REDEFINING VALUE: AN INTRODUCTION TO IWAF

June 2024

INTRODUCTION TO THE IMPACT-WEIGHTED ACCOUNTS FRAMEWORK

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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 maximizing financial value to optimizing 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.

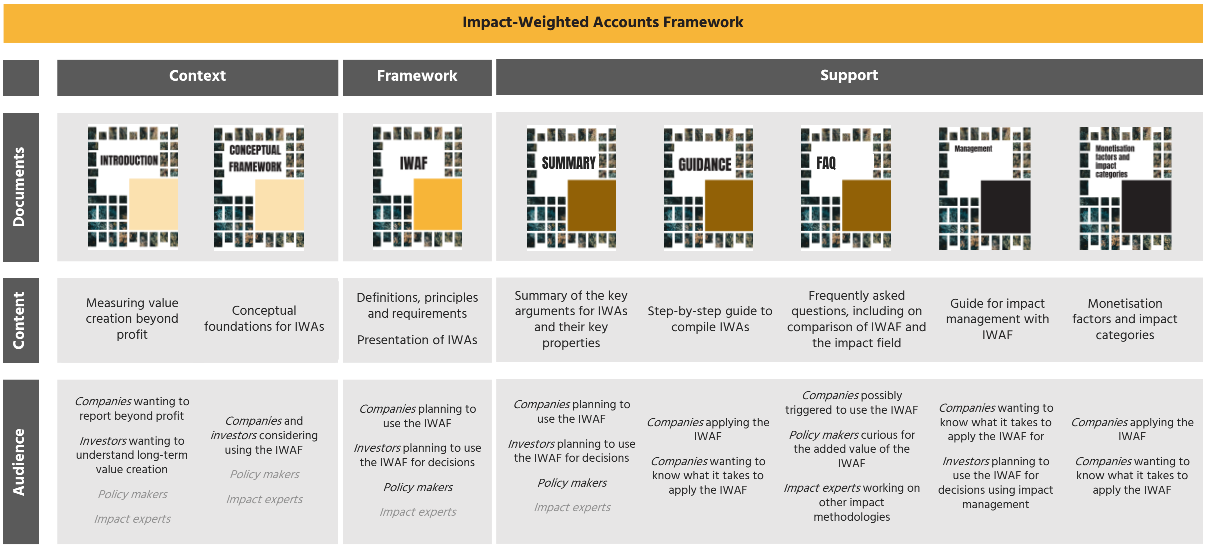

Figure 1: An overview of the different documents within the Impact-Weighted Accounts Framework. This document is the Introduction to the Impact-Weighted Accounts Framework.

Authors and Acknowledgements

This draft has been prepared by the IWAF working group: Reinier de Adelhart Toorop[1], T Robert Zochowski III[2], Eszter Vitorino Fuleky[3], Liang Hao[4], Willem Schramade[5], and Valerius Vandru Hartanto[1], together with Bart van Veen[1]. The draft was developed under auspices of the IEF Board and with advice from the IEF Academic Council.

The working group would like to thank Charles Evers[6], David Fernandez[4], Teresa Fogelberg[6], Adrian de Groot Ruiz[1,6], Mijntje Lückerath-Rovers[7,8], Karen Maas[8,9], Sander Onderstal[8,10], Leen Paape [8,11], George Serafeim[2,8], Dirk Schoenmaker[5,8], Janis Teo Ruimin[4], Arnold Tucker [8,13], Loes Verdonk[1], Dick de Waard [8,14], and Herman Mulder[6], for their contributions.

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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

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Introduction to the Impact Economy

The 21st century presents a transformative opportunity: the realization of an Impact Economy. This new paradigm shifts beyond traditional market structures, enabling enterprises to act as catalysts for positive societal and environmental change. This shift involves a fundamental redefinition of organizational bottom lines, integrating societal and environmental considerations directly into decision-making processes.

Challenges in current business practices

The longstanding reliance and fixation on financial metrics, such as profit margins and return on investment, have perpetuated a business approach where short-term gains take precedence over long-term social well-being. This mindset results in a counterintuitive situation where certain environmentally and socially detrimental initiatives continue to thrive economically, even in the face of mounting evidence underscoring their adverse impacts.

Take, for instance, the tobacco industry, a sector known for its significant health and societal concerns. Despite widespread acknowledgment of the detrimental public health effects associated with tobacco consumption, the industry remains economically lucrative. The appeal of immediate financial returns, coupled with insufficiently internalized health-related costs, exemplifies the persistent challenges in aligning profitability with long-term societal well-being. This underscores the need for a shift toward more impactful and transparent frameworks for reporting but also steering on impacts.

Inadequacy of existing reporting frameworks

Integrated reporting is often considered to be the first step toward substantive sustainable initiatives. A plethora of international standards and frameworks have emerged to support organizations in improving their practices for measuring and disclosing their impacts. Significant progress has indeed been made in shedding light on organizations' environmental, social, and governance (ESG) practices. However, reporting alone does not change the world. Despite the multitude of sustainability reporting frameworks and guidelines, corresponding impactful action has yet to materialize, leaving us falling short on our promises.

The current focus on transparency has, in some cases, fostered a checkbox mentality among organisations, where disclosure takes precedence over substantive action. This issue stems not only from corporate reluctance to embed sustainability within their bottom line but also from the absence of explicit guidance on how to manage reported impacts coupled with an absence of actionable, decision-ready information.

Moreover, the prevalent reporting frameworks look at the value creation model of companies through an input and output perspective, thereby neglecting the broader societal and environmental impacts of their activities. Furthermore, the absence of comparable, standardised impact information in a commensurable unit further complicates their integration into key business practices such as resource allocation and risk management. This disparity in reporting metrics means organizations struggle to weigh their sustainability initiatives; for instance, deciding between investing in renewable energy projects to reduce carbon emissions or conservation initiatives to protect biodiversity becomes cumbersome when impacts are measured in different units, such as tons of CO2e saved versus number of species protected.

This fundamental lack of comparability obstructs executives' ability to make informed trade-offs between various sustainability strategies and interventions. As a result, the current state of corporate sustainability does not provide stakeholders with a comprehensive insight into an organization's value creation model, particularly regarding its impacts on society and the environment, nor does it enable informed strategic decision-making for impact management. In this light, reporting serves no further purpose than to be transparent, as the reported information is not conducive to effective decision-making. This lack of actionable insights and strategic guidance represents a significant barrier to progress in corporate sustainability efforts.

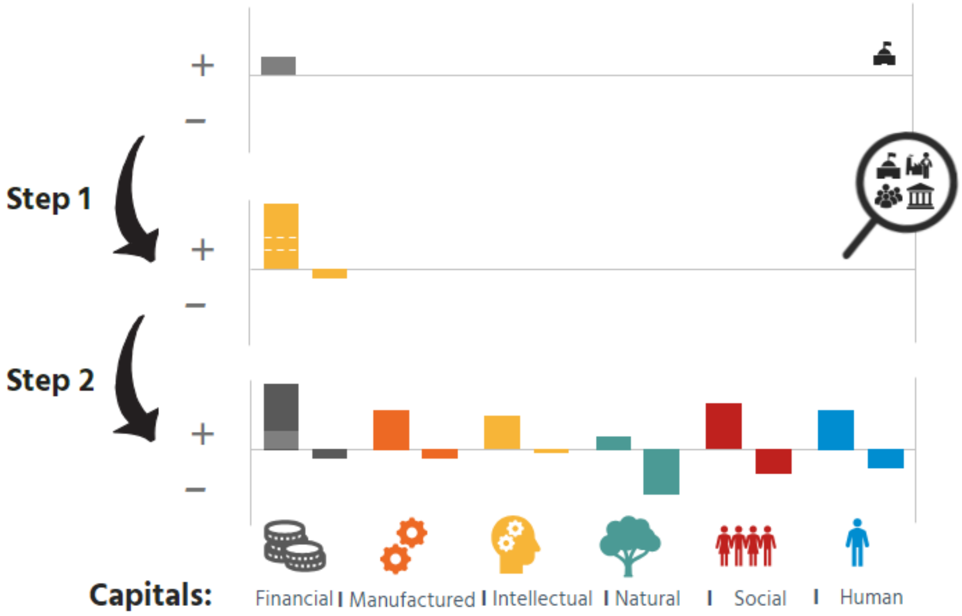
Introducing the Impact-Weighted Accounts Framework

In response to the limitations of current integrated reporting, which often fails to provide decision-ready impact information, the Impact Economy Foundation (IEF) has introduced the Impact-Weighted Accounts Framework (IWAF). IWAF offers an integrated perspective on an organization's value creation model, by mandating an impact-first perspective, evaluating impacts that occur across the entire value chain, related to all key stakeholder groups (and not just shareholders) on multiple dimensions of value (i.e., manufactured, intellectual, social, human, natural, financial). Moreover, IWAF mandates the monetary valuation of impacts, thus creating comparable, decision-ready impact information which empowers organizations to integrate impact management at the heart of every decision-making process and business unit. This approach allows executives to leverage, the mature and effective infrastructure that has traditionally focused solely on managing and controlling financial value creation to guide their organisations toward a more responsible and value-driven business paradigm.

Enter the Integrated Profit and Loss (IP&L)

IWAF introduces the Impact-Weighted Accounts (IWAs), a set of quantitative and valued accounts containing impact information about an organization in a structured manner. IWAs include the Integrated Profit & Loss (IP&L) Statement (Figure 1), showing the value creation or destruction across six capitals (i.e., financial, manufactured, intellectual, natural, social and human) key stakeholders. The framework is primarily built upon an impact-first perspective, prioritising stakeholders' welfare—including their rights and well-being—as the main criterion for determining materiality. It also considers the impacts that occur throughout the entire value chain.

Figure 1: From a Traditional Profit & Loss Statement to the Integrated Profit & Loss



Benefits for stakeholders

The benefits of applying IWAs for different stakeholders are strategically aligned to their respective needs and priorities (see figure below).

Organisations

- Steer on purposeful and intentional impact
- Make informed trade-offs
- Gain holistic understanding of the value creation model
- Harmonise impact language
- Leverage financial structures for integrated value creation
- Mitigate risks and stay ahead of future regulations
- Forecast future opportunities
- Exceed transparency expectations
- Strengthen corporate reputation, secure social license to operate, and attract future talent

Investors

- Allow impact-first investment decision-making
- Understand long-term value creation and financial viability
- Assess likelihood and speed of internalization
- Benefit from heightened transparency of potential long-term risks
- Benchmarking and Performance Tracking

Other Stakeholders

- Gain comprehensive insights into the organization's impacts on society and the environment
- Access clear, quantifiable information on organisational impacts and strategies
- Engage with organizations that prioritize sustainability and ethical practices

These benefits underscore the multifaceted advantages that IWAs offer to organisations, investors, and other stakeholders, ensuring a comprehensive and impactful approach to value creation and management.

Major companies including leading energy provides, private funds and financial institutions have already embraced the Impact-Weighted Accounts Framework (IWAF) to steer their impact strategies effectively and drive positive change. The adoption of IWAF empowers these organizations by offering valuable insights into their impact, aligning efforts with corporate values and strategies, identifying areas for improvement, and seizing new opportunities.

For companies needing to comply with the mandatory European Corporate Sustainability Reporting Directive (CSRD), adopting IWAF is not a departure, but rather an extension and enhancement of existing practices. IWAF builds upon established conventions and frameworks, offering a seamless transition for CSRD-compliant companies from transparency to transformation. By strategically aligning with CSRD's reporting mandates, IWAF guides companies towards impact management, ensuring they not only meet regulatory requirements but also excel in their commitment for an impact-first business paradigm.

Conclusion: Embracing the Impact Economy

In conclusion, amidst the persisting challenges in our current sustainability landscape lies a compelling opportunity for transformation. Tackling these limitations is not just about unveiling an organization's impact; it's about empowering us to forge a new era of impact measurement, reporting, and management— propelling us closer to the heart of an Impact Economy, where every enterprise is an impact enterprise and societal value is at the heart of every decision.

IWAs should be of interest to all organizations focused on long-term value creation, offering a transformative approach to impact management. To echo Bobby Kennedy, "GDP measures everything except that which is worthwhile", IWAs similarly challenge the notion that financial profits measure everything of value. By transcending conventional metrics, IWAs aim to capture the true worth and impact of an organization, fostering a meaningful and purpose-driven approach to business practices

Introduction

What is impact?

Impacts can be seen as the difference an organization 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.

An increasing number of organisations report on the impact they have on society; however, this endeavour is fraught with challenges. The Impact-Weighted Accounts Framework (IWAF) assumes a central role in guiding organizations towards becoming impact enterprises by facilitating impactful management grounded in Impact-Weighted Accounts (IWAs). It squarely addresses the core challenges faced by organizations in this arena, particularly the imperative for consistent, reliable, and comparable metrics. In addition to these foundational goals, IWAF is purposefully structured to elevate transparency for stakeholders and decision-makers, all contributing to the overarching objective of steering organisations on a trajectory towards impactful management through the use of IWAs. The framework is designed to allow meaningful comparison between metrics and is based on scientific evidence. Its overarching purpose is to empower organizations to gain a deeper understanding of their impacts. The IWAF can both be used as a standalone tool and can also serve as complementary guidance to existing standards on sustainability reporting. To underscore its relevance, a comparative analysis between IWAF and the EU Corporate Sustainability Reporting Standard (CSRD) is provided in the Position Paper From Transparency to Transformation: Unlocking the Full Potential of CSRD with Impact Accounting.

The overarching goal of the IWAF is to guide organisations to create their own Impact-Weighted Accounts (IWAs). Here, IWAs are a set of comprehensive quantitative and valued accounts containing impact information about an organisation. Such accounts prove instrumental for organizations and their stakeholders, providing a foundation for informed decision-making.

Crucially, IWAF is dedicated as a public good for organisations of all sizes, structures and geographies. Its purpose is to facilitate the implementation of impact accounting, allowing organizations to account for the impact they cause or contribute to in a standardized and comprehensive manner.

1 The context: beyond financial value creation

1.1 Why do we need Impact-Weighted Accounts?

In recent decades, global economic growth has been substantial, but this achievement has come at the expense of societal and environmental well-being [11]. Climate change, resource depletion, and human rights breaches underscore the unsustainable nature of current financial value creation. This imbalance is unjust and poses long-term risks to a stable society. To rectify this, there is a critical need to align financial value with other dimensions often overlooked due to inconsistent measurement or prioritization. Organisations bear the responsibility to measure and internalize the adverse effects, or externalities, resulting from their primary economic activities. This entails transparent reporting on these externalities and proactive management to create value within planetary boundaries and a solid social foundation.

When the value of positive and negative impacts is not measured, these impacts are in reality valued at zero: negative externalities are not priced in and are therefore not addressed by company management or investors.

1.2 Navigating Transparency Challenges in a Shifting Landscape

Amidst the mounting expectations for companies to disclose their societal and environmental impacts, a broader context of reporting expectations comes into focus. The growing emphasis on transparency places organizations under increasing pressure to articulate the full scope of their influence beyond mere financial metrics. A prime example is the call for companies to report on their contributions to the Sustainable Development Goals (SDGs). However, this heightened scrutiny carries the risk of "greenwashing," a phenomenon where companies strategically utilize reporting as a communication tool without a substantive commitment to impactful strategies or robust impact measurement [13].

In navigating this landscape, a robust framework and tools become imperative. They offer organizations a nuanced understanding of both positive and negative impacts that enable a more tangible link between their actions and societal and environmental goals. This not only guards against greenwashing but also presents a strategic imperative beyond compliance. The business case for truthful and holistic reporting extends to building trust, enhancing brand reputation, attracting socially responsible investors, and mitigating risks associated with environmental and social issues. In essence, embracing authentic reporting is not only regulatory compliance but also a strategic advantage with significant business benefits.

1.3 Financial view on sustainability

The finance system is extremely dominant as it disciplines all organisations, business units and employees in the economy. Sustainability reporting is therefore often done following the view of financial materiality (outside-in). That is, impact is important to report on so long as it could financially affect the company, which influences decision-making. For example, resource depletion becomes 'material' due to the associated risks, such as disruptions in the supply chain and potential non-compliance with future regulations.

However, only reporting on financially material impacts falls short of propelling us towards an economy in which value is created for all stakeholders. The current system still incentivizes and rewards organisations to minimize costs by externalizing them. To foster a more comprehensive approach, organizations should take responsibility for reporting on all material impacts, even when the connection with financial performance is not immediately apparent. This perspective, known as the double materiality view, fundamentally envisions that companies should evaluate their impacts from both an inward and outward perspective. This entails a comprehensive assessment of their influence on the environment and society, as well as an examination of the reciprocal impacts that the environment and society may have on the business. In essence, it promotes a holistic understanding by considering the two-way relationship between the organization and its external surroundings.

1.4 Progress in Holistic Value Creation

Over the past five to ten years, a remarkable global shift has occurred, transcending the exclusive focus on reporting and managing financial value creation. Key players including financial market regulators, multilateral institutions, central banks, sovereign wealth funds, asset owners, major asset managers, and numerous listed organizations are adopting a comprehensive approach to value creation. This is evident in the increasing adoption of sustainability reporting within the framework of double materiality, influencing both reporting practices and decision-making processes.

Sustainability reporting has matured significantly at the reporting level, driven by regulatory mandates such as the EU's taxonomy, Non-Financial Reporting Directive, and the proposed Corporate Sustainability Reporting Directive (CSRD) [14]. Simultaneously, at the decision-making level, initiatives like the Science-based Targets Initiative (SBTI) and strategies aiming for carbon neutrality have gained traction. The landscape has further evolved with a substantial surge in impact investments, estimated to range between 300 billion USD [15] and 715 billion USD [16] for 2020. This momentum is mirrored in the ascent of social enterprises [17]. This collective progress underscores a growing commitment to a more holistic and impactful approach to value creation.

1.5 Challenges in Current Sustainable Reporting Practices

Sustainability reporting has made considerable advances yet continues to face critical challenges that impede its effectiveness as a tool for genuine impact. The introduction of the Impact-Weighted Accounts Framework (IWAF) seeks to address these issues directly:

1. **Guidance for Impact Management**: The prevalent issue in current sustainability reporting is its focus on transparency without actionable guidance, leading to selective and superficial reporting. Unlike these practices, IWAF provides structured guidance for the entire value chain, not just for measuring and reporting impacts but also for managing them effectively. This comprehensive

approach ensures sustainability reporting becomes an active tool for strategic impact management.

2. **Standardization and Comparability**: A significant challenge in current sustainability reporting is the lack of standardized metrics, resulting in inconsistent and non-comparable data. Unlike traditional practices, IWAF mandates the valuation of impacts across the full value chain in monetary terms, establishing a common language for all. This comprehensive approach not only fosters comparability across organizations but also prevents selective reporting, enhancing clarity and enabling informed decision-making based on a uniform standard.
3. **Impact-First**: Traditional practices focus on inputs (e.g., capital invested) and outputs (e.g., energy generated), rather than the actual resulting impacts on the societal welfare. IWAF, however, mandates an impact-first approach across the entire full value chain, ensuring a comprehensive assessment of real-world impacts on society and the environment. For example, instead of merely counting the number of solar panels installed (output), an impact metric under this approach would measure the reduction in local household energy costs due to the adoption of solar power, reflecting the actual benefits to the community such as increased disposable income and reduced energy poverty (impacts). This approach addresses the essential evaluation of how organizational actions, from inception to end-use, affect community well-being, environmental prosperity, and social equity.
4. **Comprehensive Materiality Assessment**: Traditional sustainability reports often exhibit selective reporting, focusing on areas favorable to corporate interests. In contrast, IWAF employs a rights-based materiality approach that mandates full value chain consideration, ensuring that all impacts related to human rights are deemed material. This shift fosters a more inclusive and accurate identification and prioritization of material topics, ensuring assessments reflect broader societal and environmental concerns across the entire value chain.
5. **'Truly' Integrated Reporting**: Current trends towards aligning sustainability reports with financial statements often lack true integration and allow for selective reporting on favorable outcomes. IWAF counters this by introducing the Integrated Profit & Loss (IP&L) Statement, which requires a full value chain perspective, consolidating value creation across six capitals: financial, manufactured, intellectual, social, human, and natural. This integration ensures a holistic view of the organization's impacts, preventing selective reporting and linking financial outcomes directly with social and environmental impacts.

1.6 Needs and opportunities for an Impact Management Framework

These challenges underline the need for an effective impact management framework, which IWAF exemplifies. Such a framework is vital for organizations aiming to integrate impact considerations into their core strategies and operations. It provides an opportunity for businesses to systematically assess, manage, and enhance their societal and environmental impacts across the entire value chain. Implementing a robust impact management framework enables companies to not only meet emerging sustainability standards but also to seize new opportunities for sustainable growth, innovation, and competitive market differentiation. This approach aligns business objectives with global sustainability goals, creating long-term value for both the organization and society at large.

2 Elevating Organisational Performance: Assessing Holistic Value Creation

At the Impact Economy Foundation, our mission is to accelerate the transition to an Impact Economy by promoting Impact-Weighted Accounts (IWAs), as a necessary requirement to impact-driven entrepreneurship. IWAs contain two types of accounts: the Integrated Profit & Loss (IP&L) Accounts and the Integrated Balance Sheet Accounts.

2.1 Two building blocks

IP&L Accounts are impact-weighted accounts that contain all pertinent information regarding an organisation's impact over a designated period. They offer a comprehensive overview of "all impacts of the organisation", providing a more nuanced understanding of the broader positive and negative effects on society and the environment. On the other hand, the Integrated Balance Sheet Accounts, present historical impact data but also incorporate insights into potential future impacts and associated responsibilities, offering a forward-looking perspective.

This document delves specifically into the IP&L approach to making IWAs given its advanced maturity in providing a comprehensive and effective method for assessing and reporting an organisation's societal and environmental contributions.

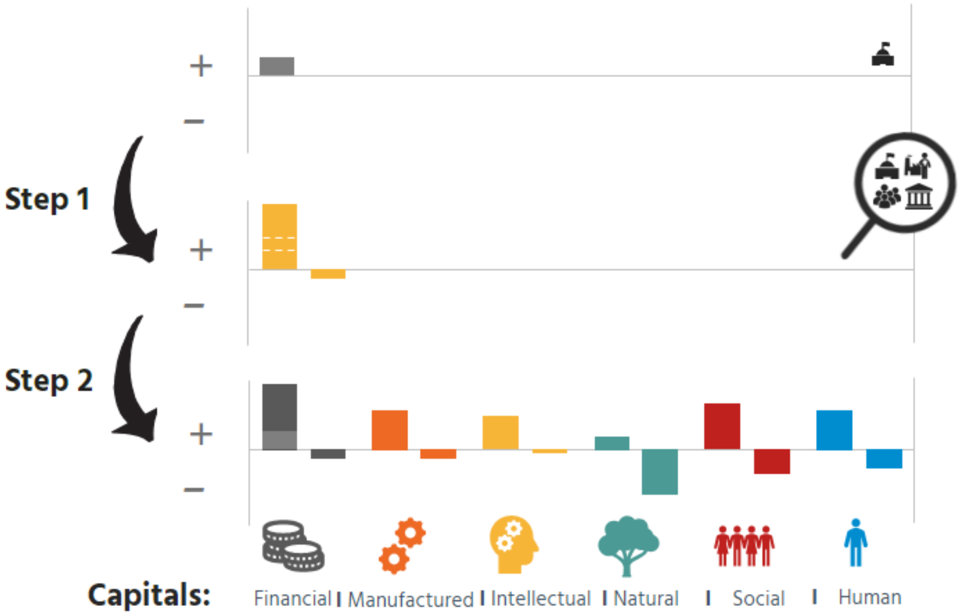
2.1.1 Integrated Profit & Loss Statement

Recognizing the opportunity to measure and report on environmental and social value and impacts, while complementing existing financial standards, IWAs strive for explicit and transparent reporting through the IP&L approach. The IP&L is an expansion of traditional concept in two key ways (Figure 2):

1. **Acknowledging Stakeholder Value**: The IP&L approach goes beyond the conventional focus on investors and recognizes the value created for all relevant stakeholders of the reporting organization— including clients, employees, and society at large.
2. **Encompassing Financial and Social Value:** The IP&L approach takes into account both financial and social value creation. This embraces the concept of double materiality, recognizing that impacts extend beyond immediate financial impacts and emphasizes the interconnected nature of environmental and societal impacts with business activities.

The IP&L approach includes the value in the form of the six so-called capitals, following the categorisation of the International <IR> Framework [3]. Most of the statements in IWAs follow the IP&L approach, ensuring a thorough and consistent impact assessment that considers all capitals and stakeholders in a company's ecosystem. Importantly, this approach prevents netting of impacts, enabling a clear distinction between the negative and positive impacts of an organisation's activities.

Figure 2: From a Traditional Profit & Loss Statement to the Integrated Profit & Loss.



Beyond enhancing understanding of overall value creation and promoting transparency, IWAs contribute to better decision-making. By presenting information in monetary terms, IWAs empower organizations and investors alike, as the information is communicated in a comparable language.

Stakeholders equipped with a complete picture of the organisation's value creation model in every area can also better identify interrelations between those areas, and anticipate the organisation's current value and long-term value creation potential. IWAs transcend mere sustainability risks, providing a holistic account of overall value and impact – encompassing positive and negative, direct and indirect, as well as absolute and marginal impacts.

2.2 Innovation and rigour

The adoption of the Impact Weighted Accounts Framework (IWAF) represents an innovative and rigorous accounting approach essential for the realization of an impact-driven enterprise - a market economy that provides the values, information and incentives to optimise the common good. It empowers individuals to pursue their own preferences, ideas and projects while simultaneously making positive contributions to society and the environment.1 IWAs, ensure that every organisation fully comprehends the societal and environmental consequences of its activities. Through this comprehensive understanding, IWAs facilitate responsible decision-making that align organizational pursuits with broader goals of societal and environmental well-being.

2.3 Expand on current practices

The ongoing discourse surrounding the quality and reliability of sustainability information provided by organizations, as well as the quest for the ideal set of corporate disclosure standards, fuels a dynamic debate. IWAF builds upon this discussion and on the advances made by widely-used reporting standards,

[1] https://impacteconomyfoundation.org/ [18]

most notably the GRI Sustainability Reporting Standards, the SASB (Sustainability Accounting Standards Board) Standards and the IIRC Framework.2

The main differences among these standards lie in their scope, applicability across sectors, geographies, organizational sizes, and target audiences, influencing the materiality of issues they cover. The consecutive documents, including the Conceptual Framework and the IWAF itself, articulate the principles and definitions guiding the Impact-Weighted Accounts (IWAs). IWAs combine double materiality3 with monetary valuation of impacts where possible, with a notable emphasis on investors as an important target group. In this respect, the IWAF aligns with the mandated requirements of the European Commission on double materiality and reporting on negative impacts, as proposed in the CSRD.

IWAs provide comprehensive information that can either serve as a stand-alone sustainability report or complement existing sustainability reports. Their distinct approach to reporting sets them apart from traditional methods. While conventional reports primarily examine an organization's value creation model through the lens of inputs and outputs, IWAs transcend this narrow view. They go beyond the internal processes of a company and explicitly consider the impacts generated by its activities on the external environment, encompassing nature, society, and the broader ecosystem. This expanded perspective provides a more holistic understanding of an organization's influence, emphasizing the interconnectedness between its operations and the external world.

2.4 Sources of inspiration

The IWAF draws inspiration from multiple sources, notably building upon the Impact-Weighted Account Project of the Harvard Business School [21], and leveraging the Framework for Impact Statements developed by Impact Institute [1]. It stands as an innovative step for sustainability reporting who have already mastered the GRI Standards [2], the six capitals defined in the IIRC Framework [3], and the Equator Principles [4]. The Framework also recognises the currently adopted impact reporting frameworks, such as IRIS+ [5], IMP [6], Capital Coalitions [7] and SDG reporting [8] and the goals outlined by the Principles for Responsible Investment [22], the UNEPFI's Principles for Responsible Banking [23] and the Value Balancing Alliance [24]. These standards and frameworks collectively contribute to global sustainability commitments, such as the Paris agreement [9] and the SDGs [25].

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

[3] Double materiality means that organisations have to report about how sustainability issues affect their business and about their own impact on people and the environment. Source: European Commission. (2021). Questions and answers: Corporate Sustainability Reporting Directive proposal [20].

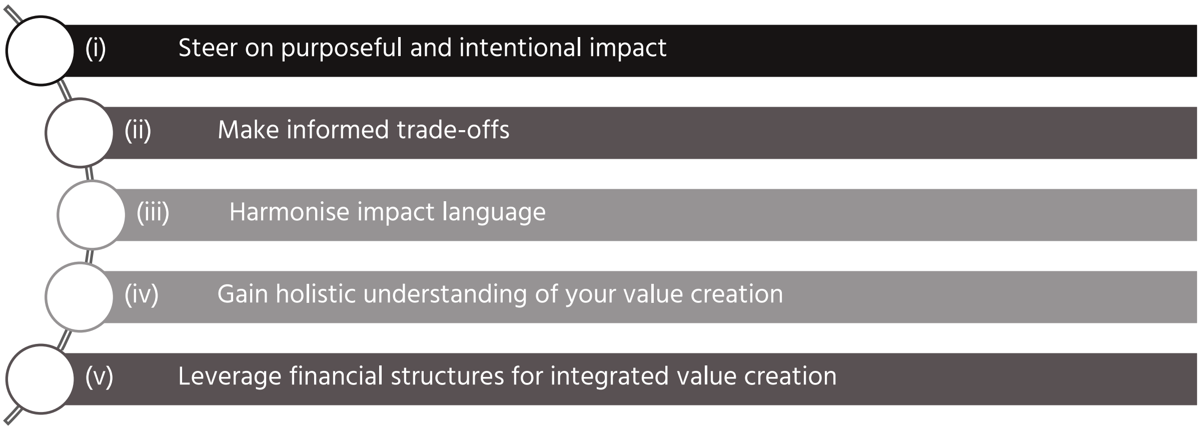
3 Benefits of Impact Accounting

3.1 Benefits to different stakeholders

The preceding discussion underscores the societal imperative for Impact-Weighted Accounts (IWAs). Beyond fulfilling these societal needs, it's essential to recognise that the advantages of Impact Accounting extend across a broad spectrum, providing significant benefits to various stakeholders, including reporting organisations and investors, thus establishing a solid business case.

Adopting the Impact-Weighted Accounts Framework (IWAF) empowers organisations to unlock notable benefits, strategically enabling them to navigate the complexities of today's business landscape with clear focus and intention. Importantly, the implementation of IWAs goes beyond mere compliance; it is a fundamental step towards transforming into an impact enterprise. This transformation facilitates organisations in making substantial contributions towards the well-being of all stakeholders, aligning their operations with the wider interests of society and the environment, while bolstering their own strategic clarity and purpose.

3.1.1 Impact-firstF benefits



i. Steer on purposeful and intentional impact.

Assessing the effectiveness of a company's contributions to societal welfare, including stakeholders' rights and wellbeing, is a primary objective. The Impact-Weighted Accounts Framework (IWAF) offers a precise tool designed for managing and evaluating the impact of its activities in this regard. Unlike the commonly used input/output approach in integrated reporting, which primarily focuses on resource allocation and productivity, IWAF directs attention to the broader consequences of organizational actions on societal and environmental welfare. For instance, while input indicators can track the resources allocated to environmental initiatives and output indicators can measure the resulting reductions in greenhouse gas emissions, impact indicators assess the long-term improvements on the health of the surrounding community as a result of the initiative carried out. Additionally, IWAF's reference scenarios unlock the benefit of purposeful and intentional strategies by providing companies with comparative insights into their environmental and social impacts against industry averages and a "no activity" scenario. This comparative analysis enables companies to identify areas where they are underperforming or excelling relative to industry averages and to assess the potential consequences of inaction. By understanding their position in relation to these reference scenarios, companies can adjust their strategies to align with social and environmental goals.

ii. Make informed trade-offs

The second benefit of impact accounting with IWAF is its ability to facilitate trade-offs. Through the monetary valuation of impacts, IWAF allows for comparisons and prioritization based on a commensurable unit. This means organizations can more effectively assess the relative importance of each options based on their impacts, and allocate resources accordingly. For example, organizations can compare the implications of reducing water usage versus reducing carbon emissions and make decisions that optimize the overall contribution to stakeholders' welfare. This enables organizations to allocate resources effectively, aligning their actions with their broader mission and objectives while optimizing their impact on stakeholders and the environment.

iii. Harmonise impact language

The comparability of impacts, facilitated by the monetary valuation of impacts, serves as a central element in enhancing communication among various stakeholders. With IWAF, impacts are harmonised into a common unit: euros, enabling stakeholders, including leadership, to effectively exchange information and engage in meaningful dialogue. By translating impacts into monetary terms, IWAF provides a clear and understandable framework for discussing and evaluating the effects of organizational activities. This comparability fosters transparency, enhances dialogue, and enables stakeholders to more effectively collaborate and align their efforts towards common goals.

iv. Gain holistic understanding of your value creation

Another key benefit of Impact Accounting lies in its comprehensive scope, which encompasses the creation of value across six capitals—intellectual, manufactured, financial, human, social, and environmental—for all key stakeholder groups, along the entire value chain. This holistic overview of value creation is articulated through an Integrated Profit & Loss (IP&L) statement, which highlights the interrelatedness between financial value creation and societal impact. For example, consider the evaluation of two projects: Project A might offer a higher financial return but at the same time incurs greater negative impacts on natural and human capital compared to Project B. This integrated view on value creation may shift the preference towards Project B, despite its lower financial return, when traditional financial accounting would have favoured Project A based solely on monetary gain. This example demonstrates how Impact Accounting enables companies to understand the holistic model of value creation, recognising that financial value and social impact are intrinsically interconnected.

v. Leverage financial structures for integrated value creation

The maturity and success of financial infrastructures in governing nearly every aspect of an organization underscore the importance of integrating sustainability information into these established frameworks. By seamlessly incorporating sustainability metrics, quantified through the monetary valuation of impacts, into existing financial management systems, organizations can ensure that social value creation receives the same level of attention and rigor as its financial counterpart. This approach streamlines the process of reporting and managing social value creation with the same level of priority and thoroughness as financial value creation. Ultimately, this integration enables organizations to effectively balance financial objectives with sustainability goals, driving holistic decision-making and responsible corporate practices.

3.1.2 Benefits from a financial materiality perspective

(i) Identify future opportunities

(ii) Mitigate risks and stay ahead of future regulations

(v) Exceed in transparency expectations

i. Identify Future Opportunities

Forecasting with a focus on broad value creation is imperative for identifying business opportunities that may not initially appear attractive solely from a financial standpoint. This approach is particularly crucial given the ongoing transitions in major sectors towards more sustainable modes of operation. Understanding the value implications of these transitions provides organizations with a distinct first-mover advantage. For instance, by comprehensively measuring and reporting on impacts across the entire value chain using IWAF, companies can gain insights into emerging trends and areas where impactful initiatives can be developed. Failure to grasp these opportunities can result in significant consequences. Executives who lack a sufficient understanding of how to contribute to accelerating these transitions risk missing out on substantial business opportunities. Take, for example, the automotive industry's transition: with the phase-out of conventional internal combustion engine vehicles, there are risks of stranded assets. Companies that fail to anticipate and adapt to this transition may face financial losses, stranded assets and operational challenges. Therefore, leveraging frameworks like IWAF is crucial for executives to stay ahead of the curve, identify emerging opportunities, and navigate transitions effectively, ensuring long-term sustainability and competitiveness in rapidly changing markets.

ii. Mitigate risks and stay ahead of future regulations.

With impact accounting, companies quantitatively measure, value, report and manage impacts across their entire value chain, from sourcing raw material to production, distribution and beyond. By quantifying and disclosing these impacts, the companies gain a comprehensive understanding of how their operations affect the welfare of society and identify negative externalities – unintended consequences that affect third parties, such as pollution, resource depletion or social inequalities. Not only do these negative externalities create significant reputation risks, there is a growing body of evidence suggesting that externalities will be internalized, resulting in heightened business costs or even, companies losing their license to operate. Factors driving this internalization may include regulatory measures (e.g., CSRD, CSRDDD, EU-ETS), taxation (e.g., carbon tax), advancements in technology (e.g., electrification, automation), or shifts in customer preferences (e.g., plant based diets). Remaining aware of these potential risks associated with their impacts, thanks to IWAF, companies can take proactive measures to mitigate them. This awareness empowers companies to take responsible actions to minimize negative impacts, enhance their sustainability performance, and maintain their social license to operate.

iii. Exceed in transparency expectations

IWAF ensures transparency and credibility in reporting by mandating a rights-based materiality assessment, preventing greenwashing through the "no netting" principle, and aligning with the standards of the Corporate Sustainability Reporting Directive (CSRD). This holistic approach ensures comprehensive evaluation of human rights impacts, prohibits the masking of negative impacts, and guarantees adherence to established transparency guidelines, collectively fostering trust and accountability in sustainability reporting. By establishing itself as an impact management tool, IWAF guides organizations in managing their impacts, moving from transparency to transformation. Impact accounting with IWAF emerges as the unparalleled choice for organizations committed to making a tangible difference, bolstering corporate reputation, securing social license to operate, and attracting future talent aligned with their values and mission.

With the aforementioned benefits unlocked through IWAF, companies seamlessly integrate impact management into their decision-making processes, ensuring a harmonious balance between financial objectives and sustainability goals. This fosters a purpose-driven approach to business practices, bringing them closer to embodying the principles of an impact enterprise.

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

(i) Allow impact-first investment decision-making

(ii) Performance benchmarking

(iii) Understand long-term value creation and financial viability

(iv) Assess the likelihood and speed of internalisation

(v) Benefit from heightened transparency of potential long-term risks

i. Allow impact-first investment decision-making.

Investors benefit from IWAF's monetary valuation of impacts, streamlining communication across various stakeholders and aiding investors in comprehending not only financial but also social, human, and natural value creation. By seamlessly integrating impact considerations into existing financial infrastructure, IWAF ensures that investors can make informed investment decisions. It allows investors to not only manage their portfolio based on financial return on investment, but instead on a quantified and valued Impact return on investment. This integrated approach aligns with investors' commonly used language, providing a clearer understanding of the organization's holistic impact strategy, fostering purposeful and intentional investment choices in alignment with sustainability goals.

ii. Performance Benchmarking

The IWAF's standardized framework, which quantifies impacts in monetary terms, significantly enhances investors' ability to benchmark sustainability performance. By providing a clear, comparable measure of impacts, IWAF enables investors to make more informed comparisons and decisions. This, in turn, helps in fine-tuning investment strategies based on robust, reliable data, ultimately optimizing returns while promoting sustainable practices.

iii. Understand long-term value creation and financial viability

In an era where sustainability is a focal point for investors, IWAF empowers them to comprehend the long-term value created by the organization. Unlike traditional reporting frameworks, the Impact-Weighted Accounts Framework (IWAF) stands out by uniquely incorporating sustainability and social impacts directly into financial evaluations. This integration is achieved through the monetary valuation of impacts, assigning a tangible financial value to social and environmental contributions. IWAF uniquely caters to modern investors' demands by aligning with their growing expectation for transparency around the sustainability and ethical implications of their investments. It facilitates a deeper comprehension of how a company's strategic alignment with sustainability goals can influence its long-term viability and risk profile. This integrated perspective, which blends financial performance with social and environmental impact, positions IWAF distinctly in the market, offering a revolutionary tool that informs more responsible, informed, and forward-looking investment decisions.

iv. Assess likelihood and speed of internalization

IWAF offers investors a unique insight into the potential internalization of impacts by the concerned organization. By understanding the relative size of negative social, human or natural impacts, investors can gauge the likelihood and speed of internalization. This information is crucial for investors to assess transition and reputation risks of portfolio companies.

v. Benefit from heightened transparency of potential long-term risks

Investors benefit significantly from the heightened transparency that IWAF provides to companies. IWAF's framework requires organizations to comprehensively assess and report their societal and environmental impacts, including the integration of these impacts into their core business operations. This level of transparency allows investors to gain deeper insights into how companies manage and prioritize sustainability within their operations. With this increased transparency, investors can make more informed decisions about where to allocate their capital. They can identify companies that not only report on their impacts but also actively manage and mitigate risks associated with environmental and social issues. This helps investors align their investments with their values and risk preferences, supporting the growth of sustainable and responsible businesses.

In summary, IWAF's unique value proposition, rooted in the monetary valuation of sustainability-related topics equips investors with quantifiable data, facilitates their seamless integration into financial analyses, supports risk mitigation, aligns with investor language and priorities, and provides a holistic understanding of an organization's impact. This comprehensive approach empowers investors to make more informed impact investment decisions.

3.1.4 For other stakeholders

For other stakeholders including clients, employees, governments, NGOs, society at large, environment, IWAs provide insights into value creation for all parties involved. In addition, these stakeholders can engage organisations or the public sector to promote and propel toward greater and more equitable value creation.

3.2 Realising IWAs' benefits

The IWAF's purpose is to guide organisations to create IWAs and enable them to materialise the benefits listed above. The Impact Institute has recently developed a set of standardized impact statements [1], akin to widely applied financial statements. The current effort is to expand on these statements with a framework that helps organisations to explore creating their own IWAs. Impact statements provide the information organisations need to manage their impact, as well as the information their stakeholders need to assess this impact.

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

This process will eventually lead to external disclosure [21], starting with organisations that do better than average in declaring their IWAs. This will serve as a signal that organisations not doing so may be concealing important information, as explored further in the Supporting Argumentation of the Framework.

The clear goal should be to reduce all negative impacts to zero over time: any negative figure is unacceptable in a long-term timeframe. Negative impacts must be remediated and restored, and stakeholders need to be compensated. The impact balance of each impact theme should be positive over time.

3.3 Why value impacts (monetarily)?

The adoption of monetary valuation within the Impact-Weighted Accounts Framework (IWAF) presents compelling advantages, marking a significant stride towards integrating sustainability into core business practices. This approach transforms the abstract nature of social and environmental impacts into concrete, comparable and understandable terms, enhancing strategic clarity and enabling more informed decision-making. While it is true that translating complex impacts into monetary values can pose ethical and methodological challenges, these issues highlight opportunities for innovation and refinement in the realm of impact measurement. The IWAF's approach to not monetizing certain sensitive impacts, like the loss of dignity from forced labor, reflects a thoughtful consideration of ethical boundaries and the complexities inherent in impact valuation. This restraint does not undermine the framework's value; instead, it underscores the importance of developing nuanced and respectful methodologies. Where direct monetary valuation is less appropriate, alternative metrics such as scores or ratings can provide vital insights, enriching the overall understanding of an organisation's impact.

Embracing monetary valuation is pivotal in seamlessly integrating sustainability into the very fabric of business operations, directly affecting the bottom line. This approach not only aligns with but reinforces the importance of embedding sustainable practices into core business objectives, ensuring that social and environmental considerations are not peripheral but central to corporate decision-making. This shift towards integrating monetary valuation of impacts signifies a transformative step towards sustainable business practices that are deeply embedded in the strategic outlook of every forward-thinking organization.

Some of the key advantages include:

1. **Comparability of Impacts:** Assigning a monetary value to social and environmental impacts facilitates comparability across different types and scales of impacts. This comparability allows organisations and stakeholders to make better-informed trade-offs between different operational decisions and strategies, ensuring more effective allocation of resources.
2. **Strategic Prioritisation of Initiatives:** The valuation of impacts in monetary terms aids in the strategic prioritisation of initiatives, guiding organisations to focus on optimising positive impacts or minimising negative ones. This approach ensures that sustainability efforts are not just well-intentioned but are also strategically aligned with the organisation's goals and resources, maximising overall impact.
3. **Harmonised Impact Language:** Valuing impacts in monetary terms creates a harmonised language of impact that can be universally understood, across sectors, business units and geographies. This standardisation aids in clearer communication and understanding amongst stakeholders, investors, policymakers, and the public, enabling a more unified approach to addressing sustainability challenges.
4. **Leverage Mature Financial Infrastructure:** By valuing impacts in monetary terms, organisations can leverage the mature infrastructure of financial reporting, control, and management. This

integration allows for a more streamlined approach to managing and reporting on impacts, aligning them with traditional financial performance indicators and facilitating integrated decision-making and strategy development.

IWAF proposes ways to make the monetary valuation process as objective, reliable, and science based as possible, for example, by using globally accepted sources as references.

4 Journey of compiling Impact-Weighted Accounts

4.1 Practical progress on making IWAs

Dozens of organisations are already experimenting with IWAs. Many of these are included in a list compiled by Harvard Business School (2021) [28], [29]. The Framework for Impact Statements, a normative reference for the IWAF, has been successfully implemented by many organisations, from large to smaller entities, across the world. In addition, publications by the Impact-Weighted Accounts Project have assessed impact from an outside-in perspective. These include the product-level impacts of the two largest automobile manufacturers in the world [30], and employment related impacts for eight large US-based firms [31], further refining elements of this IWAF. While many organizations, including those referenced in the list, face challenges in compiling full IWAs, the goal is to provide them with extra guidance and inspiration.

4.2 A note on time investments in compiling IWAs

"Rome was not built in a day", and neither are IWAs. We acknowledge that compiling IWAs can be a time- and resource-demanding process, analogous to the demanding nature of creating financial counterparts. IWAs have a wider scope than financial statements, although a lower level of precision is typically allowed: for example, many impacts must be estimated, while financial figures need to be built bottom-up from the underlying transactions. Data availability is an important driver of the required time and is a potential blocker for obtaining an overview of an organisation's value creation. However, limited data availability does not always mean an organisation cannot broadly estimate its impact or fulfil datapoints in a limited timeframe. The Guidance document (Section 4.3.3) offers some solutions for overcoming challenges, such as a reversed data strategy, hotspot analysis and gap-filling.

4.3 The impact journey

The initial time investment required by a reporting organization to create its Impact-Weighted Accounts (IWAs) depends on its prior experience with sustainability reporting, as well as its understanding, prioritization, and scoping of impacts. It also hinges on the data already available and the data that still needs to be collected.

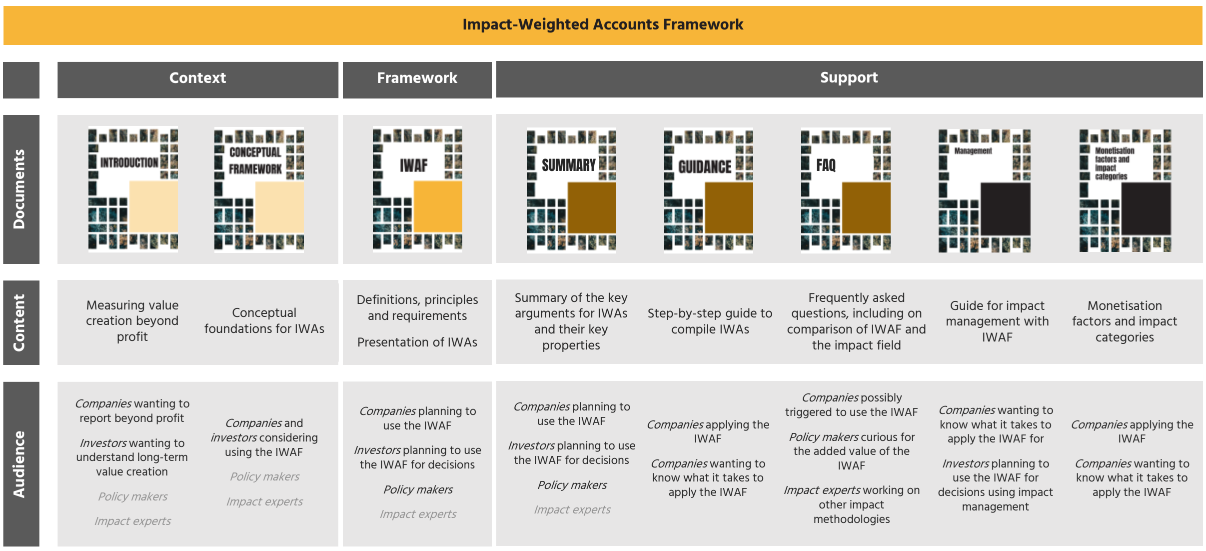
Typically, organizations must undergo a phased process, referred to as the "impact journey," to manage impacts according to their purpose and goals. This journey spans several years and usually commences with identifying internal challenges within their operations and value chain partners. Addressing these challenges involves understanding their dependencies through impact measurement, leading to small-scale internal reporting and decision-making. As the organization comprehends the implications of impact measurement and reporting, it evolves to a state where thinking about impact becomes central to its operations. IWAs are pertinent to organizations dedicated to long-term value creation, providing support at all stages of the impact journey. The framework accommodates organizations proceeding at their own pace, with the requirements not viewed as "all or nothing." Regardless of their starting point, organizations are encouraged to utilize framework elements for internal reporting and decision-making, taking the initial step toward broader external application.

Eventually, organisations work towards the envisaged end-state of applying IWAs – as outlined in the IWAF. Additionally, we envision to inspire and enable policy makers and regulators to facilitate the transformation towards an Impact Economy. The IEF and partners have prepared a set of documents to guide companies in understanding and applying IWAs.

> ***Not everything that can be measured, counts; and not everything that counts can be measured.***
>
> ***IWAF calls for a paradigm of at least attempting to measure all that should be valued. In the end, long-term stakeholder value is an important measure of success for both organisations and the entire economy.***

4.4 Reading guide

Figure 3: An overview of the different documents within the Impact-Weighted Accounts Framework. This document is the Introduction to the Impact-Weighted Accounts Framework.



IWAF consists of a set of 7 core documents (Figure 3) with each a different purpose:

- The Conceptual Framework provides the conceptual foundations for IWAs
- The Framework itself gives the definitions, principles and requirements that IWAF applies
- The Summary document summarizes the main benefits of IWAF and targets a broad audience
- The Guidance document is a step-by-step guide for applying IWAs
- The Guide for Impact Management with IWAF provides the toolkit for impact management

- 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.

Index – IWAF abbreviations

Abbreviations not used in headings

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

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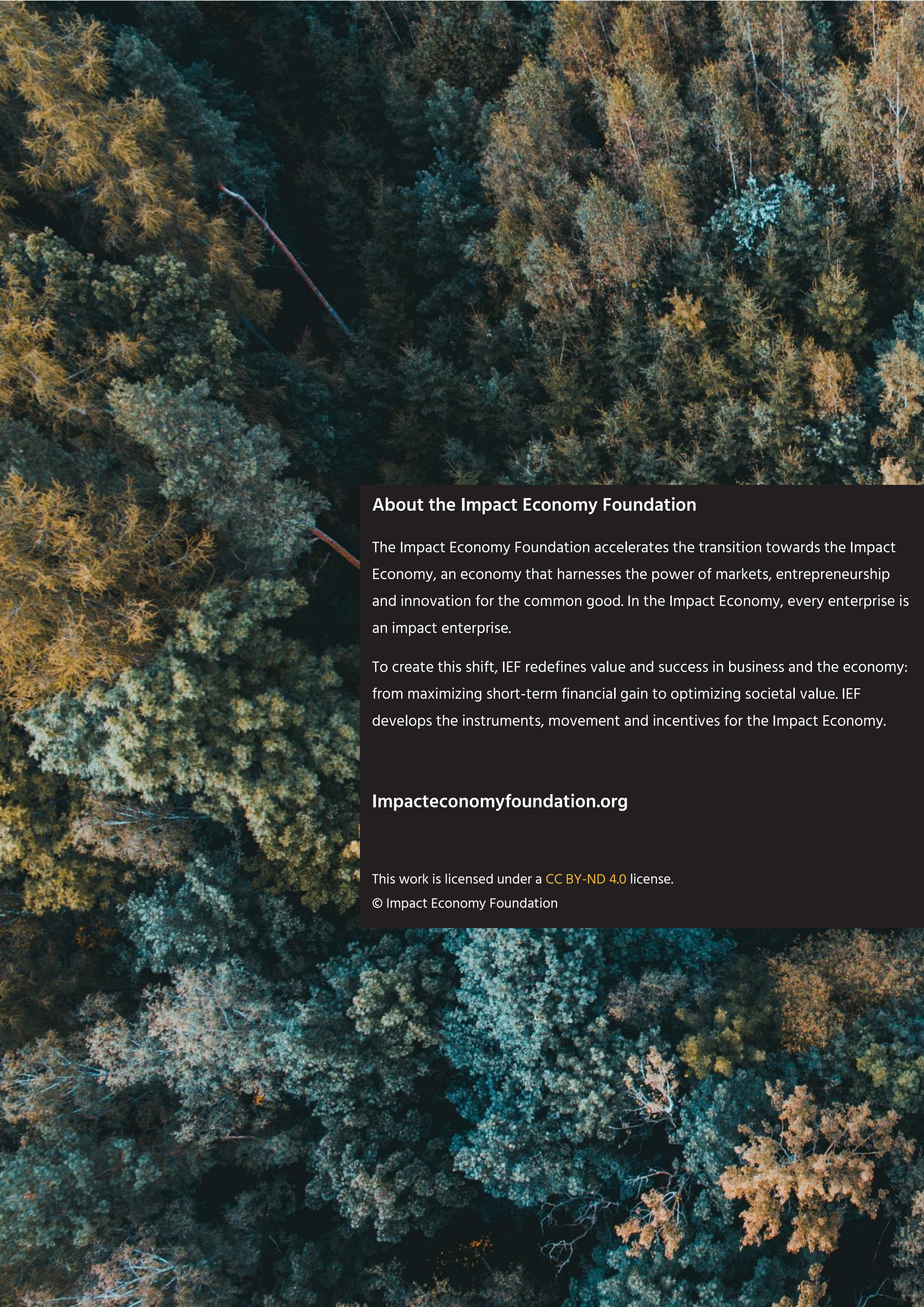
About the Impact Economy Foundation

The Impact Economy Foundation is led by a strong board of 9 members. The board is supported by an experienced advisory and academic council.



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