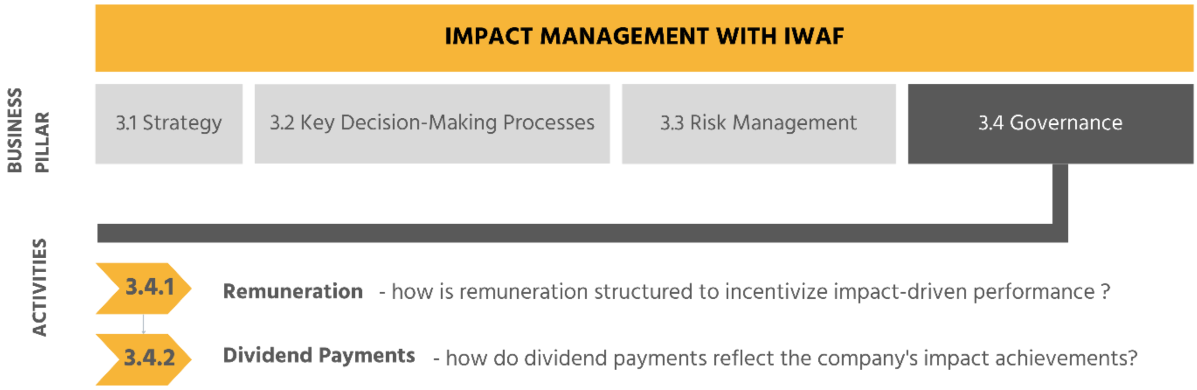
However, when evaluated through the lens of the IWAF, a more comprehensive assessment of the impacts emerges. IWAF identifies a potential 'water-tunnel vision', where the company's focus on securing its water supply overlooks broader social and environmental implications. The IWAF assessment might reveal that privatising water resources, while seemingly beneficial for the company's operations, could restrict access to clean water for local communities, exacerbating social inequalities and environmental stress in the region.

In this nuanced context, IWAF-guided risk mitigating strategy would suggest exploring alternative solutions that balance the company's water needs with community rights and environmental sustainability. Strategies might include investing in water conservation technologies, partnering with local communities to enhance water infrastructure, or supporting watershed management projects that benefit both the company and the local population. This approach ensures a responsible and sustainable use of water resources, aligning the company's operational strategies with broader social and environmental objectives, and avoiding unintended negative impacts on local communities and ecosystems.

To explore how IWAF can further inform risk mitigation strategies, please refer back to section 3.1.3 'choosing initiaitves strategically'. Since risk mitigation planning and choosing initiatives strategically can operate under similar principles, with the former often being a practical application of the latter, this section provides valuable insights for aligning mitigation efforts with IWAF's overarching framework.

3.4. Governance

The following section explores how integrating impact management tools within governance structures can considerably enhance traditional mechanisms, with a particular focus on impact remuneration and impact-adjusted dividends. However, it is important to recognise that the realm of impact management within governance is much more expansive. Effective governance, in the context of impact management, involves a wide range of practices. At present, IWAF provides the tools and recommendations for two critical areas in broader governance practices.



3.4.1. Impact Remuneration

An increasing number of companies are integrating ESG performance metrics into compensation packages, with over 75% of S&P 500 companies in 2023 now linking executive compensation to ESG performance indicators[12]. However, current practices in aligning ESG goals with remuneration schemes often lack depth and fail to drive significant change. A common challenge lies in the disconnect between these goals and the company's material topics. This misalignment leads in remuneration schemes that do not incentivise executives and employees to address the most impactful areas of the company's activities. Such practices allow for the continuation of unsustainable practices, masked by selective positive achievements. This approach does little to challenge or alter the core operations that may undermine broader impact goals.

Addressing these challenges, the Impact Weighted Accounts Framework (IWAF) presents a more robust approach in the realm of governance and culture by aligning remuneration with its impact objectives. This builds on the strategic foundations of setting impact targets, fostering a cohesive strategy where planning and governance work in tandem to meet and deliver on the company's broader impact ambitions.

This paradigm shift under IWAF towards more substantial and impactful remuneration schemes reflects a broader move away from 'business as usual' towards a more sustainable and value-driven business paradigm. Specific steps to realise this vision include:

[12]Harvard Law School Forum on Corporate Governance.

- **Integrate Impact Targets into Performance Evaluation:** Adjust performance evaluation systems to include specific societal impact targets as key components of executive and staff assessments. Leverage KPIs that are causally linked to these impacts to measure performance effectively. Compensation and bonuses should then be structured around these evaluations, with financial incentives designed to reward the achievement of significant, measurable societal improvements.
- **Incorporate IP&L Results into Remuneration Structure:** Use an Integrated Profit and Loss (IP&L) Statement to inform remuneration structures. Remuneration structures based on IWAF, are designed to reward executives and employees based on their contributions to the positive impacts and their efforts to minimise negative impacts as reflected in the IP&L.

In essence, adopting IWAF and these steps, impact remuneration acts as a natural progression from strategic planning, affirming the role of impact objectives and ensuring the company's governance framework supports these ambitions. This synergy between strategy and governance, facilitated by impact-focused remuneration, solidifies the company's dedication to its impact mission, nurturing an organisational ethos that prioritises sustainable and impact-first business conduct.

Fixed remuneration (60%)	**Base salary**	• A fixed, contractually agreed-upon remuneration that is paid in twelve months installments.
Variable remuneration (40%)	**Short-term variable remuneration** (20%)	• Annually, 15% of the total variable component is tied to meeting department-specific impact targets as measured against predetermined KPIs informed by our IP&L. • An additional 5% is awarded for individual contributions towards innovative projects or initiatives that drive significant impact improvements, subject to management review and validation. • *Payout Scenarios:* ◦ Full payout (20% of total remuneration) if 100% of both departmental impact targets and individual impact contributions are met or exceeded. ◦ Partial payout (10-15%) if between 75% to 99% of targets are achieved. ◦ No payout if less than 75% of targets are achieved.
	Long-term variable remuneration (20%)	• Vested over a period of 3-5 years, 10% is tied to the company's cumulative impact performance, aligning with long-term impact goals. • The remaining 10% is allocated based on long-term individual impact contributions, with specific focus on projects that have sustainable, measurable outcomes. • *Payout Scenarios:* ◦ Full vesting (20% of total remuneration) if the company achieves or exceeds a 25% improvement in IP&L measured impacts over the vesting period. ◦ Partial vesting (10-15%) for improvements between 15% to 24%. ◦ No vesting if improvement is below 15%.

Figure 8: Example of an Impact Remuneration Scheme Aligned with IWAF.

3.4.2. Impact-adjusted dividends

Impact-Adjusted Dividends (IADs) represent an important evolution in dividend payments by embedding the company's societal and environmental impacts into the dividend calculation process, guided by the Integrated Profit & Loss (IP&L) outcomes. This method shifts the dividend paradigm from being solely profit-driven to one that rewards comprehensive value creation, including social and environmental performance as articulated by IWAF:

- **Direct Link to IP&L Outcomes:** Dividend adjustments are directly tied to the IP&L statement results. A positive impact result, indicating significant integrated value addition, can lead to increased dividends. In contrast, adverse impacts suggest a need for reduced payouts, promoting accountability for the company's broader impacts.
- **Quarterly IP&L Insights for Dynamic Dividend Adjustments:** Regular IP&L assessments allow for real-time, informed adjustments to dividends. This ensures that shareholder rewards accurately mirror the company's overall value contribution or its deficits in real-time, encouraging a continuous commitment to positive impact practices.

Impact-Adjusted Dividends encourage companies to pursue sustainable operations, knowing that positive impact scores lead to tangible financial benefits for shareholders. This approach enhances transparency, aligns investor returns with global sustainability goals, and motivates companies towards long-term, sustainable value creation. Through IADs, companies signal a strong commitment to integrating financial success with the imperative of addressing today's societal and environmental challenges, setting a new standard for responsible business and investment practices.

4. Start your journey of impact measurement and management with IWAF.

4.1. The impact journey

Embarking on the impact journey with IWAF is a testament to an enterprise's commitment to meaningful, long-term value creation. This guide has been designed to demonstrate that impact management with IWAF is not only pivotal but also accessible to any decision maker eager to make a significant impact. Providing both the tools and practical guidance, this document outlines how and where to implement these tools for optimised initiatives and strategic impact management.

While adopting the full suite of IWAF tools and principles may not be instantaneous, organisations can begin their journey towards impactful operations from day one.

The process of creating Impact-Weighted Accounts (IWAs) requires an initial investment of time, particularly for enterprises new to sustainability reporting. It involves understanding, prioritising, and scoping impacts based on existing data and identifying new data needs. This "impact journey" often spans several years, starting from addressing internal operational challenges and extending to a comprehensive integration of impact thinking into all aspects of business operations. IWAF supports organisations at every stage of this journey, offering flexibility to proceed at their own pace. From early internal reporting and decision-making to broader external application, IWAF is designed to facilitate a phased adoption process, encouraging enterprises to use elements of the framework that resonate with their current capabilities and aspirations.

As organisations progress, they work towards the ultimate goal of fully applying IWAs as outlined in IWAF, contributing to the broader vision of transitioning towards an Impact Economy. To this end, IWAF and its partners have curated a suite of documents to aid companies in navigating the nuances of IWAs, ensuring they are equipped with the knowledge and resources to make impactful decisions.

4.2. Reading Guide

IWAF consists of a set of core documents with each a different purpose (figure x):

Impact-Weighted Accounts Framework								
	Context		Framework	Support				
Documents	INTRODUCTION	CONCEPTUAL FRAMEWORK	IWAF	SUMMARY	GUIDANCE	FAQ	Management	Monetisation factors and impact categories
Content	Measuring value creation beyond profit	Conceptual foundations for IWAs	Definitions, principles and requirements Presentation of IWAs	Summary of the key arguments for IWAs and their key properties	Step-by-step guide to compile IWAs	Frequently asked questions, including on comparison of IWAF and the impact field	Guide for impact management with IWAF	Monetisation factors and impact categories
Audience	*Companies* wanting to report beyond profit *Investors* wanting to understand long-term value creation *Policy makers* *Impact experts*	*Companies* and *investors* considering using the IWAF *Policy makers* *Impact experts*	*Companies* planning to use the IWAF *Investors* planning to use the IWAF for decisions *Policy makers* *Impact experts*	*Companies* planning to use the IWAF *Investors* planning to use the IWAF for decisions *Policy makers* *Impact experts*	*Companies* applying the IWAF *Companies* wanting to know what it takes to apply the IWAF	*Companies* possibly triggered to use the IWAF *Policy makers* curious for the added value of the IWAF *Impact experts* working on other impact methodologies	*Companies* wanting to know what it takes to apply the IWAF for *Investors* planning to use the IWAF for decisions using impact management	*Companies* applying the IWAF *Companies* wanting to know what it takes to apply the IWAF

- The Introduction to IWAF provides an overview of the benefits of Impact Accounting and the relevance to different stakeholder groups
- The Conceptual Framework provides the conceptual foundations for IWAs
- The Framework itself gives the definitions, principles and requirements that IWAF applies
- The Summary document summarises the main benefits of IWAF and targets a broad audience
- The Guidance document is a step-by-step guide for applying IWAs
- The Key Impact Categories & Monetary Valuation Factors provide the standardised list of impact categories
- The FAQ document captures the most frequent questions, with a main focus on how IWAF relates to other sustainability reporting frameworks in the field.

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5. Annex A: Monetised Impact Breakdown per Capital for PIV and IROI Example.

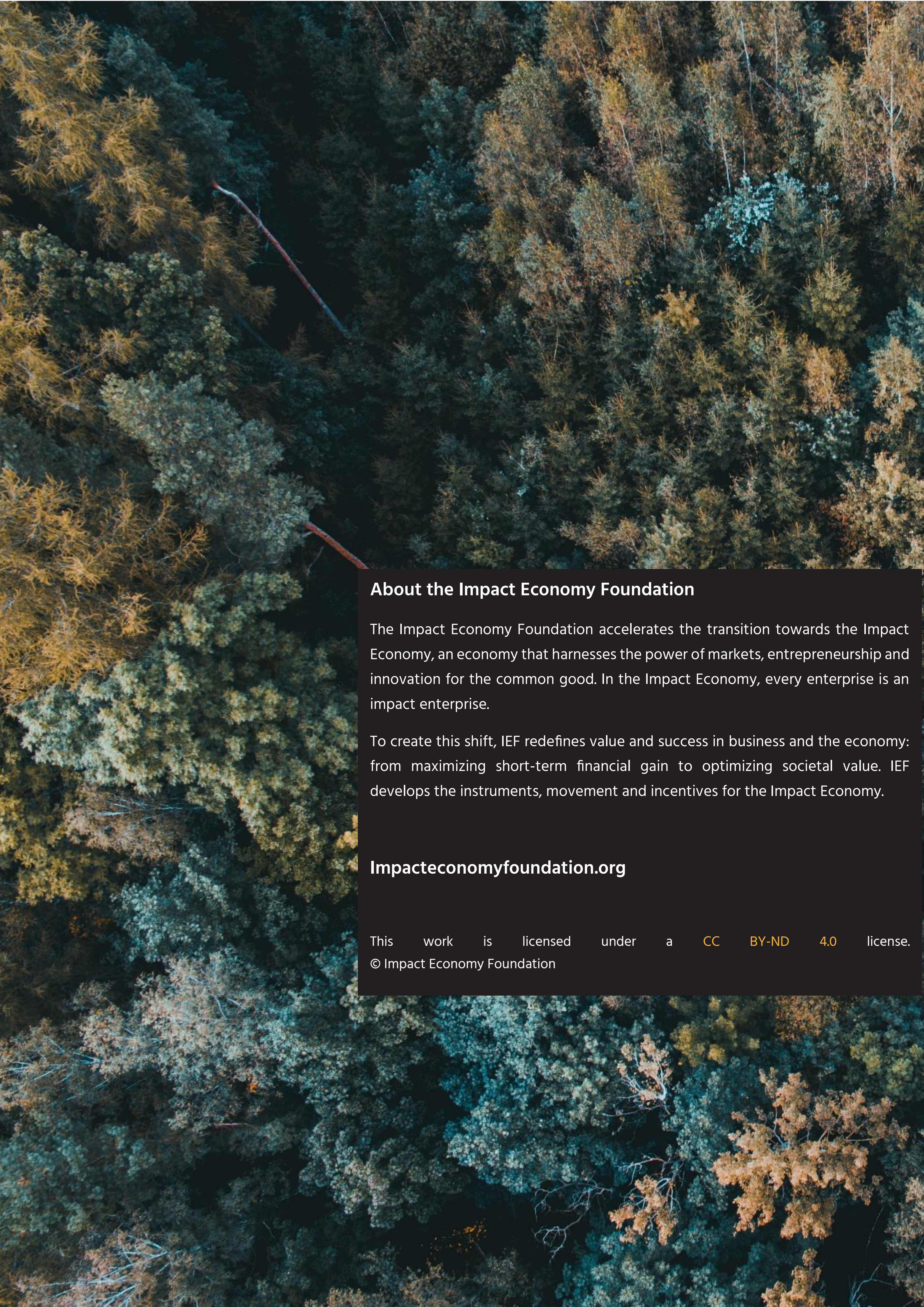
Project A

	Year 1	Year 2	Year 3	Year 4	Year 5
Financial cash flows	€ 20.000	€ 30.000	€ 40.000	€ 40.000	€ 50.000
Social value positive	€3.000	€7.000	€10.000	€12.000	€12.000
Social value negative	-€20.000	-€15.000	-€8.000	-€6.000	-€5.000
Natural value (only negative)[13]	-€5.000	-€4.500	-€3.000	-€3.000	-€3.000

Project B

	Year 1	Year 2	Year 3	Year 4	Year 5
Financial cash flows	€ 20.000	€ 20.000	€ 30.000	€ 40.000	€ 40.000
Social value positive	€3.000	€5.000	€7.000	€12.000	€12.000
Social value negative	-€4.000	-€5.000	-€3.000	-€2.000	-€1.000
Natural value (only negative)	-€3.000	-€2.500	-€1.000	-€1.000	-€1.000

[13] In this analysis, we assume only negative natural impacts for both projects due to the specific nature of the infrastructure developments, which typically do not generate direct positive environmental benefits. Instead, these projects are likely to exert pressures such as increased resource consumption, habitat disruption, or emissions, thus necessitating a focus on mitigating their adverse environmental effects rather than promoting positive ecological contributions.



About the Impact Economy Foundation

The Impact Economy Foundation accelerates the transition towards the Impact Economy, an economy that harnesses the power of markets, entrepreneurship and innovation for the common good. In the Impact Economy, every enterprise is an impact enterprise.

To create this shift, IEF redefines value and success in business and the economy: from maximizing short-term financial gain to optimizing societal value. IEF develops the instruments, movement and incentives for the Impact Economy.

Impacteconomyfoundation.org

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