CHIEF VALUE OFFICER
OF THE YEAR

MANAGING WHAT MATTERS

HOW THE CFO TRANSFORMS TO A CHIEF VALUE OFFICER

2100

Impact Economy Foundation

TREND REPORT

From CFO to CVO

CONTENTS

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REDEFINING VALUE IN THE BOARDROOM

The opportunity for the 21st century is to realize an Impact Economy in which work, innovation and entrepreneurship is used as effectively as possible for addressing our societal challenges (climate crisis, biodiversity decline and inequality) and creating well-being for all. It is an economy in which value has been redefined in the board room: from maximizing short-term financial gains to optimizing societal impact (social, human and natural capital). This turns every enterprise in the economy into an impact enterprise. Despite increasing awareness of the growing challenges of our times, companies worldwide are not on track to achieve the Sustainable Development Goals, climate targets and biodiversity promises. The consequences are becoming increasingly tangible and the pressure on executives is increasing due to new regulations (CSRD, CSDDD) and climate lawsuits. Executives are therefore increasingly expected to commit money, talent, and innovation power to shifting the focus from financial value creation to impact.

Executives in the lead

While companies may not single-handedly reinvent the current market economy, their substantial influence and resources position them as critical actors in creating an Impact Economy that works for the common good. This transformative shift requires a redefined value system in boardrooms, where companies aspire beyond financial gains and prioritize social, human, and natural capital to drive meaningful impact. Companies must measure, report and steer on social, human, and natural values with largely the same rigour and focus as financial value. This broad definition of value needs to be integrated into all aspects of business decision-making, from procurement to investment decisions and from strategy to reporting.

An impact-driven Chief Financial Officer (CFO) is essential for this redefinition of value in organisations. The traditional CFO plays a key role in defining the language of value in the organisation. The CFO harnesses financial value creation through shaping the revenue model, resource allocation across business units, forecasting, financial reporting, strategy development and investment decisions. Redefining value in the organisation turns the CFO into a Chief Value Officer (CVO).

This publication delves into the important role of the CVO in steering organisations towards being an impact enterprise in an Impact Economy. It articulates the key characteristics that define a CVO, emphasizing the crucial role of Impact Accounting in effective Impact Management. Furthermore, the paper engages with leadership experts to explore the intricate mindset of a CVO, offering valuable insights into their essential contributions to sustainable and impactful organisational practices.

Find more information at www.cvovanhetjaar.nl.

The CVO of the Year Award is an initiative of:

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THE CHIEF VALUE OFFICER

A Chief Value Officer (CVO) is an exceptional, impact-driven CFO who goes beyond traditional financial considerations, demonstrating a commitment to broad value creation and societal impact. The CVO embodies transformative power, advocating for systemic change within and beyond their organization. The dimensions of the CVO are categorized in two dimensions: professional leadership dimension and the personal leadership dimension.

Professional Leadership Dimension

- **Transparency:** The CVO is radically transparent about the organisations's impact on society. This transparency encompasses both positive and negative impacts, challenges, and failures, avoiding attempts to conceal negative effects ('greenwashing'). Impact information is presented clearly, preferably in quantitative or monetized formats, covering various capitals (social, human, natural, intellectual, manufactured and financial) and inclusive across stakeholders.

- **Integration in Decision Making:** Going beyond reporting and compliance, the CVO ensures that societal value (human, natural, social) is intricately woven into the heart of the company's overall decision-making. This includes clearly integrating impact into the corporate strategy through impact based KPIs, linking compensation to impact goals, setting measurable and timebound targets across the value chain, integrating it in procurement and aligning investment decisions or portfolios with sustainability principles.

- **Results with Impact:** A CVO stands out through tangible, positive societal impacts, positioning their company as a sector frontrunner on creating societal impact. This involves a spectrum of accomplishments, from mitigating negative impacts and amplifying positive ones to introducing innovative approaches, developing innovative, regenerative business models and advancing research that set them apart in their industry.

Beyond company-centric efforts, they foster broader influence through strategic partnerships and collaborations. These initiatives accelerate action, scale up solutions, and by combining expertise, resources, and networks among stakeholders who share a common goal, they ensure a more extensive and lasting impact on both the company and the broader community.

- **Constructive Advocacy for Impactful Policies:** The CVO actively engages in advocating for policies that support sustainability and impact in the sector and the broader economy. This includes consistent advocacy efforts aligned with sustainability commitments, collaboration with diverse stakeholders, regularly reporting progress on lobbying activities, achievements, and challenges in promoting sustainable development.

Personal Leadership Dimension

- **Sustainable Mindset:** Beyond company activities, the CVO personally leads with a sustainable mindset both in work and private life, recognizing the intrinsic connection between business, society, and the environment. This entails multi-level systems thinking, stakeholder inclusion, long-term activation, and a willingness to drive disruptive innovation that combines profitability with sustainability.

- **Transformative Power:** The CVO understands that systemic transformation towards broad value creation requires concerted efforts. This involves active involvement within the organization, initiation or contribution to coalitions/movements outside the organization, advocacy for impactful policies, and visible engagement through media and opinion pieces.

The criteria outlined are not rigid checklists but guiding principles. The Impact Economy Foundation seeks to recognize diverse contributions, acknowledging that CVOs may excel in specific areas while demonstrating potential for growth in others. The aim is to celebrate leaders who drive meaningful impact, foster systemic change, and contribute to the vision of an Impact Economy.

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THE KEY ROLE OF THE CVO

CVOs in the Impact Economy

CFOs are uniquely positioned to guide and shape the trajectory of business transformations, yet the depth of their involvement is often undervalued. The traditional CFO is in charge of the language of value within the organisation, often focused on financial value creation. The CFO plays a key role in harnessing the revenue model, resource allocation across business units, forecasting, financial reporting, strategy development and investment decisions.

Thus far, CFOs tend to play only a minor role in activities focused on creating societal impact. As a result, sustainability and social impact are often treated as add-ons rather than integral components of reporting, strategy and business models.

To ensure that organisations turn into impact enterprises that aim to address societal challenges and create well-being for all, it is crucial that the CFO takes a leading role and turns into a Chief Value Officer (CVO). The CVO is a visionary, impact-driven CFO who goes beyond traditional financial metrics and recognizes the importance of integrating social, human, natural, and financial capital to drive meaningful impact. The CVO aims to integrate impact at the heart of the organisation, necessitating the merger of the finance and sustainability departments.

Unlike the traditional CFO, the CVO manages the organisation based on True Profit, incorporating Impact Accounting to determine the real profit for society. This entails minimizing external societal costs and maximizing societal profit, necessitating a commitment to fundamentally different, regenerative revenue models and innovations. Furthermore, the CVO actively seeks to collaborate with partners in the sector to establish pre-competitive partnerships for impact or policy changes (norms and pricing) to accelerate the internalization of externalities.

5 reasons why CFOs need to be in the lead of impact

- **CFOs are in the lead of the euros** - CFOs control the purse strings and are responsible for financial stewardship in an organization. This position enables them to allocate resources effectively to areas that optimize societal returns.
- **The toolbox of the CFO** - CFO and the finance unit have important tools at their hands for not only financial measurement but also impact measurement and management, such as risk-return analyses and forecasting. From their position, CFOs can lead the shift from: (i) financial accounting to impact accounting; (ii) business case to value case; (iii) discounted cash flow modeling to discounted value flow modeling.
- **There is great power in numbers** – CFOs have a deep understanding of performance metrics and the systems used to track them. As impact management involves setting, monitoring, and reporting on key impact metrics related to social, human an d natural value, CFOs are well-equipped to integrate these into the existing financial reporting and control frameworks.
- **Integrated view on value creation** – Effective impact management requires an integrated view on value creation, understanding the interrelation between societal impact and financial value creation. The CFO is in the position to have the unique overview of both the financial and impact sides of the business, , ensuring a holistic view of performance that encompasses both financial and non-financial impacts.
- **Leading investors relations** - CFOs, who often lead investor relations, are pivotal in communicating the company's impact strategy, performance, and outlook to investors and stakeholders, influencing perceptions and securing support for sustainability initiatives.

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IMPACT ACCOUNTING

An indispensable instrument for the CVO

CVOs in impact-driven enterprises play a crucial role in navigating the complex landscape of value creation. Beyond the traditional focus on financial metrics, CVOs understand the imperative of balancing financial value with social, human, and natural value. Achieving this equilibrium demands a thought approach to impact management, wherein strategic decisions are informed not only by economic considerations but also by the broader implications for society, humanity, and the environment. In essence, CVOs act as stewards of holistic value, ensuring that their enterprises contribute positively to both financial prosperity and the well-being of people and the planet.

Generally, impact management poses a significant challenge due to the inherent difficulty in comparing impacts with one another. The varied nature of impacts, ranging from biodiversity loss to climate change, makes it complex to quantify and assess their relative significance. Traditional methods of communicating impacts in natural units, such as kgCO2e or m^3 of water use, often lead to confusion among stakeholders who are required to comprehend impacts in a manner akin to financial value under the Corporate Sustainability Reporting Directive (CSRD). This complexity hinders effective decision-making and prioritization efforts, as the disparate nature of impacts makes it challenging to conduct meaningful trade-off analyses.

The Impact-Weighted Accounts Framework (IWAF) addresses this challenge by introducing a monetary valuation approach, harmonizing the understanding of impacts with financial value. This strategic shift not only harmonizes impact language for employees, investors, and stakeholders but also facilitates a more cohesive and standardized approach to impact management, overcoming the hurdles associated with comparing diverse impacts.

IWAF stands as a pioneering methodology in impact management, revolutionizing the way organisations assess and communicate their contributions to the world. At its core, IWAF introduces a holistic approach by addressing impacts across six capitals— **(1) financial, (2) manufactured, (3) intellectual, (4) human, (5) social, and (6) natural.** This framework surpasses traditional sustainability reporting standards by encompassing all stakeholders in its evaluation, ensuring a comprehensive understanding of an organisation's societal footprint.

The monetization aspect of IWAF allows for impacts to be expressed in monetary terms, providing a common language that bridges the gap between financial and impact-related metrics. Unlike conventional reporting frameworks that primarily focus on input, output, and outcomes, IWAF places a central emphasis on the impacts themselves. This shift in perspective marks a transformative leap, enabling organisations to concentrate on the real-world consequences of their actions rather than merely tracking processes.

The Key benefits of IWAF

1. Harmonized Impact Language: IWAF introduces a harmonized impact language, aligning impacts with the most frequently used language in the economy—monetary units. This facilitates a universal understanding of impacts and ensures that sustainability considerations are integrated into corporate functions.

2. Informed Trade-Offs Analysis: Through monetary valuation, IWAF simplifies the process of trade-offs between various impacts, allowing organisations to prioritize based on financial significance. This strategic approach enhances resource efficiency and supports decision-making aligned with broader sustainability goals.

3. Holistic Value Creation: IWAF's Integrated Profit and Loss (IP&L) provides a comprehensive executive management summary, offering a clear view of an organisation's overall performance across the six capitals. This streamlined approach facilitates tracking progress, aiding both organisations and investors in making informed decisions.

4. Enhanced Materiality Assessment: IWAF's materiality assessment goes beyond conventional practices, incorporating a rights-based approach that categorically deems impacts associated with human rights violations as material. This nuanced perspective ensures a thorough consideration of crucial issues often overlooked, enhancing risk assessment and strategic planning.

5. End-to-End Value Chain Scope: Unlike traditional reporting frameworks like CSRD, IWAF adopts a full value chain scope, recognizing that most significant impacts occur within the value chain. This approach empowers organisations to manage impacts effectively and assess dependencies comprehensively.

Figure 1: The Integrated Profit & Loss Statement

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Expert Dialogue

Josette de Goede - Trainer at de Baak and consultant change capacity
Caroline van der Linden - Organisational and executive coach at de Baak

The Mindset of the CVO

Insights from practice

Navigating the complex landscape of transitioning from a financially driven strategy to a value-driven strategy poses significant challenges for leaders. Organisations increasingly face dilemmas especially amidst geopolitical shifts, economic uncertainties, and the looming climate crisis, paradoxically fuelling further divisions. While confronting substantial challenges, the solution appears to lie in the transformation from a financially focused strategy to a value-driven one. This strategic shift considers not only financial value but also integrates social, human, and natural values. Consequently, the crucial role of the CFO transforms into that of a CVO. In this dialogue, we engage with Caroline van der Linden and Josette de Goede, trainers at de Baak, who bring over 25 years of experience in humanism, aesthetics, organisational studies, change management, and leadership.

The transition from a financially driven strategy to a value-driven strategy is complex and involves the entire organisational mindset. How a CVO ensures the emergence of a consistent culture of sustainable change within the organisation is thoroughly explored, providing insights into the multifaceted role of a leader in steering this crucial transition.

How does a leader make the transition to a value-driven strategy? Organisations increasingly grapple with complex issues and dilemmas. How do you foster connection when factors like geopolitical shifts, economic uncertainty, and climate change are creating more divisions? And importantly, how does a company remain financially healthy under these new conditions? Individuals and organisations face significant challenges, and finding a solution is more critical than ever. This solution seems to lie in the transformation from a financially driven strategy to a value-driven one. This strategy not only considers financial value but also weighs social, human, and natural values. How can a leader ensure that the organisation acts based on values?

Exploring the mindset of the CVO

"The transition from a financially driven strategy to a value-driven strategy has its challenges. How can a CVO ensure that everyone within the organisation shares the same mindset of sustainable change?"

Caroline: 'We are actually talking about two different things now: the transition itself and the mindset. There will always be people against it, and that may indicate that the chosen direction is right, but there might still be hesitations. People are only against something when it affects them. If it doesn't bother them, they leave it be. So, resistance can be framed positively. Now, the next question is why you want a shared mindset and why the responsibility lies with the CFO, for example?'

Josette: 'People with ultimate responsibility must agree that they want to operate based on values. It needs to become part of the strategy, and you can link it to these values. This brings us back to your planning and control cycle. At the end of the year, the CFO still needs to produce financial statements; that remains legally necessary for now. What can you do then? Together with colleagues, say: "okay, we are not only doing financial figures, but also sustainability figures and social responsibility or equal opportunities." It's super challenging because it's much less tangible, but that's where the focus needs to be. So, the CVO, or actually the entire C-team, needs to ensure that they can connect values to hard numbers. The only challenging part, but also an opportunity, is figuring out how to measure values. Through conversations with people, you notice that it becomes more ingrained in an organisation.'

'What happens further away in the world often doesn't feel tangible enough. After all, it doesn't directly affect us, maybe later. How does a CVO ensure that the urgency is palpable within the organisation? And can be of value?'

'These are complex issues that require a different kind of attention. It's a kind of cultural change. How do we initiate this cultural change? Which departments can contribute to this? How can you bring up stories? How can you let people tell stories? This is not something the CVO can do alone.'

Caroline: 'For example, when that container got stuck in the Suez Canal in 2021, people within organisations literally felt they couldn't move forward. Car manufacturers and electric bike producers had to wait for parts for months. People felt the urgency that something had to be done. But every day, we receive signals or new forms of urgency. You can use this as the start of a research project. What if this happens more often? What does this mean for the organisation and for society? How do we prevent being dependent on such events? How can we produce more sustainably and locally?'

'Emergency breaks the law. The transition from CFO to CVO is complex, but it's also exciting. The essence of complexity is contextual leadership. The context presents challenges to you as a leader, situations that clash with existing systems. As a CVO, you stand with one foot outside the organisation and one foot inside, observing how to deal with it. The CVO not only asks, "will we make any money from this?" but also asks, "are we doing it well, can we do it in a more humane or sustainable way?"'

"As mentioned earlier, the landscape in which a CVO operates is complex. There are different stakeholders with their own agendas. How does a CVO ensure that he/she aligns all stakeholders?"

Caroline: 'Complexity inherently means dealing with different stakeholders with different perspectives and interests. If we look around us, many people dig in and often persist in their own views. With strong arguments, especially cognitive ones. What we are doing now is exploring the diversity of interests and figuring out how we can collectively do the right thing. This mainly involves seeking each other out and having a good conversation beyond one's own interests.'

Josette: 'A CVO can get people on board by letting them take ownership and be accountable. Not just goals related to money and quality. But, for example, agreements to consider people facing difficulties, so they can also be included.'

Caroline: '"How do I get people on board?" is based on individualistic leadership. In complexity, it's about the large swarm, like birds. How do you get the swarm moving? As a CVO, do you feel like you're in the core of the swarm? Are you flying on the outside or outside, looking at it? Depending on the situation, that can vary. The goal is to get the group moving with all those different views and interests. Having a collective goal and achieving something together. If one bird flies a bit to the side or the other left or right, it doesn't matter, as long as the entire swarm is moving in the desired direction. See what people enjoy doing and what they're good at. Where they believe, and now you're getting into values, they will work 300% for that. It's a different system. From control to collaborative leadership.'

"In most boardrooms, Generation Z is not represented. How do we ensure that their interests and those of future generations are still considered?"

Caroline: 'By simply asking them this question and involving them, both formally and informally. For example, ensure there are always two extra chairs at a (strategic) meeting. And make the agenda known. Invite the younger generations to join in. Or create space for (informal) brainstorming groups consisting of diverse, including the younger, generations. Through informal forms of consultation, relevant topics are put on the formal agendas. For the time being, the younger generations seem to be giving more value-driven input. The future is their personal interest."

Exploring the mindset of the CVO

We are facing major challenges as a society, including in the areas of climate and equal opportunities. There is a lot we don't know right now, how do you deal with this uncertainty as a CVO? How do you know if you're making the right decision?
Josette: 'Uncertainty has become part of our lives. That means that everything is being adjusted more and more, so the road used to be straight if I may say so, but now the route is more and more built up with a kind of in-between retrospection.

Caroline: 'The job of a CFO has always been based on certainty: with a calculation you know where you will end up at the end of the year. If we combine this with the values side, it is also quite exciting for a CFO. You have to be able to deal with uncertainties and not know what you're going to get out of it.'

Josette continues: 'That's why such a person needs to get to know themselves well and have self-reflection, know where your strengths are and where your insecurities are.

People are quick to think that they have to sacrifice in order to live sustainably. How can we create a mindset in which sustainability is not seen as negative for one's own lifestyle? A mindset of 'enough', for example?

Josette: 'I think it's become a social movement. Let's look at the frontrunners, where the energy is. Let's look at where people already want to move forward and the positive force in doing so. A CVO can also decide that there will be an objective for this in the strategic plan. It's about making more with less energy. So it's also a bit smarter to operate.'

Caroline adds: 'And that's where the question starts: when is it enough? For example, when is not 10% but 2% growth for the coming year enough? What's closer to home? That's where the mindset starts. Vegetables from the neighborhood. Walking the Pieterpad instead of the Camino to Santiago de Compostela. We don't always have to go further or more, we have a lot in-house.

Also think about a mindset of trying to do the right thing in life. That really starts with good examples. With standing still. With meaningful choices. With believing. With hanging in the air for a while and choosing to turn around. With making the right courageous decision at the right time. For example, a classic example of a life-changing moment of a CEO with a major impact on the organization was the CEO who was on a plane to New York during 9/11 and found out that the world was on fire. And that he was terrified. He decided in the air not to invest more money in sponsoring golf tournaments but in setting up leadership trips to Africa and setting up relief missions there. In all respects, this yielded him and the organization much more, his people were happier and they stayed connected to the organization longer. While this had not been his primary goal. He acted purely out of the idea of wanting to be of significance. Of value. He said, "I only want to do the right thing. I don't want to do it just for the money.'

The Chief Value Officer of the Year Award

Raising the bar on Impact

To accelerate the transition towards the Impact Economy, the Impact Economy Foundation has initiated the Chief Value Officer of the Year Award. The Chief Value Officer of the Year award is a recognition presented by the Impact Economy Foundation. This accolade is meant to celebrate and honour the achievements of impact-driven Chief Financial Officers (CFOs) who have demonstrated outstanding leadership and commitment to redefining value in corporate boardrooms. By mobilizing Chief Financial Officers (CFOs) - the financial focal points in boardrooms – to recognize and value the social and environmental impacts, we believe we can truly create meaningful change. The CVO of the Year Award stands as a beacon, honouring transformative leadership and sustainable corporate practices amidst the challenges of our time.

More information at:

www.cvovanhetjaar.nl

www.impacteconomyfoundation.org

To inquire about potential collaborations or further inquiries on the topic of a Chief Value Officer, please feel free to reach out to us! We welcome collaborations in research, partnerships for the award, and any other related initiatives.

Contact:

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