



# CONCEPTUAL FRAMEWORK FOR IMPACT ACCOUNTING

*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 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.



**Harvard**  
**Business**  
**School**



Impact-Weighted Accounts Framework								
	Context		Framework	Support				
Documents								
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	<i>Companies wanting to report beyond profit</i> <i>Investors wanting to understand long-term value creation</i> <i>Policy makers</i> <i>Impact experts</i>	<i>Companies and investors considering using the IWAF</i> <i>Policy makers</i> <i>Impact experts</i>	<i>Companies planning to use the IWAF</i> <i>Investors planning to use the IWAF for decisions</i> <i>Policy makers</i> <i>Impact experts</i>	<i>Companies planning to use the IWAF</i> <i>Investors planning to use the IWAF for decisions</i> <i>Policy makers</i> <i>Impact experts</i>	<i>Companies applying the IWAF</i> <i>Companies wanting to know what it takes to apply the IWAF</i>	<i>Companies possibly triggered to use the IWAF</i> <i>Policy makers curious for the added value of the IWAF</i> <i>Impact experts working on other impact methodologies</i>	<i>Companies wanting to know what it takes to apply the IWAF for</i> <i>Investors planning to use the IWAF for decisions using impact management</i>	<i>Companies applying the IWAF</i> <i>Companies wanting to know what it takes to apply the IWAF</i>

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

## Authors and Acknowledgements

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

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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

# Executive summary

## Impact-Weighted Accounts






Impact-Weighted Accounts (IWAs) are a set of comprehensive quantitative and valued accounts containing impact information about an organisation that they and their stakeholders can use to make informed integrated decisions.

IWAs consist of multiple statements, just as financial accounts do (income statement, balance sheet, etc.). All line items in the statements are impacts, such as contribution to climate change, wellbeing of employees, increase in social cohesion, etc.

## The Impact-Weighted Accounts Framework
















The Impact-Weighted Accounts Framework (IWAF) aims to support organisations to make IWAs and contribute to the Impact Economy. The framework covers five topics to ensure these accounts inform organisations on their integrated decisions. In the literature, we see notable examples of impact assessments—but we also identify several pitfalls. These often make it difficult for current approaches to be used for actual impact management.



Topics	Related challenges
 <p><b>Identification</b></p>	<p>Impact measurement is based on assessing 1 or more impacts. The literature lists hundreds.</p> <ul style="list-style-type: none"> <li>• Practical guidance: how to get started selecting impacts for an assessment?</li> <li>• Moral guidance: what is the responsibility of an organisation—how should this affect the scoping?</li> </ul>
 <p><b>Measurement</b></p>	<p>Without measurement, organisations can only make very limited claims about the size of impact and therefore only make intuitive decisions.</p> <ul style="list-style-type: none"> <li>• How to get started measuring impacts?</li> <li>• Impact is defined as the difference an organisation makes: but the difference as compared to what?</li> </ul>
 <p><b>Comparability</b></p>	<p>Impacts are naturally expressed in wildly divergent units:</p> <ul style="list-style-type: none"> <li>• How to get meaningful insights on their relative sizes?</li> <li>• Some units are naturally expressed in monetary units: these risk being prioritised in decision-making.</li> </ul>
 <p><b>Aggregation</b></p>	<ul style="list-style-type: none"> <li>• Lack of aggregation—it is difficult to make meaningful claims on total performance based on dozens of impact numbers.</li> <li>• Over-aggregation—a single total impact metric can lead to the idea that it is OK to accept harm to some for the benefit of others. This view is problematic.</li> <li>• Incorrect aggregation— this may lead to double counting.</li> </ul>
 <p><b>Presentation</b></p>	<ul style="list-style-type: none"> <li>• Which statements to show?</li> <li>• How to relate that to “good performance” of an organisation?</li> </ul>

### Principles of the Impact-Weighted Accounts Framework

Some elements of impact measurement and valuation are straightforward, and all methods in the literature take a similar approach to them. In other cases, choices must be made where there is no clear “right” or “wrong” solution. In these cases, the IWAF gives guidance on how to move forward in a way that we believe is the most correct and consistent. These choices are articulated in principles. These principles tackle the current pitfalls and challenges of impact assessments and should therewith enable organisations to make informed decisions on impact.

Topic	Principles			
 <b>Identification</b>	 Multi-dimensional	 Materiality based	 Rights-focused	 Value chain responsibility
 <b>Measurement</b>	 Impact-pathway based	 Complete reference view		
 <b>Comparability</b>	 Valued in commensurable unit			
 <b>Aggregation</b>	 Netting consistent with rights association	 Conservation of impact		
 <b>Presentation</b>	 Statements of IWAs			

### Core building blocks of Impact-Weighted Accounts

The two key building blocks of conventional financial reporting are the profit and loss account and the balance sheet. In IWAs, both are generalised into impact versions, showing value creation or destruction in multiple forms for multiple stakeholders.

Next to the Integrated Profit & Loss (IP&L) Statement (which contains all impact information over a year), IWAs also comprise three statements (see below) that are derived from it. These do not contain new information but structure the impact information differently. Each specifically addresses an organisational goal: objectives that we believe all modern organisations should aim for.

- The Stakeholder Value Creation Statement contains information on the goal to create value to society and all its stakeholders.
- The Sustainability Statement for external costs contains information on the goal to act sustainably within planetary and social boundaries.
- The Sustainability Statement for SDG Contribution contains specific information on the goal to contribute to the Sustainable Development Goals (SDGs).

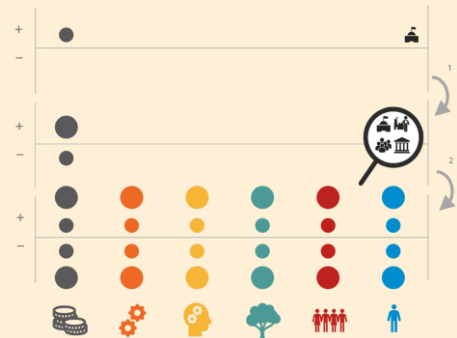


### The IP&L Statement

- Generalises the financial profit and loss account
- Shows all information about the organisation during a period (typically one year)

Instead of a single bottom line (“profit”), there are multiple bottom lines, each representing one of the impacts (spheres in the figure on the right).

### From Profit and Loss to IP&L (schematically)



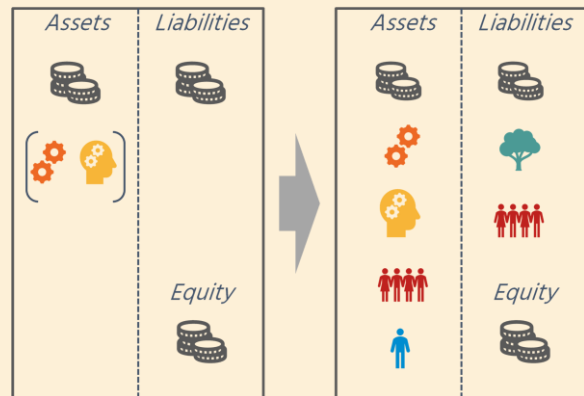
### The Integrated Balance Sheet (IBaS)<sup>1</sup>

- Generalises the financial balance sheet
- Contains information on the impact an organisation had until a certain moment (typically assessed at the end of every year)

The IBaS relates to the goal to manage value creation potential, specifically in the long term.

<sup>1</sup>As the IBaS is currently less developed than the IP&L, the IWAF does not provide specific guidance for compiling IBaS accounts and assessing it is not “compulsory” when compiling IWAs.

### From Balance Sheet to IBaS (schematically)



## The process and governance of compiling IWAs

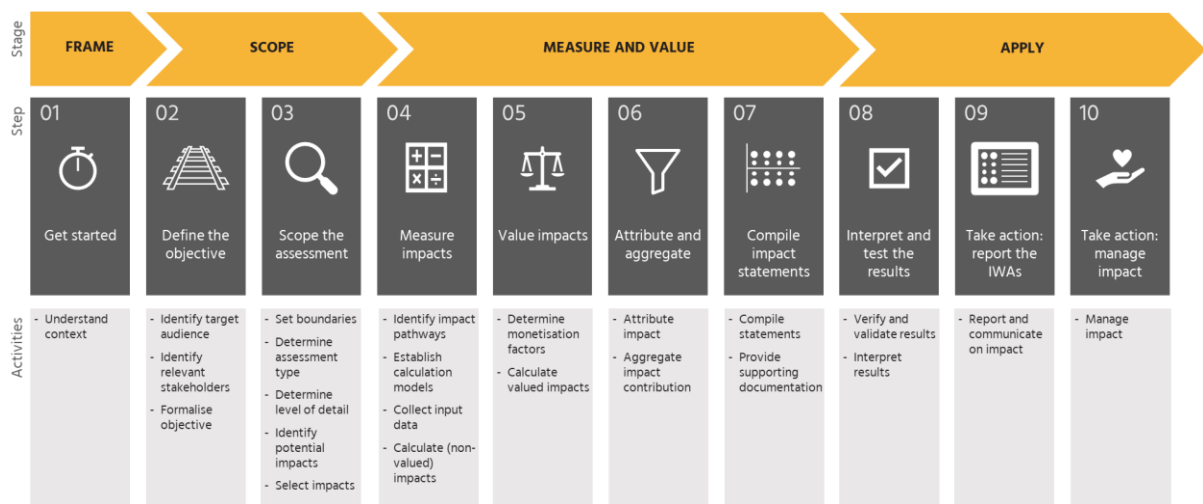
Compiling the financial accounts of an organisation cannot be done in a day. It requires work and dedication. On the other hand, when following the right process, the steps to do so are clear. The IWAF contains the steps for organisations that aim to make their IWAs. The ten-step process is adapted from the work of the Natural Capital Coalition.

This document describes what IWAs of an organisation might look like in a final state. Organisations obviously do not need to get all the way there in Year 1. An organisation is encouraged to make its own “impact journey”. For instance, an impact journey typically starts with identifying internal challenges (within an organisation’s own operations, value chain partner, etc.) and exploring ways to understand them by measuring impacts. This typically leads to small-scale internal reporting and decision-making<sup>1</sup>. Only in the next stage, it then evolves to external publication and to integration of impact to be more central in the organisation.

<sup>1</sup> For smaller steps companies can take to do part of IWAF, please see the document [A Guide to Impact Accounting](#).

If companies fall within the scope of a ESG reporting framework, especially with the CSRD in the EU and are already complying, the process of making IWAs can be pursued quicker, as many principles align and crucial processes like data collection might already be in place. With IWAF, companies can make the compiled data under CSRD actionable, moving from transparency to transformation. For successful use cases showcasing impact management with IWAF in practice, see our [website](#). Throughout this document, there is a reference to CSRD where relevant to support the journey for CSRD complying companies. Alongside these references in form of text boxes, [From Transparency to Transformation: Unlocking the Full Potential of CSRD with Impact Accounting](#) provides an elaborate overview of the relationship between IWAF and CSRD.

**Figure 2: The ten-step process in making Impact-Weighted Accounts. Adapted from the Natural Capital Protocol [1].**



## Table of Contents

Executive summary .....	iii
1. Introduction .....	1
2. Impact-Weighted Accounts in the tradition of impact assessment .....	5
3. Fundamental concepts .....	8
4. Principles for impact identification in Impact-Weighted Accounts .....	17
5. Principles for impact measurement in Impact-Weighted Accounts .....	21
6. Principle for comparability of impact in Impact-Weighted Accounts .....	26
7. Principles for aggregation of impact in Impact-Weighted Accounts .....	31
8. Presentation of impact statements in Impact-Weighted Accounts .....	37
9. Process and governance of compiling Impact-Weighted Accounts .....	46
References .....	50
Appendices .....	54
A. Relevant sources .....	55
B. General characteristics of useful impact information .....	56
C. Suggested classifications of capitals and stakeholders .....	57
D. The Impact pathway .....	61
E. Defined terms .....	64

## List of Figures

Figure 1: An overview of the different documents within the Impact-Weighted Accounts Framework	-----	<b>Error! Bookmark not defined.</b>
Figure 2: The ten-step process in making Impact-Weighted Accounts	-----	vii
Figure 3: Four types of impacts	-----	14
Figure 4: Impact pathway for direct impacts causally linked to outputs of activities	-----	23
Figure 5: Impact pathway for direct impacts causally linked to inputs of activities	-----	<b>Error! Bookmark not defined.</b>
Figure 6: Indirect impact pathway	-----	24
Figure 7: Statements of the IWAs and their relations to four organisational goals and functions	-----	42
Figure 8: The process of compiling and using IWAs in four stages	-----	47
Figure D.1: The impact pathway and its building blocks	-----	55



## List of Tables

Table 1: Types of aggregation—Impact-Weighted Accounts Framework recommendations -----	33
Table C.1: Examples of stakeholder groups-----	51
Table C.2: Examples of Financial Capital stocks and flows-----	52
Table C.3: Examples of Manufactured Capital stocks and flows -----	52
Table C.4: Examples of Intellectual Capital stocks and flows-----	53
Table C.5: Examples of Human Capital stocks and flows-----	53
Table C.6: Examples of Social Capital stocks and flows-----	54
Table C.7: Examples of Natural Capital stocks and flows-----	54
Table E.1: Glossary -----	57

Conceptual  
Framework for  
**Impact-Weighted  
Accounts**



# 1. Introduction

## What are Impact-Weighted Accounts?

- Impact-Weighted Accounts (IWAs) are a set of comprehensive quantitative and valued accounts containing impact information about an organisation that the organisation and its stakeholders can use to make informed integrated decisions.
- IWAs consist of multiple statements, just as financial accounts do (income statement, balance sheet, etc.). All line items in the statements are impacts, such as contribution to climate change, wellbeing of employees or increase in social cohesion.

## What are the Impact-Weighted Accounts Framework and its Conceptual Framework?

- The [Impact-Weighted Accounts Framework \(IWAF\)](#) provides guidance to organisations on creating their own IWAs.
- This Conceptual Framework presents the conceptual foundations underlying the IWAF.

## Relation to CSRD

The EU Corporate Sustainability Reporting Directive (CSRD) has brought forward a new era of mandatory, standardized sustainability reporting. With these new regulatory requirements, questions arise how IWAF relates to complying with such legal frameworks and CSRD in particular.

In addition to the overview given in [From Transparency to Transformation: Unlocking the Full Potential of CSRD with Impact Accounting](#), boxes like this provide the relevant context throughout this document. Per chapter, they describe how IWAF and CSRD relate, thereby supporting the journey of complying with IWAF for all companies within the scope of CSRD. Companies for which CSRD does not apply can skip these boxes.

## 1.1. Impact-Weighted Accounts<sup>2</sup>

- 1.1.1. IWAs are *a set of comprehensive quantitative and valued accounts containing impact information about an organisation*.
- 1.1.2. IWAs comprise two types of accounts: the Integrated Profit and Loss (IP&L) Account and the Integrated Balance Sheet (IBaS) Account (see Section 8.8).
- 1.1.3. The line items on the associated statements reflect the organisation's positive and negative impacts on all its stakeholders, including investors, employees, value chain partners (suppliers and

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<sup>2</sup> See [Chapter 3](#) for formal definitions of the fundamental concepts mentioned in Section 1.1.



B2B clients) specifically employees (workers in the value chain), Nature and its beneficiaries, governments and local communities, and (end-)Consumers.

- 1.1.4. IWAs provide an organisation and its stakeholders with the information required to evaluate the degree to which the organisation has realised its main organisational goals and societal functions during a given period and the degree to which it can do so in the future.
- 1.1.5. IWAs can be used to make informed integrated decisions—decisions of an organisation to act, and with that, create value for all its stakeholders.
- 1.1.6. The target audience of the IWAs are the organisation itself (senior management and relevant experts, such as reporting, strategy and sustainability experts) and all the stakeholders on which the organisation has a material impact.<sup>3</sup>
- 1.1.7. The level of completeness of IWAs is determined by the degree to which impacts, material to any of an organisation’s stakeholders, are included.

## 1.2. The case for Impact-Weighted Accounts in a nutshell

- 1.2.1. Organisations’ activities and associated value chains have a wealth of consequences. These include *intended* consequences (such as manufactured products, and consumers’ use of these products) and *unintended* consequences (such as emissions associated with production and the contribution of employment to the wellbeing of the employees).
- 1.2.2. Many of these consequences are associated with a change of things that are valued in society – the valuables —and specifically one that would not have happened in the absence of the organisation’s activities.
- 1.2.3. These impacts can be positive (associated with an increase in of valuables for a stakeholder) or negative (associated with a reduction in valuables for a stakeholder).
- 1.2.4. Organisations do report on their financial results (through balance sheets and profit and loss accounts), but historically, they do not report on their impact.
- 1.2.5. A number of companies have already started to report on impact, but do not report on impact in a holistic and comparable way.<sup>4</sup> Impact should be 1) reported consistently, and 2) fully be considered regarding type and value chain scope when making management decisions. IWAs are designed to facilitate this.
- 1.2.6. Integrated decisions can only be taken based on ‘useful’ impact information.
- 1.2.7. ‘Useful’ impact information is defined as the information that allows organisations and their stakeholders to compare and rank diverse options, according to their preferences, not only based on financial value creation for investors but also on considerations about the valuables of other stakeholders.

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<sup>3</sup> See [Section 4.3](#) for more details on the role of materiality in IWAF.

<sup>4</sup> See for example: [Harvard Business School. \(2020\). The opportunity. Harvard Business School Impact-Weighted Accounts Project](#) for a list of 56 leaders in this field [2].

To meet this purpose, useful impact information has general qualitative characteristics, shared with financial information, and various impact specific characteristics.

- The body of this document focusses on presenting and justifying impact-specific characteristics. The general characteristics are provided in [Appendix A](#).

1.2.8. Recent regulations like the CSRD<sup>5</sup> in the EU also require reporting beyond financial results and prescribe transparency on sustainability topics in an integrated and cross-company comparable way. However, due to a missing holistic view on value creation and comparability between impacts this is not enough to achieve the full potential for transparency and impact management.

### 1.3. The Impact-Weighted Accounts Framework

1.3.1. IWAs aim to close the gap between reporting on financial and long-term stakeholder value creation. They are about disclosing impact in a manner that is comparable to financial accounts. To do so, IWAs consist of a set of accounts (“the impacts”) reflecting the organisation’s positive or negative impacts on its stakeholders.

1.3.2. The overarching goal of the IWAF is to guide organisations on creating their own IWAs and to enable the materialisation of the benefits for their key stakeholders (as specified in 1.1.3, above).

1.3.3. The IWAF aims to enable organisations to analyse impact information such that it can be used for management decisions. This requires that the analysis to be of high quality and to be structured such that it provides the right insights for management.

- The main risk of IWAs is that integrated decisions are based on invalid information and result in the counter-intentional effect of value degradation for stakeholders.
- Great care should therefore be taken to ensure that the data, calculations and assumptions underlying IWAs are valid.
- A standardised approach to IWAs, as proposed in the IWAF, is essential to ensure the validity of the information included in IWAs.

1.3.4. The Impact Economy Foundation (IEF) and its partners aim to regularly publish updated versions of the IWAF. These will include the latest insights into requirements of IWAs and guidance for users. In addition, the new versions will include updated tables of suggested parameters (for instance monetary valuation factors). Organisations are encouraged to use the latest version available. If they choose to use an older version (e.g., for continuity with earlier work), they should clearly indicate this.

### 1.4. Getting started with Impact-Weighted Accounts

1.4.1. Growing the capabilities and organisational support to be able to compile, report and manage IWAs typically takes several years.

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<sup>5</sup> See the Positioning document for further argumentation how IWAF bridges CSRD gaps.



- 1.4.2. Organisations are encouraged to design their own “impact journey”.
- 1.4.3. An impact journey typically starts with identifying internal challenges (e.g., within their own operations or value chain partners). To overcome the challenge, the organisation needs to understand the challenge and its dependencies by measuring its impact that typically leads to small-scale internal reporting and decision-making.
- 1.4.4. Once the organisation understands the implication of what it gets from impact measurement and reporting, it then evolves to a state in which thinking about impact is central in the organisation.
- 1.4.5. In any stage of an organisation’s impact journey, the IWAF can serve as inspiration on how to address impact challenges. It is a flexible framework in which organisations can follow the steps at their own pace, based on their own needs. Specifically, in the first year(s) the IWAF need not be strictly followed for all steps and requirements<sup>6</sup>.

## **1.5. About this document**

- 1.5.1. This document presents the conceptual foundations underlying the IWAF.
- 1.5.2. Specific requirements and principles in the IWAF itself may supersede materials in this conceptual framework.

## **1.6. Objectives of this Conceptual Framework**

The Conceptual Framework has the following four objectives:

- To introduce and clarify the concepts underlying the IWAF  
The Conceptual Framework outlines many concepts that may be new to the user as they are novel, while some are still under development in the field of impact measurement, valuation and accounting. Others might be familiar for some users, as they have been introduced with the CSRD.
- To help users who compile and interpret IWAs to better apply the IWAF by creating understanding of the concepts, and to guide users in matters where the IWAF itself may not give an unambiguous answer
- To guide development of the IWAF itself by enabling stakeholders, users, experts and the IEF Board<sup>7</sup> to create a mutual understanding and, where possible, consensus on the foundations of the IWAF
- To enable the IEF Board to make clear and informed choices about the foundations of the IWAF and engage with stakeholders, users and experts about these choices

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<sup>6</sup> See [A Guide to Impact Accounting](#) for further guidance on the first steps.

<sup>7</sup> [www.impacteconomyfoundation.org](http://www.impacteconomyfoundation.org)

## 2. Impact-Weighted Accounts in the tradition of impact assessment

**“If I have seen further it is by standing on the shoulders of Giants.” Sir Isaac Newton, 1675**

- The IWAF is part of a rich tradition. It builds on many existing frameworks, methods and research articles on impact assessment and beyond.
- The IWAF acknowledges several pitfalls and dilemmas in the literature. It aims to address each of these as concretely as possible.
- See Chapters 4–8 for specific guidance on five key topics:



Identification

Chapter 4



Measurement

Chapter 5



Comparability

Chapter 6



Aggregation

Chapter 7



Presentation  
of statements

Chapter 8

### Relation to CSRD:

In achieving an impact economy as envisioned by IWAF, CSRD is an important step to move towards this vision. Both IWAF and CSRD are important pieces of the puzzle that should not be seen as conflicting but complementary in their application. Both are building on existing frameworks and methods which promote a holistic understanding of value creation.

While CSRD promotes the movement towards integrating societal and environmental impacts into decision-making - challenges for impact management under CSRD remain that IWAF addresses. Conversely, complying with CSRD supports the journey of creating IWAs as many principles align and crucial processes like data collection might already be in place.

See the following chapters to understand how the relation between IWAF and CSRD translates into each of the steps that IWAF follows.

### 2.1. Practices in impact assessment

- 2.1.1. The IWAF is part of a rich tradition. It builds on many existing frameworks, methods and research articles on impact assessment and beyond, and seeks continuity with existing conventions.
- 2.1.2. It aims to enable its users to compile IWAs of the highest quality. To do so, principles, requirements and best practices are taken from the body of literature.
- 2.1.3. In addition, several pitfalls and dilemmas in the literature are acknowledged. The IWAF aims to address each of these as concretely as possible.



## 2.2. Topics where IWAF gives specific guidance

2.2.1. Five topics have been identified where the literature indicates that practitioners need specific guidance to make high quality impact assessments.

2.2.2. **Identification:** questions from practitioners are centred around the observation that impact measurement is based on assessing one or more impacts but that the literature lists hundreds.

- Practical guidance: how to get started selecting impacts for an assessment?
- Moral guidance: what is the responsibility of an organisation—how should this affect the scoping (selection of impacts)?

See [Chapter 4](#) for discussion.

2.2.3. **Measurement:** without measurement, organisations can only make extremely limited claims about the size of impacts, and they cannot be used to make decisions beyond the intuitive level.

Questions from practitioners centred on:

- How to start measuring impacts?
- What should be compared? Impact is defined with respect to a reference (see Chapter 3), but how should a proper reference be selected, and could there be even one unique such reference?

See [Chapter 5](#) for discussion.

2.2.4. **Comparability:** impacts are naturally expressed in wildly divergent units. This leads to the following questions from practitioners:

- How to get meaningful insights on the relative sizes of impacts?
- How to ensure impartial consideration to all impacts in decision-making? Specifically, some impacts are naturally expressed in monetary units, with these risks being prioritised.

See [Chapter 6](#) for discussion.

2.2.5. **Aggregation:** An impact assessment may include dozens of impacts. To make useful management information, some aggregation is necessary. Practitioners raise the following questions:

- To what level should impacts be aggregated? Lack of aggregation leads to difficulty with making meaningful impact claims.
- How to prevent over-aggregation? A single total impact metric can lead to the erroneous idea that a situation with harm to some is acceptable if it coincides with a (larger) benefit of others.

See [Chapter 7](#) for discussion.

2.2.6. **Presentation of statements:** IWAs consist of multiple statements, just as financial accounts (income statement, balance sheet, etc.) do. Practitioners have questions concerning:

- Which statements to show?
- How to relate that to “good performance” of an organisation (i.e., the organisational goals and functions)?

See [Chapter 8](#) for discussion.

## 2.3. References<sup>8</sup>

2.3.1. References that have strongly influenced this framework are:<sup>9</sup>

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- International Integrated Reporting Council. (2021). International <IR> Framework. [17]

2.3.2. Other relevant references are given in [Appendix A](#).

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<sup>8</sup> The relation of IWAF and its complementary documents to these references is covered in more detail in the document [IWAF—Frequently Asked Questions](#).

<sup>9</sup> All these references are “informative references”. As the field of impact measurement, valuation and accounting is still at an early stage and rapidly evolving, and the status of various documents and organisations are subject to change, it has been decided not to include references with the status of “normative references”.



### 3. Fundamental concepts

#### Impact

- *Impact* is the central element of IWAs.
- Impact is defined as the change in a valuable and measurable outcome that affects the welfare of an organisation's stakeholders with respect to a reference scenario during a given timeframe.
- Impact can be positive or negative; absolute or marginal; direct or indirect (from the perspective of the organisation in scope); and intended or unintended.

#### Stakeholders, capitals, and valuables

- Organisations can have impact on different stakeholders (e.g., employees and Nature and its beneficiaries), in the form of different capitals (e.g., Financial Capital and Human Capital).
- Thereby, they can affect different valuables of stakeholders, such as wellbeing or the state of nature.
- IWAs explicitly monitor impact on these items.

#### Relation to CSRD:

Reporting on negative and positive impacts of an organization lies at the core of CSRD, constituting a shared key element with IWAs. Besides having impact as key concept, IWA and CSRD are both stakeholder-based and rely on the collection of relevant, empirical data, which will have a huge overlap.

However, the regulatory provisions focus on transparency rather than guidance for valuable impact measurement and management. The fundamental concepts introduced in this chapter address the latter, thereby complementing the requirements of CSRD. More precisely, IWA goes beyond CSRD with the concepts of valuables and capital stocks and flows. While being distinct from what CSRD prescribes, they do not pose a conflict with the regulatory standard but rather add to a more thorough and holistic understanding of value creation and impact, thereby facilitating impact management.

#### 3.1. Stakeholders

- 3.1.1. **Stakeholders** are individuals (or entities) affected by an organisation's business activities, as well as the individuals who can affect an organisation's value creation ability.
- 3.1.2. Stakeholders can often be grouped under a limited set of stakeholder groups, relative to their relationship to the organisation under assessment.

- 3.1.3. Stakeholders can include Investors, Employees, Value chain partners (suppliers and B2B clients) specifically employees (workers in the value chain), Nature and its beneficiaries, Governments and local communities, and (End-)Consumers.<sup>10</sup> See [Appendix C \(Table .1\)](#) for suggested definitions in the context of IWAs.
- 3.1.4. An organisation can determine which stakeholders to assess in its IWAs. However, it should aim to be as inclusive as possible, but ultimately it can choose to include certain stakeholders and not others (preferably, a materiality assessment will guide the prioritisation of stakeholder inclusion).

## 3.2. Valuables

- 3.2.1. In the context of IWAs, we define **valuables** broadly as that what is valued by stakeholders.
- 3.2.2. Specifying valuables is a first step in defining impact, as impacts always reflect changes in valuables. Only changes that stakeholders (strongly) care about are reflected by impacts.
- 3.2.3. While there is not an exhaustive list of what is valued in society, a starting point can be found in Life-Cycle Impact Assessment (LCIA). It defines three valuables that are associated with flows in Natural Capital, which are (1) Effects on (human) health, (2) Ecosystems (Biodiversity), and (3) Resource availability [18].
- 3.2.4. IWAf doesn't prescribe any specific valuables and acknowledges that what is valued in society can be very individual. However, human wellbeing seems to be a key category. The OECD Wellbeing framework [19] defines eleven dimensions of individual wellbeing, distinguishing between aspects that relate to either material conditions or life quality factors.
- Note that wellbeing in any case covers the LCIA categories of health and resource availability and its consequences. To the degree that biodiversity leads to ecosystem services that benefit health, that category is also covered.

A second valuable that is often recognized is a just society (e.g., reflected as the absence of violations of human rights). Other categories are the creation of spiritual value, the intrinsic value of nature, and equity and equality.

## 3.3. Capital stocks and flows

- 3.3.1. **A capital stock** is a set of related assets available for use by organisations, people, and ecosystems.
- 3.3.2. **Capital stock** can be owned by a specific stakeholder (e.g., an organisation or individual owns Financial Capital). Some capital stocks are not owned by any stakeholder but enjoyed by society-at-large (for example, the stock of clean air).
- Control of or access to capital stocks can contribute to the valuables enjoyed by a stakeholder.

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<sup>10</sup> See [Natural Capital Coalition \(2016\). Natural capital protocol principles and framework, p.26 \[1\]](#). For more potential stakeholders that can be included.



- 3.3.3. **Capital stocks** can be classified into various capitals. Capitals can be logically classified into six capitals:<sup>11</sup> Financial, Manufactured, Intellectual, Human, Social and Natural Capitals [17]. See [Appendix C](#) for more details.
- 3.3.4. **Capital flow** is the change in the quantity, quality, or ownership of any asset in the total capital stock. Capital can be increased, decreased, transformed, or transferred (between different stakeholders) through the activities of an organisation.
- IWAF focusses on capital flows that reflect a change of valuables for at least one stakeholder.
  - For example, an organisation's Financial Capital increases when it makes profit (which is valued by the organisation). Human Capital grows when, for example, employees receive training that helps them improve efficiency, move upward, or earn higher wages (all of which is valued by the organisation and the employees).

## 3.4. Impact

Definition of impact<sup>12</sup>

- 3.4.1. An **impact** is a difference in an outcome that affects the valuables of an organisation's stakeholder with respect to a reference scenario during a given timeframe. In the context of IWAF, we focus mostly on impacts that can be measured and subsequently valued explicitly.
- 3.4.2. Here, the **reference scenario** is the set of activities and related outcomes that is assumed to happen in the absence of the organisation's activities. Impacts reflect the difference in outcomes between the actual scenario (with the organisation) and the reference scenario.
- 3.4.3. Impact can be positive or negative; absolute or marginal; direct or indirect (from the perspective of the organisation in scope) and internal or external (again from the perspective of the organisation in scope).
- 3.4.4. Impact can be assessed in backward-looking (impact that an organisation has created in the past) and forward-looking (impact that an organisation forecasts it will make in the future) ways.
- 3.4.5. Impact can both be associated with outcomes that the organisation creates purposefully through their activities ('intended impacts') as well not purposefully ('unintended impacts').
- 3.4.6. A standardized list of impact categories is given in [Appendix A in the Guidance document](#).

Positive and negative impact

- 3.4.7. **Positive impact** refers to a positive change of a capital stock, or otherwise an increase in a stakeholder's valuable (as compared to the reference scenario).

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<sup>11</sup> There are also three and four capital systems. If any of these becomes dominant in the field of integrated reporting, we will update our documentation accordingly. In principle, the current methodology can already be applied to these classifications of capitals as well.

<sup>12</sup> This definition of impact relates to the use of Impact Pathways. See [Section 5.2](#) and [Appendix D](#) for details.

- For example, employment creates positive Human Capital impact for employees; salary paid creates positive Financial Capital impact for employees;<sup>13</sup> taxes paid to government creates positive Financial Capital impact for society; provision of products and services creates positive Manufactured Capital impact for Value chain partners (suppliers and B2B clients) specifically employees; training and education of employees creates positive Human Capital impact for them.<sup>14</sup>

3.4.8. **Negative impact** refers to a negative change of a capital, or otherwise a decrease in a stakeholder's valuable (as compared to the reference scenario).

- For example, environmental pollution results in negative Natural Capital impact for Nature and its beneficiaries; rights violations result in negative Social Capital impact for society; workplace health and safety incidents result in negative Human Capital impact for employees; payments for products or services are negative Financial Capital impact for Value chain partners (suppliers and B2B clients) specifically employees; use of Natural Capital stocks (e.g., water) result in negative Natural Capital impact for Nature and its beneficiaries. A loss (as opposed to a profit) at the end of the year represents negative Financial Capital for investors.

#### Association with rights violations

3.4.9. Some **impacts can be associated with (the violation of) rights**. These impacts merit special attention, both for the identification of impacts in scope (see Section 4.4.), and for netting and reporting (see Section 7.2).

- External benefits are recognised and appreciated, but there is a less strong obligation to create them. Specifically, they do not counteract negative impacts associated with rights violations.

3.4.10. In the scope of IWAF, rights refer to human rights encompass all rights discussed in the UN Universal Declaration on human rights [37], but also labour rights as expressed in the ILO Declaration on Fundamental Principles and Rights at Work [20] and rights to a safe, clean, healthy and sustainable environment as described in the UN Report (2018) of the Special Rapporteur on the issue of human rights obligations relating the enjoyment of a safe, clean, healthy and sustainable environment [38] and recognized by the UN General Assembly in 2022 [21]<sup>15</sup>

3.4.11. Violating the rights of a stakeholder is seen as problematic—even if it leads to only a limited decrease in human wellbeing.

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<sup>13</sup> In many cases, salaries paid can be seen as a positive Financial Capital impact for employees. However, ultimately it depends on context and other factors whether salaries are a positive impact. For example, how people value their time (how willing they are to exchange time for money depends, among others, on the total amount of free time they are already exchanging for money, or whether they are earning above or below a living wage) determines whether the actual salary paid is a positive impact or not.

<sup>14</sup> Examples outlined in this sub-section focus on positive absolute impact.

<sup>15</sup> See also [Impact Economy Foundation and True Price \(2020\), Principles for True Pricing \[22\]](#) on a discussion on the inclusion of these three types of rights.



- 3.4.12. Violating rights of one stakeholder can never be justified by an increase in wellbeing of another stakeholder.
- Claims such as “the pollution is acceptable as long as the company provides enough employment” should never be made based on the IWAF.

### Absolute and marginal impact

- 3.4.13. An **absolute impact** is the impact generated by an organisation’s activities as compared to a no-alternative reference scenario in which no activities occur.
- For example, a bakery’s absolute impact assumes that there are no alternative scenarios: that is, no production of bread or other food by competitors or others.
  - Positive/negative absolute impact is the impact associated with the growth/decline of capital stocks or valuables as perceived by the stakeholder relative to a no-alternative reference scenario.
  - A simple example is the financial impact “net profit” created by an organisation over the reporting year.<sup>16</sup> For absolute impact, this is compared to the no-alternative reference scenario in which the IWAF-compliant organisation is non-existent. In the reference scenario, there is no profit. Therefore, the absolute impact is simply the net profit reported in the financial statements.
- 3.4.14. A **marginal impact** is the impact generated by the organisation’s activities as compared to a scenario where alternative activities continue in the organisation’s absence.
- A plausible scenario could be an industry-level reference view or benchmark where the average activities of the industry competitors are taken.
  - For example, a bakery’s marginal reference scenario could be the production of bread in line with its average competitor in the same geographical area and could include (partial) employment of their employees in similar jobs.
  - A good initial step to find a marginal scenario would be to engage with your industry association.
  - Positive/negative marginal impact is the relative growth/decline of capital stock or valuables, perceived by the stakeholder because of the organisation’s activities compared to an alternative where specific activities occur in the organisation’s absence.
  - Note that a negative absolute impact can be a positive marginal impact. This occurs when the (negative) outcome in the activity scenario is smaller than the negative outcome of the reference scenario. As an example, if an electric vehicle emits less greenhouse gasses per mile travelled than the reference (that may include gasoline-powered cars), its marginal impact on the climate is positive.

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<sup>16</sup> Technically, the impact is the increase in wellbeing of investors through dividends and other positive uses of net profit.

- Similarly, an absolute positive impact can be a marginal negative one.

#### Direct and indirect impact and the value chain

3.4.15. A **direct impact** of an organisation is an impact caused directly by the organisation's own operations.

- Examples include salaries paid to own employees (positive direct Financial Capital impact for employees) and carbon emissions of own operations (negative direct Natural Capital impact for Nature and its beneficiaries).

3.4.16. An **indirect impact** of an organisation is an impact caused indirectly by the organisation's own operations.

- The cause of the impact is outside the organisation itself, but the activities of the organisation exert an influence on a pathway or system that causes the occurrence and/or size of that impact to change.
- In the language of the greenhouse gas protocol, indirect impacts fall under scope 2 (if they are at the suppliers of electricity, steam, heat or cooling) or scope 3 (anywhere else in the upstream or downstream supply chain).

3.4.17. An indirect impact can be generated within the value chain (**value chain impact**) or within the system (**system impact**). Value chain impact refers to impact generated within the organisation's value chain (up- and downstream) and system impact refers to impact generated outside the organisation's value chain.

- Examples of upstream value chain impact are contribution to employment (and associated salary payments) at a direct or indirect supplier (indirect Financial Capital impact for society-at-large); carbon emission from electricity generation at an electricity supplying company or at another supplier during the production of an input material (indirect Natural Capital impact for Nature and its beneficiaries).<sup>17</sup>
- Examples of downstream value chain impact are GHG emissions that occur during use of the product the organisation sells (e.g., B2B clients or consumers use vehicles), or pollution resulting from the limited end-of-life treatment of the product; both indirectly have a Natural Capital impact for Nature and its beneficiaries, and the pollution can affect the health of local communities (Human Capital);
- An example of a system impact is the reduction of violations of (human) rights at other organisations through lobbying, standard-setting or example-setting. For example, a chocolate manufacturer Tony's Chocolonely actively advocates and helped reduce child labour in the value chain of cocoa.

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<sup>17</sup> This relates to emissions in both Scope 2 and Scope 3 of the Greenhouse Gas Protocol. (Bhatia P., Ranganathan, J., & World Business Council for Sustainable Development (WBCSD). (2004). *The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)*) [23]



		Type of reference scenario	
		Absolute impact	Marginal impact
Activity by organisation in scope or not	Direct impact	Direct absolute impact	Direct Marginal impact
	Indirect impact	Indirect absolute impact	Indirect marginal impact

**Figure 3: Four types of impacts**

### Internal and external impact

- 3.4.18. An impact of an organisation is internal if it (primarily) affects that organisation and its investors.
- An example is the net profit of the organisation
- 3.4.19. An impact of an organisation is external if it (primarily) affects other stakeholders than the organisation itself.
- 3.4.20. External impacts can be ‘agreed upon’ from the perspective of the main stakeholder affected.
- Examples are Salaries and other benefits, Time invested and Value to employees arising from training and experience (all to the stakeholder group Employees), and Payments from clients and Value of products or services (all to the stakeholder group Value chain partners (suppliers and B2B clients) and (End-)Consumers).
  - The affected stakeholders are typically party to economic activity of the organization in scope (e.g., working for them, buying products for them).
  - Individually, this type of impact can be either positive or negative, but typically they are assessed as positive by the stakeholder. According to economic theory they only consent if this makes them better off.
    - If impacts are monetarily valued, they will then add to a positive value for each stakeholder
- 3.4.21. External impacts can also be ‘not agreed upon’ from the perspective of the main stakeholder affected.
- Examples are contribution to climate change (through greenhouse gas emissions), limitation to climate change (through net capture of carbon) and contribution to rights violations through the occurrence of Forced Labour
  - The affected stakeholders are typically people and communities not part of the economic activity of the organization in scope, or not sufficiently free to choose to be a party to that economic activity (e.g., due to poverty or lack of information).

- These impacts are also referred to as externalities. They can be either positive (positive externalities, or external benefits) or negative (negative externalities or external costs)
- These impacts are typically associated with the violation of rights (as described in 3.4.9), imposing an obligation on organizations to limit negative impacts both associated with their own operations as well as those of their economic partners (see also Section 4.4).

### 3.5. Impact in the context of Impact-Weighted Accounts

3.5.1. In the context of IWAs, impact is often referred to as something **quantifiable**—e.g., when referring to “an impact” or “the impacts for a stakeholder”. In this context, each of the impacts refers to a different change in outcome that affects the valuables of a stakeholder.

- Examples of impacts are contribution to climate change (negative contribution to the valuables of society at large) and the increase in wellbeing of employees associated with salary payments (positive contribution to the valuables of employees).

3.5.2. When referring to “**the impact of an organisation**”, this is understood as the set of all impacts of the organisation within all capitals on all stakeholders.

3.5.3. **IWAF—Appendix A** provides a standardised list of impacts that are relevant for the IWAs of many types of organisations. When assessing a specific organisation, additional impacts can be added depending on the operations of the organisation (and the associated outcomes).

### 3.6. Impact assessment

3.6.1. **Impact assessment** is the process that measures and projects impact of an organisation’s activities.

3.6.2. **Impact measurement** is the backward-looking process of quantitatively measuring impact to understand the past and current impact of an organisation’s activities. It is based on the collection of empirical data within the organisation as well as secondary sources.

3.6.3. **Impact projection** is the forward-looking process of quantitatively estimating impact to understand the future impact of an organisation’s activities.

### 3.7. Value creation

3.7.1. Value is created by an organisation through its business model. business activities and interactions lead to the transformation of inputs into outputs and outcomes. All of these may be valued by the organisation and its stakeholders.<sup>18</sup>

3.7.2. **Value transformation** through an activity occurs when an input of the activity is of a certain capital and the output or outcome represents a different capital.

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<sup>18</sup> See **Appendix D** for definitions of inputs, outputs, and outcomes.



- 3.7.3. **Value transfer** occurs when, during an activity, one stakeholder provides a certain form of capital as an input that ends up as an output (with associated outcome) at another stakeholder.
- Two examples of value transfer take place for the activity “sale of a product”: there is value transfer of Financial Capital from the buyer to the seller and there is value transfer of Manufactured Capital from the seller to the buyer.
- 3.7.4. **Value creation** of an activity for a specific stakeholder is a situation in which that stakeholder is better off after the occurrence of the activity, having taken all the outcomes of the activity into account (versus those of the reference activity).
- Both value transformation and value transfer can lead to value creation if the stakeholders value the outputs/outcomes more highly than the inputs they have given up.
  - An example for the stakeholder group *Value chain partners (suppliers and B2B clients) specifically employees* (with the sale of a product as the activity) is where they give up Financial Capital (payment by clients) and receive a product (Manufactured Capital) that represents a certain value to them. The value creation can be modelled through the consumer surplus.
  - An example for the stakeholder group employees (with the general activity that they are employed) is where they give up their time (representing a value in Human Capital) and receive salaries and other benefits (Financial Capital) as well as, potentially, wellbeing from work (Human Capital) and future career benefits associated with training and work experience. If the valued sum of the outcomes is larger than of the inputs, there is net value creation for them.
- 3.7.5. **Value reduction** of an activity for a specific stakeholder is a situation in which that stakeholder is worse off after the occurrence of the activity, while taking all the outcomes of the activity into account (versus those of the reference activity).
- Value transformation and value transfer can lead to value reduction if the stakeholder values the outputs/outcomes lower than the inputs they have given up. However, this is only possible if they participate in the activity unfreely, irrationally or without full information.
  - Furthermore, unintended impacts are often associated with value reduction. Environmental pollution is an example. Note that there can be outcomes for the stakeholder group Nature and its beneficiaries without there necessarily being inputs as well.
- 3.7.6. **Net value creation** of a set of impacts for a stakeholder is the aggregate value created by that set of impacts for that stakeholder.

## 4. Principles for impact identification in Impact-Weighted Accounts



### Impact identification

- For IWAs to be suitable for making management decisions on, clear guidance is required on which impacts to include in an impact.
- The IWAF provides both practical and moral guidance to practitioners.

### Practical guidance: Multi-dimensional

- Impact assessments should include multiple impacts, up to a few dozen. Each of these forms its own “bottom line”, thereby making impact statements inherently multi-dimensional.
- Organisations should consider impacts belonging to different capitals and reflecting effects on different stakeholders.



### Practical guidance: Materiality-based

- When selecting impacts, organisations should include all material impacts.
- The IWAF takes the double materiality view. Impacts are material if they either affect the organisation’s financial position or the welfare of a stakeholder group.



### Moral guidance: Rights-focused

- IWAs should assess effects that are associated with rights violations.



### Moral guidance: value chain responsibility

- The IWAF expresses the view that organisations can be (co-)responsible for impact associated with the operations of their value chain partners.
- This translates to the requirement to include both direct and indirect impact.



### Relation to CSRD

Impact identification is a joint step required for both IWAs and compliance with CSRD. They share the core concepts of double materiality and value chain responsibility. Other concepts introduced in this chapter go partially beyond what CSRD prescribes, i.e. by explicitly giving moral guidance through the rights focus as well as following a multi-dimensional approach. This means that IWAF considers multiple capitals and their respective bottom-lines in contrast to ESG as reporting categories. However, this does not contradict an alignment with CSRD.

Rather, these additional concepts provide practical and moral guidance for impact identification that can enrich how the content reported under CSRD is assessed, thereby contributing to an impact-driven mindset/application.

The position paper [“From Transparency to Transformation: Unlocking the Full Potential of CSRD with Impact Accounting”](#) shows the comparison of CSRD with IWAF in more detail.



## 4.1. Relevance of impact identification

- 4.1.1. Impact measurement is based on the assessing of one or more impacts out of hundreds that the literature may list.
- 4.1.2. Without a clear process on which impacts are to be assessed, and which ones are not, the results of impact assessment are too dependent on the person or team doing the analysis. In that case, IWAs cannot be used to take management decisions.
- 4.1.3. The IWAF provides practical guidance, answering the question how to start selecting impacts for an assessment. The principles “Multi-dimensional” and “Materiality-based” are foremost here.
- 4.1.4. Furthermore, the IWAF provides moral guidance. It answers the questions about what the responsibility of an organisation is and how this should affect the scoping (i.e., selection of impacts). The principles “Rights-focused” and “Value chain responsibility” are foremost here.

## 4.2. Principle: Multi-dimensional

- 4.2.1. As introduced in [Section 1.1](#), IWAs consist of accounts, just as financial accounts do (income statement, balance sheet, etc.).
- 4.2.2. One account can include multiple impacts (up to a few dozen). Each of these forms its own “bottom line”. This makes impact statements inherently multi-dimensional.
- 4.2.3. In the scoping phase of an impact assessment, organisations should acknowledge the multi-dimensionality by considering a wide range of potential impacts to be analysed.
- 4.2.4. In particular, organisations should assess impacts reflecting different forms of value (belonging to different capitals) and impacts that affect value for different stakeholders. This principle relates to *Principle 1: Consider all forms of capital and include all relevant capitals* from Capital Coalition (2021) [24].
- 4.2.5. [Appendix C](#) lists suggested capitals and stakeholders to assess; and [IWAF Appendix A](#) lists standard impacts to consider. Note that this list is not exhaustive.

## 4.3. Principle: Materiality-based

- 4.3.1. As discussed above, an impact assessment can include up to a few dozen impacts. These impacts need to be selected from a longer list.
- 4.3.2. Impact assessments should include all material impacts.
- 4.3.3. The IWAF embraces the **double materiality view** [25]. An impact is material if either: (i) the impact substantially affects the future earning potential of the company, or (ii) the impact materially affects the valuables of one or more (external) stakeholder groups.
- 4.3.4. An impact is assessed as material when it: (i) is material, based on empirical data, for example, it is based on scientific research or previous IWAs, or (ii) is perceived to be material by at least one of its stakeholder groups.

- 4.3.5. The longlist of impacts undergoes a prioritisation process from a multi-stakeholder perspective (See [A Guide to Impact Accounting](#)).
- 4.3.6. IWAF focuses on materiality from a multi-stakeholder perspective. For materiality related to the future earning potential of the company (i.e., financial materiality) the user is referred to other existing guidance, such as, the Sustainability Accounting Standards Board (SASB) Standards.
- 4.3.7. IWAF provides guidance on how to conduct a materiality assessment and therefore assess the relative importance of an organisation's impacts (See [A Guide to Impact Accounting, 3.4.1](#)).

#### 4.4. Principle: Rights-focused

- 4.4.1. Unlike some other impact assessments, the IWAF takes the position that an increase in aggregated human wellbeing is *not* the only thing that matters.
- 4.4.2. Based on the different kinds of impacts that an organization can have, as described in [Section 3.5](#), IWAF users should in any case assess whether impacts that relate to violations of rights apply in their case. The right-focus thus imposes a special requirement for the **scoping phase** of IWAF.
- 4.4.3. Beyond the scoping, the rights-focus also requires that negative impacts associated with rights violations should be **treated with special care in a IWAF project** – for instance, they may not be netted to other impacts (see principles on aggregation, chapter 7 of this document) and they deserve dedicated attention when reporting impact (see the presentation of impact statements in chapter 8 of this document) and managing impact.

#### 4.5. Principle: Value chain responsibility

- 4.5.1. **Value chain responsibility** is the view that some impact is the responsibility of multiple organisations in a value chain, even if the impact only occurs directly because of the operations of one of those organisations.
- The value chain of a product or service is the set of organisations that supply (intermediate) goods and services to each other to produce a finished product or final service.
  - The value chain of an organisation is the combined total of all value chains of all products and services to which an organisation contributes.
  - This value chain contains direct and indirect clients and suppliers of an organisation.
- 4.5.2. In impact assessments, value chain responsibility translates into the requirement to include both direct and indirect impact.
- Within indirect impact, organisations should specifically include value chain impact where material.<sup>19</sup>
  - The inclusion of system impact is not a requirement.

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<sup>19</sup> Whether an impact is direct or indirect is not, and should not be, a factor in determining its materiality. However, a gap between knowledge about direct and indirect impacts could introduce a bias in the materiality assessment of impacts.



4.5.3. This principle links to *Principle 2: Take into account the surrounding system and its inter-connections* of Capital Coalition (2021) [24].

## 5. Principles for impact measurement in Impact-Weighted Accounts

### Impact measurement



- Without accurately measuring the size of impacts, it is not possible to make informed management decisions.
- The IWAF guides practitioners by providing a framework to measure impacts.

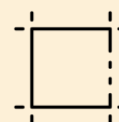
#### Principle: impact-pathway-based

- A consistent methodology to define and measure (or project) impact is through an impact pathway. The IWAF requires that these pathways are used consistently in impact assessments.



#### Principle: complete reference view

- Impact in impact pathways is defined with respect to a reference.
- Analysis of both absolute impact and marginal impact is required to make informed management decisions.
- When presenting the analysis, the IWAF requires organisations to describe the references used clearly.



### Relation to CSRD

Requiring companies to report on metrics and targets for material impacts, measuring impacts is another key aspect of CSRD that it shares with IWAF. However, methods for measurement are only provided partially (i.e., only for environmental topics), and where guidance on measurement exists, comparability across different topic is not given.

This chapter introduces concepts of IWAF that are novel in the context of CSRD, going beyond its legal requirements. More precisely, the use of impact pathways caters a consistent methodology for impact measurement across different areas. At the same time, the complete reference view adds to a holistic view of a companies' impact – not only comparing the performance with previous years and set targets (like it is done under CSRD) but also distinguishing between marginal and absolute impact of an organization.



## 5.1. Relevance of impact measurement

- 5.1.1. Without accurately measuring the size of impacts, it is not possible to make informed management decisions. The IWAF therefore aims to give guidance by providing a framework to measure impacts.
- 5.1.2. The IWAF posits that impacts can be consistently measured using the impact pathway logic. This is reflected in the impact pathway principle.
- 5.1.3. Organisations that use the impact pathway find that impact is defined with respect to a reference. There does not seem to be a unique “correct” reference that should always be used for comparison
- As an example, in the Greenhouse Gas Protocol, greenhouse gas emissions simply state the number of emissions associated with an organisation (within Scopes 1, 2 and 3). Technically, this means that they are compared to a no-activity reference.
  - Following this logic, one can only claim a positive effect on the climate if one sequesters carbon.
  - At the same time, many organisations (e.g., producers of electric vehicles) claim to have a positive effect on the climate while still having net emissions. They do so when their emissions are lower than those of the alternative: that is, they compare to an explicit reference that contains these alternatives.
  - It is obvious that claims of either type should be clearly noted and cannot be compared to claims of the other type.
- 5.1.4. The IWAF gives guidance on the reference selection using the Complete reference principle.

## 5.2. Principle: Impact-pathway-based

- 5.2.1. An impact pathway provides a consistent methodology to define and measure (or project) impact. The IWAF requires that (impact pathways are used consistently in impact assessments.<sup>20</sup>
- 5.2.2. An **impact pathway** is the quantifiable chain of effects linking an organisation’s specific activity to its impact through a comparison of outcomes with those in the reference activity.
- An activity can have multiple inputs, outputs, outcomes and impacts.
  - A single impact can have contributions from different activities. For example, organisations may emit carbon through a range of activities, each having their own impact pathway.
- 5.2.3. Impact pathways make explicit that value creation is not directly about the activities (or intentions) of an organisation. And neither do the inputs (materials and other means used) or outputs (what an organisation can directly control) tell the full story. Instead, the impact pathway always connects these to outcomes—which is how them of stakeholders m specifically affected.

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<sup>20</sup> For more guidance on standardising impact pathways, see Transparent Project. (2021). *Corporate Natural Capital Accounting—from building blocks to a path for standardization* [26] and Transparent Project. (To be published). *A methodology promoting standardized natural capital accounting for business* [27].

- 5.2.4. The step of connecting output or input to an outcome is the heart of the impact pathway. At the same time, it is also the hardest and least pre-defined. Causally linking in- or outputs to outcomes is an associative process. For that reason, it is important to be aware of the relevant valuables in the assessment, to define which effects are relevant why (for whom).
- 5.2.5. In addition, the impact pathway makes explicit that impacts are always defined as a change in capital stock with respect to a reference.

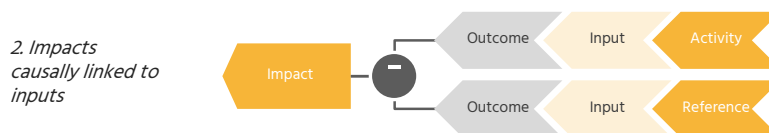
### Impact pathways for direct impact

- 5.2.6. Impact pathways link an organisation's activities to its inputs, outputs and outcomes. In the context of impact pathways, impact is defined as the difference of outcomes associated with the actual activities and the outcomes of the reference.
- 5.2.7. There are two sources of impacts. The first is where the outcomes are causally linked to outputs, and the second is where they are linked to inputs. These are associated with the occurrence of direct impacts.
- 5.2.8. The impact pathway for the first type is shown in Figure 4 below. Both the activity and the reference require input and generate outputs. The outputs are linked to outcomes and impact is the difference of outcomes.<sup>21</sup>



**Figure 4: Impact pathway for direct impacts causally linked to outputs of activities**

- 5.2.9. This impact pathway can be used for intentional outputs (e.g., the organisation produces goods and delivers these to consumers) *and* their outcomes (e.g., the consumers experience wellbeing from using the goods), as well as for unintentional outputs (e.g., the organisation emits pollutants) and their outcomes (e.g., the pollutants lead to environmental damage).
- 5.2.10. The direct impact pathways of the second type are shown in Figure 5 below. The relevant outcome is that inputs used in activities are no longer available to the stakeholders that used to control them.
- 5.2.11. Impacts that are described through the second type of direct impact pathways are associated with a reduction of a capital stock available to a stakeholder. This in turn reduces the welfare of the stakeholder. These impacts are therefore always negative impacts.<sup>22</sup>



**Figure 5: Impact pathway for direct impacts causally linked to inputs of activities**

<sup>21</sup> See [Appendix C](#) for definitions of the elements of the impact pathways.

<sup>22</sup> Unless a similar reduction occurs in the reference scenario. In that case, impact can be zero or even positive (as impact is defined as the difference in outcomes in activity and reference).

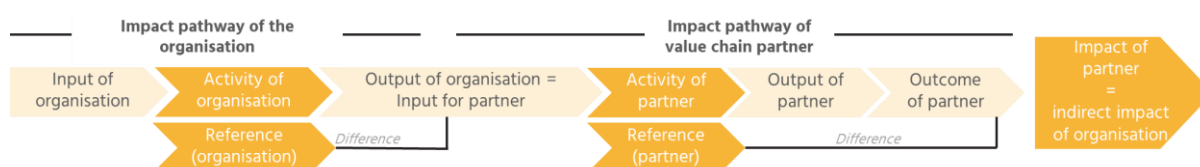


## Impact pathways for indirect impact

5.2.12. Indirect impact reflects impacts that are associated with the outcomes of activities of another (“partner”) organisation than the one central in the assessment (“the organisation”). Still, the activities of the organisation do affect these outcomes.

5.2.13. The impact pathway in Figure 6 makes this explicit. It shows the output of one organisation within the whole value chain as an input of another (the partner).

- If the partner is a downstream value chain partner (business client), products produced or services delivered by the organisation can be inputs for the partner in Manufactured, Intellectual or Human Capitals.
- If the partner is an upstream value chain partner (supplier), the payments of the organisation for the products or services the supplier provides can be seen as inputs for the partner in Financial Capital.



**Figure 6: Indirect impact pathway**

## Related impacts from inputs and outputs

5.2.14. When the activities of the organisation lead to value transformation or value transfer, impacts reflecting “both sides of the coin” should be included.

- Example: if the organisation sells products to clients, the following impacts should typically be in scope.

Impact causally related to inputs	Impact causally related to outputs
<i>Payments by clients</i>	<i>Client value of products</i>

- Example: if the organisation employs people, the following impacts should typically be in scope.

Impact causally related to inputs	Impact causally related to outputs
<i>(Value of) time of employees</i>	<i>Salaries</i>
	<i>Wellbeing of employment</i>
	<i>Value to employees due to training and experience</i>

## 5.3. Principle: Complete reference view

5.3.1. Impact in impact pathways is defined with respect to a reference.

5.3.2. As defined in [Section 3.4](#), two relevant references are the absolute reference and the marginal reference.

- The absolute reference is a scenario in which no activities occur. Impacts defined relative to this reference are called “absolute impact”.
  - The marginal reference is a scenario where alternative activities occur in the organisation’s absence. Impacts defined relative to this reference are called “marginal impacts”.
- 5.3.3. The IWAF takes the position that analysis of absolute impact *and* marginal impact provides valuable information in an impact assessment, and information on both can be used to make informed management decisions.
- 5.3.4. In addition, the IWAF requires organisations to describe clearly the references used in impact calculations.



## 6. Principle for comparability of impact in Impact-Weighted Accounts



### Comparability of impacts

- Impacts are naturally expressed in a wide range of units. This makes comparison amongst each other difficult and is a barrier to effective impact management.

### Principle: valued in commensurable unit

- The IWAF requires that impacts be (monetarily) valued wherever possible.
- The wellbeing category and the respect of rights category each have their own approach to (monetary) valuation.



### Relation to CSRD

Building on the principles of consistent impact measurement introduced in the previous chapter, IWAF allows for making different impacts (which are measured in different units) comparable with each other.

While CSRD marks a great milestone for comparing the sustainability performance of different companies for identical topics (e.g., contribution to climate change of company A with company B), it does not facilitate comparability between different topics. This means, except from the question whether a topic is material or not, a comparison across topics (e.g. climate change and pollution) cannot be catered by CSRD. With its valuation approach, IWAF can address this gap, making different impacts comparable with each other.

This unique characteristic does not only allow to assess companies holistically and across topics more easily, but it also provides valuable insights for impact management that mere compliance with CSRD cannot offer. Such insights can in turn inform strategic decisions that are reported under CSRD.

### 6.1. Relevance of comparability of impacts

6.1.1. Users of the IWAF can use impact pathways to measure impacts. This results in quantitative values for the impact.

6.1.2. An issue with impact is that they all have their own quantities and are measured in their own units, for example:

- Kilotons of CO<sub>2</sub> emissions (for climate change)
- Disability-adjusted life years (DALYs) lost (for health and safety accidents)
- Wellbeing points gained (for wellbeing of work)

- Dollars or other currencies (for payments from clients and profits)

6.1.3. This leads to a lack of comparability: it is therefore not possible to say that one impact is more pressing than another impact.<sup>23</sup>

6.1.4. This lack of comparability creates a barrier to properly integrating (non-financial) impacts that are material but not comparable in the decision-making process, whereas, currently, the number of organisations/investors who integrate sustainability criteria into their decision-making is growing [28].

6.1.5. Ultimately, this barrier makes it difficult for organisations to effectively manage all impacts based on their importance of creating value for stakeholders.

6.1.6. The IWAF guides practitioners by requiring that impacts be monetarily valued wherever possible. This provides that all impacts be expressed in an identical (monetary) unit and it restores comparability [29].

6.1.7. The IWAF specifically supports practitioners by providing suggested approaches for the monetary valuation of the wellbeing and the respect of rights category.

## 6.2. Principle: Valued in commensurable unit

6.2.1. Impact valuation is an assessment of the normative desirability of an impact from the perspective of a stakeholder in a common quantitative unit that reflects that impact's value to that stakeholder; the common unit is often monetary.

6.2.2. The IWAF requires that impacts are valued wherever possible. In addition, this valuation should be done in a commensurable unit. This unit is monetary unless there are strong reasons to choose another unit.<sup>24</sup>

6.2.3. In addition, the IWAF requires that robust techniques are used to value impacts.

- Suggestions for valuing impacts of the wellbeing and of the rights category are provided below.

### Definitions of impacts with regards to valuation

6.2.4. A set of impacts can be expressed in their respective natural units or in a single commensurable unit. A set of impacts expressed in one commensurable unit allows for the comparison of the relative sizes of the impacts.

- Examples of natural units are emission volumes (e.g., kg CO<sub>2</sub>), DALYs, wellbeing points, etc.
- An example of a set of impacts expressed in one commensurable unit is different types of greenhouse gas emission volumes, all expressed in kg CO<sub>2</sub> equivalents.

<sup>23</sup> Apart from resorting to qualitative arguments, as might have been done when assessing materiality.

<sup>24</sup> [Value Balancing Alliance \(2022\). The case of monetary valuation—Reasoning to integrate monetary impacts in accounting systems](#) [29] provides a more in-depth discussion why to monetarily value impacts. Please refer to the publication for more details.



- 6.2.5. A **valued impact** is an impact expressed in a unit that reflects the normative desirability of an impact from the perspective of a stakeholder.
- An impact is positive if a higher value has higher desirability
  - An impact is negative if a higher value has lower desirability
  - An impact can already be valued when expressed in its natural unit, when this unit expresses its normative desirability (e.g., DALYs implicitly express the undesirability of an impact).
- 6.2.6. A **monetarily-valued impact**<sup>25</sup> is a valued impact for which the unit used is monetary.
- Consistent use of the same unit for all impacts has the benefit that all impacts become comparable. For example, a Dollar value for the Contribution to climate change impact can be compared to the Dollar value of the Income tax payments impact.
  - A positive impact is associated with a positive monetary value ('a benefit') and a negative impact with a negative monetary value ('a cost').

#### Valuation of impacts non-associative with rights violations

- 6.2.7. Impacts non-associative with rights violations are changes of stakeholders' valuables because of an organisation's activities and/or those linked to its value chain.
- Examples are increase in wellbeing through employment at the level of the organisation and through social contact facilitated by the organisation.
  - Increases in Financial Capital for a stakeholder (e.g., salaries for employees and payments to suppliers) are also associated with an increase in valuables that are not associated with rights [30].
  - The value of products and services that (end-)customers enjoy is also part of this impact category.
- 6.2.8. Impacts non-associative with rights violations can be valued collectively through a valuation function that translates to a unit representing the sum of individual wellbeing.
- 6.2.9. Impacts not associated with rights violations are explicitly valued by an assessment of the gains or losses in valuables for the stakeholders involved.
- Therefore, the monetarily-valued impacts are technically expressed in Dollar-equivalents (or Euro-equivalents, etc.) of wellbeing.
- 6.2.10. Some impacts can be (explicitly) valued very simply ("1-on-1" Monetary valuation), while others must be valued with monetary valuation techniques: "Revealed preference", "Stated preference" and "Subjective wellbeing".

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<sup>25</sup> Sometimes also referred to as a monetised impact

- **1-on-1 Monetary valuation:** impacts that are naturally expressed in monetary terms are expressed in valued terms in a trivial way. In other words, 1 Dollar of financial value is assumed to represent 1 Dollar-equivalent of wellbeing.<sup>26</sup>
- Monetary valuation using **Revealed preference:** people's preferences are derived from their choices, using either empirical data to derive a proxy for the value of a particular product or through choice. This can be done in numerous ways: inferring preferences from market choices, using hedonic pricing to infer preferences, analysing (quasi-)natural experiments, conducting field experiments or incentivised laboratory experiments.
- Monetary valuation using **Stated preference:** in stated preference techniques, people are asked about their preferences and their willingness to pay for, or willingness to accept, non-market "goods" or "services".
- Monetary valuation using **Subjective wellbeing:** in this approach, people are asked about their subjective wellbeing (such as their satisfaction with their health or lives) and the reported measures are associated with variables that can explain this wellbeing using (large) population datasets and statistical techniques.

#### Valuation of impact associated with rights violations.

6.2.11. The valuation of impacts associated with rights violations<sup>27</sup> requires as a different approach from impacts without rights association.

- Rights in scope include human rights, labour rights (together covering the social domain) and environmental rights (covering the natural domain).
- Examples in the social domain include occurrence of forced labour in the value chain (related to the right to just and favourable conditions of work) and underpayment (i.e., payment below a living wage, related to the right to an adequate standard of living).
- Examples in the natural domain include various forms of pollution (related to the right to a safe, clean, healthy and sustainable environment) and depletion of scarce abiotic resources (related to the right to have access to the natural resources of the earth).

6.2.12. **Remediation costs** are quantitative estimates of the costs that should be incurred to remediate the harm that is caused by unsustainable impacts.

6.2.13. Remediation cost is an umbrella term and contains elements of the following:<sup>28</sup>

- **Restoration costs:** the cost of bringing people's wellbeing or environmental stocks back to the state where the unsustainable impact had not occurred.

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<sup>26</sup> The approach can be refined by explicitly considering that 1 Dollar can represent more wellbeing for one stakeholder than for another.

<sup>27</sup> Basic human rights are covered in [United Nations. \(1948\). Universal declaration of human rights \[31\]](#); Basic rights to a safe, clean, healthy and sustainable environment are covered in [United Nations. \(2018\). Report of the Special Rapporteur on the issue of human rights obligations relating to the enjoyment of a safe, clean, healthy and sustainable environment. A/HRC/37/59. \[32\]](#)

<sup>28</sup> Guidance on how to specifically select these elements is provided in [the Impact-Weighted Accounts Framework](#).



- **Compensation costs:** the cost of compensating affected people for economic and/or non-economic damage due to social and environmental impacts.
- **Prevention of re-occurrence costs:** the cost that would be incurred in the future to avoid the identified social and environmental impacts from occurring again.
- **Retribution costs:** the cost associated with fines, sanctions or penalties imposed by governments for certain violations of legal or widely accepted obligations.

6.2.14. Impacts associated with rights violations can be (monetarily) valued using the remediation costs.

## 7. Principles for aggregation of impact in Impact-Weighted Accounts

### Impact aggregation



- An impact assessment can include up to a few dozen impacts. And each of these impacts may have contributions from multiple impact pathways (and may be measured and valued separately).
- Without any form of aggregation, it is impossible “to see the forest for the trees”.
- However, (over-)aggregation can lead to the loss of valuable information and can lead to undesirable decisions.

#### Principle: No netting of right-associated impacts to others

- The IWAF holds the view that some aggregation is necessary, but that it is guided by clear rules.
- The most important rule is to not aggregate elements that refer to rights violations with those who don't.
- This precludes the view that some form of violation of stakeholders' rights (e.g., polluting the environment) is justifiable on other grounds (e.g., by creating employment).



#### Principle: Conservation of impact during attribution and aggregation

- Attribution applies when an organisation combines numbers for direct impact (i.e., that of their own operations) and indirect impact (e.g., that of their value chain partners).
- Naïve summation of direct and indirect impact leads to overcounting. This makes the impact information less suitable for basing decisions on.
- Instead, direct, and indirect impact are combined into an “impact contribution” that is a linear combination of the two, in such a way as to conserve impact during attribution and aggregation.



### Relation to CSRD

Following the logic of the previous chapters on impact measurement and comparability, aggregation is another core concept that makes IWAF a helpful framework for impact management decisions (and comprehensible reporting).

Requiring disaggregated information, it is a strength of CSRD to enable transparency in detail (e.g., reporting on Scope 1, 2 and 3 emissions separately as well as separate targets). To grasp the bigger picture, however, and steer on topics on a broader level, aggregating information is often necessary which CSRD does not offer.

IWAF helps with defining meaningful aggregates that help to compare between different performances, especially in situations where a company performs better on some indicators (polluting less of one substance) and worse on other indicators (polluting more of another substance). By doing so, it facilitates strategic decisions based on a holistic view of value creation which can, in turn, also feed into how content disclosed under CSRD is dealt with.

## 7.1. Relevance of aggregation of impacts

- 7.1.1. As discussed under the Multi-dimensional Principle, an impact assessment typically includes up to a few dozen impacts.
- 7.1.2. In addition, each of these impacts can be measured in each of the four types defined in [Section 3.4.13-3.4.17](#): direct absolute impact, direct marginal impact, indirect absolute impact and indirect marginal impact. Some of these elements have contributions from multiple impact pathways (e.g., multiple manufacturing steps in a production facility can each have a different effect on pollution. In principle, each of these can be described by impact pathways.)
- 7.1.3. It is difficult to make meaningful decisions based on such a large set of impact numbers. To do so, a form of aggregation is necessary.
- 7.1.4. At the same time, over-aggregation has problems of its own. A single “total impact” metric can lead to the idea that harm to some is acceptable if there are benefits for others. The IWAF considers this a very problematic view and believes that it can lead to dangerous management decisions. Practitioners should be given an attribution approach that does not (implicitly) endorse this view.
- 7.1.5. The IWAF holds the view that some aggregation is necessary, but that it should be guided by clear rules: the principle of *aggregation only of impacts that have the same association to rights violations* here.
- 7.1.6. The principle of “Value chain responsibility” adds another complication. The impact of one organisation is part of its own impact assessment (as direct impact), but also of the impact assessments of its value chain partners (as indirect impact). If each organisation naïvely sums direct

and indirect impact, this leads to substantial overcounting. The impact data can then not be used well in management decisions, as some impacts get more than proportional attention.

- 7.1.7. The IWAF offers attribution of (direct and indirect) impact as a solution to this dilemma. If the user chooses to aggregate direct and indirect impact into a single number, that should be done by first applying an attribution factor. The attribution factor should be chosen such as to comply with the principle of conservation of impact during attribution and aggregation. The resulting number is referred to as *the impact contribution* of the organisation.

## 7.2. Principle: No netting of right-associated impacts to others

- 7.2.1. **Impact aggregation** is the process of combining the values associated with multiple impacts into a single number. This relates to *Principle 4: Present values at an appropriately granular level for the decision being made* of Capital Coalition (2021) [24]. See Table 1 for practices of aggregation and examples.
- 7.2.2. Impact aggregation in IWAs should be done with caution. In particular, the IWAF advises against aggregation into a single impact number (“Total impact”).
- 7.2.3. In general, impacts with rights association should not be aggregated with impacts that are not associated with rights. in the IWAs, unless they are also disclosed in an explicit disaggregated manner elsewhere in the general tables.
- 7.2.4. Specifically, negative impacts with rights association should not be netted against positive impacts without right association in the IWAs, unless they are also disclosed in a disaggregated manner elsewhere in the general tables.
- 7.2.5. In addition, IWAF urges caution when aggregating impacts that affect different stakeholders into a single number.

**Table 1: Types of aggregation—Impact-Weighted Accounts Framework recommendations**

Type of aggregation	Example	Recommendation in IWAF
Multiple cases of the same impact deriving from different impact pathways	Contribution to climate change (through carbon emissions) from two different manufacturing steps (both part of own operations)	Can be aggregated
A direct and an indirect manifestation of the same impact	Contribution to climate change from emissions in own operations and from emissions at a supplier	Direct and indirect impact can be combined using an attribution factor (see next principle)
Different impacts to the same stakeholder and association with rights	Air, soil and water pollution combined into a single category “pollution”	Acceptable to aggregate, although individual categories often hold vital information



A related positive and negative impact (often part one is associated with rights, the other isn't)	Contribution to climate change (though carbon emissions) and limitation of climate change (through participation in "Golden Standard" projects)	Report each of these separately
All impacts to one stakeholder (over different capitals)	Salaries, value of time, wellbeing of employment, etc. (to the stakeholder group employees)	Sums can be shown in tables if each of the elements are also shown separately
All impacts of one capital (for different stakeholders)	Salaries, payments to suppliers, net profit, etc. (Financial Capital)	Sums can be shown in tables if each of the elements are also shown separately

### 7.3. Principle: Conservation of impact during attribution and aggregation

#### Direct and indirect impact

- 7.3.1. An organisation can have direct and indirect impact as defined in Section 3.4. Note that the direct impact of one organisation can be the indirect impact of another organisation (or multiple other organisations).
- 7.3.2. Organisations that aim to use impact to make integrated management decisions should combine information about direct and indirect impact.
- This is because integrated decisions can reflect both improving one's own impact (e.g., through more energy-efficient production, or a new HR policy that affects their own employees) or improving indirect impact (e.g., selecting a different supplier that has better environmental performance, or by enabling a corporate client to produce more cleanly by setting up a shared innovation programme).
  - If they want to combine information about direct and indirect impact into a single number (per impact), the simple sum of direct and indirect impact is an option for doing so.
  - But that simple sum has the disadvantage that it often overcounts impact: a certain amount of impact is reported multiple times (once as direct impact and multiple times as indirect impact).
  - Overcounting is most clearly an issue for positive impacts. If multiple organisations collectively claim a positive impact (e.g., associated with employment not only of themselves, but also of their partners), they are collectively sketching a too positive picture.
  - Overcounting also means that any impact trade-offs cannot be made effectively. In the previous example of overcounting the impact on employment, governments that (indirectly) subsidise organisations to contribute substantially to employment might unintentionally and unwantedly subsidise the same employment more than once.

## Impact attribution

- 7.3.3. If impact is attributed before adding direct and indirect elements, the overcounting effect can be prevented. Here, **impact attribution** refers to the distribution of impact that organisations are responsible for.
- 7.3.4. An **attributed impact** is a weighted impact that reflects the contribution of an organisation to the impact. This concept links to *Principle 3: Apply an appropriate level of attribution based on your degree of influence* of Capital Coalition (2021) [24].
- 7.3.5. An attributed impact is typically larger for direct impacts than for otherwise similarly sized indirect impacts.
- 7.3.6. A particularly desirable feature of an impact attribution approach is that the total size of the attributed impacts to each of the stakeholders equals the size of the initial impact, such that overcounting or undercounting is avoided. Impact contribution as defined below has this property.

## Impact contribution

- 7.3.7. The **impact contribution** is a measure of the overall attributed impact of an organisation. It is a (linear) combination of direct and indirect impact. There are three types of impact contribution:
- The **absolute impact contribution** that is a measure of the absolute direct and absolute indirect impact of an organisation
  - The **marginal impact contribution** that is a measure of the marginal direct and marginal indirect impact of an organisation
  - The **total impact contribution** (or just impact contribution) that is a measure of all four types of impact

## Principles on how to assess impact contribution

- 7.3.8. The weights in the linear combination that forms the impact contribution is chosen to prevent overcounting and to make it a suitable metric to steer management decisions.
- 7.3.9. The guiding principle is **Conservation of impact during attribution and aggregation**: the sum of the impact contribution of all organisations (and other actors) should represent the total impact in society. The impact contribution should not be overcounted or undercounted and attribution should not give rise to an increase or decrease in total impact.
- 7.3.10. There are four supporting principles
- **Additivity of impact**: the impact contribution of two independent organisations should represent the sum of the impact contributions of both organisations.
  - **Sensitivity to impact**: the impact contribution of an organisation should increase (or decrease) if any of its impacts increases (or decreases) and the other impacts remain constant.
  - **Sufficient resolution**: the impact contribution should have "sufficient resolution" to show differences between organisations with differing impacts that are relevant for making material decisions. The principle of sufficient resolution states that when two organisations



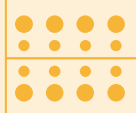
have differing impacts, these differences should be sufficiently clear in the impact contribution.

- **Co-responsibility:** impact is part of an organisation’s impact contribution if, and only if, that organisation is co-responsible for that impact. Unless specifically qualified, when a statement in the remainder of the document refers to “impact,” it applies to all types of impact and the contribution of the impact.

7.3.11. To our best knowledge, there is no unique attribution approach (or “formula”) that satisfies all these principles. See [Appendix D of the IWAF](#) for a suggested approach.

## 8. Presentation of impact statements in Impact-Weighted Accounts

### Presentation of impact accounts



- A natural way is to present impact information based on impact statements. Each of these statements presents a subset of the impacts assessed in a structured way.
- Statements are designed so they can be used for basing management decisions on. In particular, statements in IWAs reflect how well the organisation performs with regards to organisational goals and functions.
- In the IWAF, the statements closely follow the statements of financial accounting.

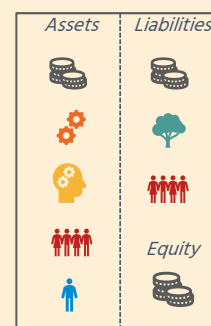
### Integrated Profit & Loss Statement

- The IP&L reflects the value creation of the organisation in the year analysed.
- It contains all impacts that have been assessed during the Measure and Value steps.
- Impacts can be grouped according to the capital involved or stakeholder affected.
- IWAs also contain three statements that are derived from the IP&L: the Stakeholder Value Creation Statement, the Sustainability Statement for External Costs and the Sustainability Statement for SDG Contribution.



### Integrated Balance Sheet

- The IBaS is a statement to inform the users of IWAs about the assets and liabilities that affect their ability to create integrated value for all stakeholders and their responsibilities towards the organisation's stakeholders.
- The IBaS reflects the situation at the end of the year.



### **Relation to CSRD**

While information gained through the application of IWAF can feed into the content disclosed under CSRD, its presentation is distinct. IWAs statements (IP&L, IBaS, and other derived statements) cannot replace disclosures on sustainability information with a prescribed format in the Integrated Management Report required by CSRD.

However, if impact statements under IWAF inform strategic management decisions, this can be mentioned in the disclosures under CSRD. At the same time, IWAs and derived statements can be published separately to the Integrated Management Report, allowing for grasping the holistic value creation of a company in a more comprehensive way than the extensive disclosures under CSRD. This way, IWAF and CSRD can complement each other, addressing different needs.

## **8.1. Relevance of presentation of impact statements**

- 8.1.1. So far, the set of quantified and valued impacts have been aggregated to a level where they can be used for making integrated decisions.
- 8.1.2. It is still open as to how to present the result in such a way that enables management actually to make these decisions—and to “tell a compelling story” to other readers.
- 8.1.3. A natural way is to present impact information based on impact statements. Each of these statements presents a subset of the impacts assessed in a structured way. This raises the question of which impact statements to present.
- 8.1.4. When proposing impact statements to use, the IWAF takes inspiration from two sources: firstly, the impact statements should mirror financial statements closely; secondly, the statements should be used to assess the performance of the organisation on the following four key organisational goals and functions (further discussed below)
  - Create value for society and its stakeholders
  - Act sustainably by operating within planetary and social boundaries
  - Contribute to sustainable development according to the SDGs
  - Manage integrated value creation potential and ability to meet responsibilities to all stakeholders over time

## 8.2. The impact statements in brief—Inspiration from financial statements and organisational goals and functions

- 8.2.1. When reporting impact information according to the IWAF, the information is presented based on statements that mirror financial statements. Two of the key statements in financial accounting are the (annual) income statement (also referred to as the profit and loss statement) and the balance sheet.
- 8.2.2. The impact counterpart of the profit and loss statement is the IP&L Statement.
- 8.2.3. The impact counterpart of the balance sheet is the IBaS.
- 8.2.4. The statements are called “integrated” because the IP&L and IBaS combine financial, social, natural and other capitals in an integrated manner. In addition, the statements integrate the impact on different stakeholders.
- 8.2.5. The IP&L Statement and the IBaS form the core of an organisation’s presentation of the IWAs over a certain period (usually a year).
- The inclusion of these statements already provides information in alignment with one of the organisational goals and functions: to manage integrated value creation potential and ability to meet responsibilities to all stakeholders over time.
- 8.2.6. In addition, IWAs contain three statements that are derived from the IP&L: the Stakeholder Value Creation Statement, the Sustainability Statement for External Costs and the Sustainability Statement for SDG Contribution.
- The inclusion of these statements is mainly inspired by alignment with organisational goals and functions, as discussed below.
  - These statements do not contain any information not already present in the IP&L, but merely restructure the information in such a way that it gives more attention to certain considerations for integrated decision-making and reporting.
- 8.2.7. IWAs can be provided separately from, or integrated with, financial accounts.

## 8.3. Organisational goals and functions

- 8.3.1. The traditional view on an organisation’s goal can be traced back to 1970, when economist Milton Friedman stated that “the social responsibility of the firm is to increase its profits.”[33]
- 8.3.2. However, over time focus has shifted towards longer-term value creation for (all) stakeholders [34]. An increasing number of organisations believe that solely focusing on shareholder values is not sustainable [35].
- 8.3.3. IWAs are designed for organisations that share this view.
- 8.3.4. Specifically, IWAs provide impact information about the following four general organisational goals and functions, which are regarded as applicable to every organisation.



## Create value to society and its stakeholders

- 8.3.5. The IWAF is built on the belief that the first general organisational goal and function is to create value to society—more specifically, to create value for *each* of its stakeholders. These include not only investors, but also value chain partners, employees, governments, and communities.
- An organisation creates value for a stakeholder if it increases the valuables of that stakeholder.
  - We acknowledge that optimising value creation for all stakeholders simultaneously might not be possible, but positive value creation for all stakeholders should be the goal.
  - In evaluating whether value is created, an organisation may aggregate various impacts on individual stakeholders to impacts on stakeholder groups, provided no material information is hidden in this way.
- 8.3.6. This goal has an absolute and a marginal component. Ideally, an organisation creates value for all its stakeholders in an absolute sense, and to a higher degree than realistic alternatives.

## Act sustainably by operating within planetary and social boundaries

- 8.3.7. The second general organisational goal and function is to be sustainable by operating within the environmental and social boundaries.
- 8.3.8. An organisation operates within the planetary (environmental) boundaries if it creates no environmental harm nor breaches any environmental rights.
- 8.3.9. An organisation operates within the social boundaries if it respects all human and other essential rights.
- 8.3.10. Deviations from environmental and social boundaries can be captured by the environmental and social external costs an organisation imposes on its stakeholders.
- 8.3.11. Given the nature of planetary boundaries and rights, this goal is absolute: an organisation is only sustainable if it respects these boundaries in an absolute sense.
- 8.3.12. Note that by combining this goal with the previous one, an organisation can ensure that it does not create value for one stakeholder at the expense of the rights of another stakeholder.

## Contribute to sustainable development according to the SDGs

- 8.3.13. The third general organisational goal and function is to contribute to sustainable development as defined by the United Nations' SDGs.
- 8.3.14. This goal is marginal to the current state: an organisation should contribute to a reduction of negative sustainability impacts and to an increase of positive sustainability impacts.

Manage integrated value creation potential and ability to meet responsibilities to all stakeholders over time

8.3.15. The fourth general organisational goal and function is to manage integrated value creation potential and ability to meet responsibilities to all stakeholders over time.

8.3.16. This goal is absolute: an organisation should respect its stakeholders (and their rights) and create value for them over time, rather than make short-term gains at their expense.

8.3.17. Note that this goal reflects how well the organisation has performed on the first three goals over a longer term, and how it can achieve better outcomes for each goal in the future.

The possibility of adding additional goals and functions

8.3.18. In addition to the above, organisations may have goals and functions that are specific to its context—for example, specific to:

- The organisation itself, such as an organisational mission
- The organisation's jurisdiction
- The region(s) the organisation is active in
- The organisation's sector

8.3.19. An organisation can choose to provide additional statements pertaining to these context-specific goals, to provide relevant information about its context-specific goals and functions. Such information about additional goals and functions may or may not be required to meet regulatory requirements.

#### **8.4. From organisational goals and functions to statements that report progress**

8.4.1. The IWAs can be used to report specifically on the organisation's progress towards the four general organisational goals and functions.

8.4.2. Figure 7 shows the relationship between the different statements and the organisational goals and functions.





**Figure 7: Statements of the IWAs and their relations to four organisational goals and functions**

8.4.3. This way of presenting the IWA also relates to Principle 5: Specify and address key differences in impacts and dependencies among all stakeholders of Capital Coalition (2021) [24].

## 8.5. Integrated Profit & Loss Statement

8.5.1. The **IP&L Statement** contains all assessed impacts over the year analysed in quantified, valued and attributed form.

- It is often presented in the form of a list that shows all the organisation’s material impacts during the reporting period. The impacts can be classified by capitals and/or stakeholders.

8.5.2. For each impact, the IP&L accounts can contain information on each of the four types as defined in [Section 3.4.13-3.4.17](#).

8.5.3. Statements derived from the IP&L Statement contain a subset of all an organisation’s IP&L accounts over a period.

## 8.6. Stakeholder Value Creation Overview

8.6.1. The **Stakeholder Value Creation Overview** is a statement that is derived from the IP&L, and which reflects the overall value creation of the organisation for each of its stakeholders through all the material impacts of the organisation’s inputs and outputs.

- The overview can be presented by stakeholder and distinguish impacts created by the organisation’s inputs and outputs.
- After preparing the IP&L Statement, no new calculations at impact level are necessary to establish the Stakeholder Value Creation statement—impacts can be based on the same

information. The same holds for the other statements discussed below: the Sustainability Statement for External Costs and SDGs Contribution Statement.

- 8.6.2. The Stakeholder Value Creation Overview specifically addresses the first general organisational goal and function of an organisation as defined in [Section 8.1](#): to create value for each of its stakeholders.

## 8.7. Sustainability statements

- 8.7.1. Two central aspects of an organisation's **sustainability** are the degree to which it operates within planetary (environmental) and social boundaries, and the degree to which it contributes positively to the United Nations' SDGs.
- 8.7.2. These aspects relate to the second and third general organisational goals and functions of an organisation as defined in [Section 8.1](#). The IWAF acknowledges these goals by including two derived statements based on the IP&L.

### Sustainability Statement for External Costs

- 8.7.3. The sum of **impacts associated with rights** captures the degree to which an organisation respects the environmental and human rights of current and future generations.
- 8.7.4. Effects that violate these rights can be measured by the **environmental and social costs** created by the organisation.
- 8.7.5. An **environmental or social cost** is a negative impact on a stakeholder through the breach of a right of that stakeholder.
- 8.7.6. These costs are also referred to as external costs. They reflect a market failure where production and/or consumption activities impose the additional hidden costs on others (e.g., the environment or society) without including these hidden costs in the market price of the product or service.
- For example, if during the production process of a product pollution is released into the air, the cost of the pollution for the environment or for the health of individuals is not reflected in the price of the product. Therefore, the costs are external.
- 8.7.7. The **Sustainability Statement for External Costs** is a statement that provides information on the absolute social and environmental costs to which the organisation contributed and/or for which it shares value chain responsibility.
- It is suggested that an organisation structures the statement by capital and by stakeholder.
  - The organisation is advised to present its external costs in both the original unit in which it is measured and in the monetarily valued unit.
  - The Sustainability Statement for External Costs provides information about an organisation's willingness and ability to minimise the external costs of its activities and to overcome them.
- 8.7.8. The Sustainability Statement for External Costs specifically focuses on absolute impact.



- This reflects the view that external costs are problematic, even if they also occur in the marginal reference.
- 8.7.9. The Sustainability Statement for External Costs specifically addresses the second organisational goal and function as defined in [Section 8.1](#): to be sustainable, in the sense that it operates within the planetary (environmental) and social boundaries. Here, an organisation operates within the planetary boundaries if it creates no environmental harm nor breaches any environmental right, and it operates within the social boundaries if it respects all human and other essential rights.

### Sustainability Statement for SDG Contribution

- 8.7.10. The **Sustainability Statement for SDG Contribution** is a statement that shows an organisation's contribution to the United Nations' SDGs through its impact on each of the SDGs.
- 8.7.11. It is suggested that the Sustainability Statement for SDG Contribution focusses on marginal impact.
- This reflects how the organisation contributes to the SDGs on top of a reasonable alternative to their operations as captured in the marginal reference.
- 8.7.12. The Sustainability Statement for SDG Contribution specifically addresses the third general organisational goal and function of an organisation as defined in Section 8.1: to contribute to sustainable development as defined by the United Nations' SDGs.
- For the Sustainability Statement for SDG Contribution, a mapping between the impacts in the IP&L and the SDGs is made. Preferably, the mapping is made at the SDG indicator level, or alternatively at the SDG target- or SDG goal-levels.
  - The full list of seventeen SDG goals and associated indicators can be found in [United Nations. \(2015a\). General Assembly resolution 70/1—Transforming our world: the 2030 agenda for sustainable development.](#)
  - The Sustainability Statement for SDG Contribution is particularly useful when tracked over time (to show how contribution evolves over time as the organisation steers on specific SDGs), or when an organisation enables comparison of its contribution to the SDGs to a relevant benchmark in its sector.
  - The organisation will explain actions it has taken to improve its contribution to specific SDGs, as well as indicate which SDGs it focuses on, and how this aligns with its vision, mission or key performance indicators.
  - If an organisation's contribution to a specific SDG is less than that in the previous year, the organisation will explain the reason for the decrease.

## 8.8. Integrated Balance Sheet

- 8.8.1. **The IBaS** is a statement to inform the users of IWAs of the assets and liabilities that affect their ability to create integrated value for all stakeholders and their responsibilities towards its stakeholders.
- 8.8.2. The IBaS reflects the situation at the end of the accounting period.
- 8.8.3. The IBaS relates to the fourth general organisational goal and function of an organisation: to manage integrated value creation potential and ability to meet responsibilities to all stakeholders over time.
- This statement is an additional statement at the same level as the IP&L statement.

*Currently, the concept of the IBaS is under development. Therefore, inclusion of an IBaS is not seen as a requirement for IWAs.*

## 8.9. Additional context-specific statements

- 8.9.1. In addition to the general statements that are part of the IWAs of each organisation, the IWAs can contain **additional context-specific statements** that disclose impact information about context-specific goals and functions the organisation fulfils.
- 8.9.2. Such statements can be based on information contained in the IP&L and/or IBaS accounts.

## 8.10. Presentation of aggregated results and disclosures

- 8.10.1. Given the many dimensions of IWAs, the organisation can aggregate several types of impact in its presentation of the main statements.
- 8.10.2. For transparency and sufficient distinction, in the notes to the IP&L Statement and IBaS, the organisation is encouraged to disclose the disaggregated information (both absolute and marginal impact) as well as the non-monetarily valued impact information expressed in natural units.
- As derived statements related to impact during the reporting period are based on the IP&L statements, it is sufficient to disclose this information in the notes of the IP&L statement only.



## 9. Process and governance of compiling Impact-Weighted Accounts

### The process of compiling IWAs

Organisations compiling IWAs can follow a structured process of four phases with a total of ten steps. The stages are “Frame”, “Scope”, “Measure and Value” and “Apply”.

### Relation to CSRD

As outlined throughout this document, companies complying with CSRD will find many parallels of their efforts when also taking up IWAF. As both are materiality- and stakeholder-based and build on the collection of empirical data, compliance with one of them can create synergies for the other.

Distinctively, IWAF facilitates impact management by using a consistent methodology across topics and a valuation approach, thereby enabling impact decision-making that CSRD cannot provide.

Against this background, the stages Frame and Scope have substantial overlaps with work done in CSRD compliance, the stage ‘Measure’ due to another methodology only partial and ‘Value’ none. Within the Apply Phase it shows how CSRD and IWAF are serving different needs, while also feeding into each other.

The [Guidance Document](#) as well as the [IWAF x CSRD document](#) describe more detailed how CSRD and IWAF relate to each other in these stages.

### 9.1. The process of compiling Impact-Weighted Accounts

- 9.1.1. The process of compiling and using IWAs can be organised in four stages comprising ten steps, as shown schematically in Figure 8.
- 9.1.2. The five topics on which the IWAF gives specific guidance each relate to one of the steps:
  - Impact identification is associated with the *Scope the assessment* step
  - Impact measurement is associated with the *Measure impacts* step
  - Comparability of impacts is associated with the *Value impacts* step
  - Aggregation of impacts is associated with the *Attribute and aggregate* step
  - Presentation of impacts is associated with the *Compile impact statements* step
- 9.1.3. Before and after these steps are other steps where the IWAF gives more practical, rather than principled, guidance.
- 9.1.4. Figure 8 reflects the “end state” for an organisation compiling IWAs. In the first years of working with IWAs, organisations can decide to follow the steps at their own pace based on what fits their impact journey.

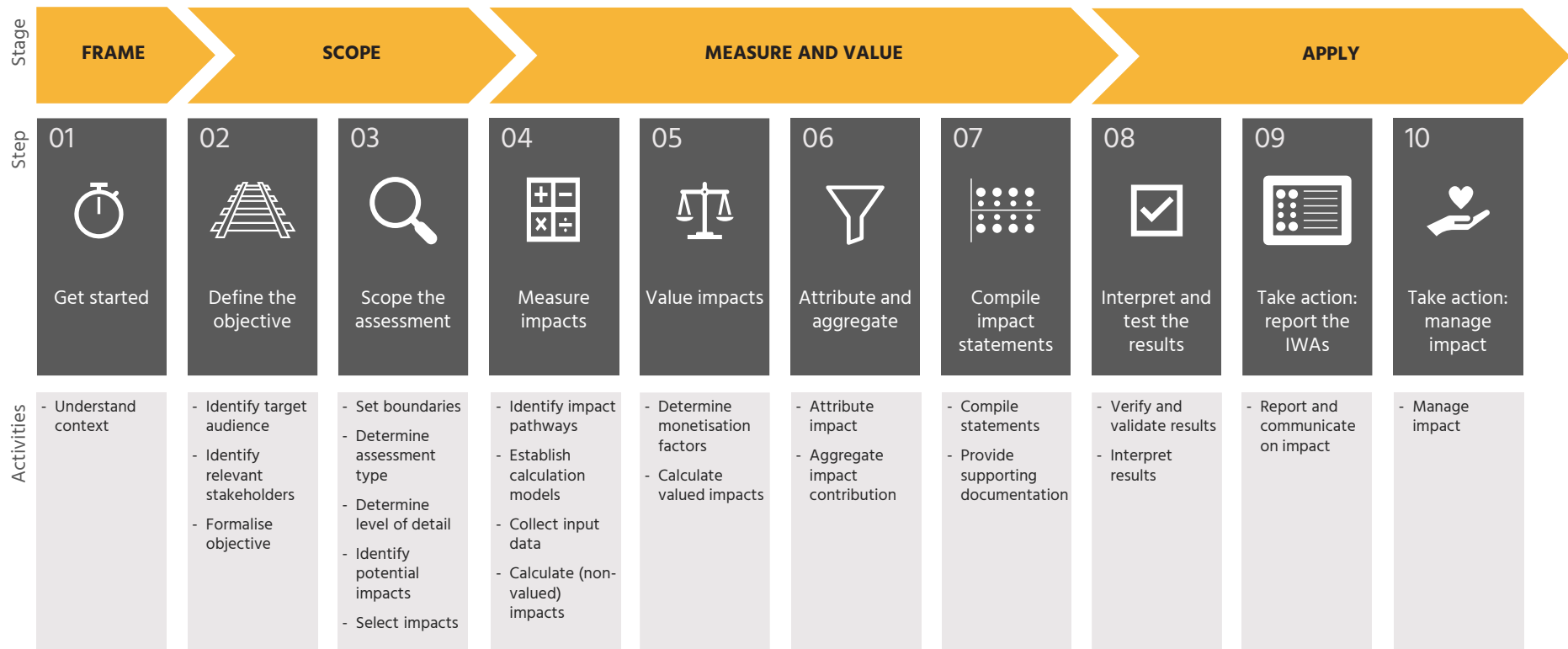


Figure 8: The process of compiling and using IWAs in four stages. Adapted from Natural Capital Coalition, 2016 [1].



## 9.2. Stages of compiling Impact-Weighted Accounts

### Frame stage

- 9.2.1. This stage initiates the assessment of an organisation's impact.
- 9.2.2. In this stage, the reason why the organisation measures and reports its impact is determined.
- 9.2.3. Reasons for an organisation measuring and reporting on impact can be to reflect on its theory of change, to track progress with respect to its (sustainability) goals or to identify potential business applications for steering on impact.

### Scope stage

- 9.2.4. This stage defines the objective and boundaries of the organisation's IWAs assessment.
- 9.2.5. In particular, materiality and feasibility assessments are important parts of the scoping stage. These preliminary assessments ensure that the impact assessment itself results in valuable insights for the organisation *and* other users of the IWAs.

### Measure and Value stage

- 9.2.6. This stage quantitatively measures all impacts based on the scope defined in the previous stage.
- 9.2.7. This entails creating impact pathways for each impact in scope, collecting data and creating quantitative models to measure and value impact.
- 9.2.8. In addition, the concept of value chain responsibility is applied, where quantified and valued impacts are attributed to the organisation based on its influence on each impact in the value chain.
- 9.2.9. Quantified and valued impacts can be aggregated to produce more useful and understandable impact information. However, aggregation should be done carefully and in such a way that it does not produce misleading information for the users. For example, netting positive impact with negative externalities must be avoided.
- 9.2.10. Finally, impact information can be compiled for each element of the IWAs: IP&L Statement, IBaS, Stakeholder Value Creation Overview, Sustainability Statement for External Costs and Sustainability Statement for SDG Contribution.

### Apply stage

- 9.2.11. This stage interprets and verifies the process and the results and takes the following two actions: (i) disclosing these results internally or to the public, and (ii) managing impacts.
- 9.2.12. For reporting the IWAs, the verification and testing step ensures that all impact information that is about to be disclosed satisfies the criteria of useful impact information outlined in [Appendix A](#).
- 9.2.13. Specifically, the organisation has to demonstrate the connectivity of its impact information. The report should show how the components in the presented impact information are inter-related and dependent on its comprehensive value creation model [17].
- 9.2.14. For general reporting guidance, please refer to for example [IIRC. \(2021\). International <IR> Framework](#) [17].

- 9.2.15. In addition to reporting, useful impact information in the IWAs can influence management's actions that affect the organisation's key performance indicators and strategy. As such, IWAs can help the organisation optimise its value creation for its stakeholders and ensure it is sustainable.
- 9.2.16. Currently, the IWAF focusses on guiding organisations in the first nine steps. It advises organisations to make zero negative impacts and to maximise their positive impacts, especially those that are material.
- 9.2.17. Regarding *Step 10: Manage impact*, the Impact Economy Foundation has drafted a separate Guide for [Impact Management with IWAF](#) aimed at assisting companies in their journey of steering on their impacts and integrating impact information in key business operations. Further guidance and frameworks on how to manage impact are also available, such as, the [Impact Management Project](#) [36].
- 9.2.18. It needs to be acknowledged that the practice of managing impact and implementing impact information is not an instant step, but rather a gradual step that the organisation should take continuously.

### **9.3. Governance**

#### Good governance

- 9.3.1. Good governance is essential to the compilation, reporting and use of IWAs, including for the following elements: (i) integrity and adherence to the organisation's values; (ii) involvement of the organisation's relevant stakeholders when compiling and reporting the IWAs; (iii) oversight and accountability of the organisation's board of directors; (iv) ensuring that the organisation has the competences and capabilities required to compile IWAs.



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- [50] Impact Management Project, "IMP Glossary," Impact Management Project. Accessed: May 25, 2022. [Online]. Available: <https://impactmanagementproject.com/glossary/>



# APPENDICES

*1.1.*

## A. Relevant sources

Other relevant sources that influenced this work include:

- Capitals Coalition. (2020). Improving Nature’s visibility in financial accounting. Full report. [37]
- Capitals Coalition, (2021). Disclosing impacts on natural, social & human capital in financial statements. [38]
- Capitals Coalition. (2021). Principles for Integrated Capitals Assessment. [24]
- Economics of Mutuality Lab. Putting Purpose into Practice: The Economics of Mutuality.<sup>29</sup> [39]
- GIST Impact. (2021). The Four Capitals Framework.<sup>7</sup> [40]
- IDEEA Group.<sup>7</sup> [41]
- OECD. (2019). Better Criteria for Better Evaluation: Revised Evaluation Criteria Definitions and Principles for Use. *OECD/DAC Network on Development Evaluation*. [42]
- Project Transparent. (2021). Corporate Natural Capital Accounting — from building blocks to a path for standardization. [26]
- Project Transparent. (Public consultation draft). A Methodology Promoting Standardized Natural Capital Accounting for Business. [27]
- Rethinking Capital. Applications of Normative Economics & Normative Accounting for Intangibles: Rethinking Capital’s Response to Bill Gates’ How to Avoid a Climate Disaster.<sup>7</sup> [43]
- S&P Global Sustainability 1. (2021). The S&P Global Corporate Sustainability Assessment.<sup>7</sup> [44]
- Social Value International. (2012). A guide to Social Return on Investment.<sup>7</sup> [45]
- TEEB. (2010). The economics of ecosystems and biodiversity ecological and economic foundations. Edited by Pushpam Kumar. Earthscan: London and Washington. [46]
- United Nations et al. (2021). System of Environmental-Economic Accounting—Ecosystem Accounting (SEEA EA). [47]
- Value Balancing Alliance. (2021). Methodology impact statement general paper v 0.1.<sup>7</sup> [48]
- Value Balancing Alliance. (2022). The case of monetary valuation – Reasoning to integrate monetary impacts in accounting systems.<sup>7</sup> [29]

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<sup>29</sup> These initiatives are part of the [Value Accounting Network](#), together with the IEF, Harvard Business School Impact-Weighted Account Project and Impact Institute. The network of initiatives is united under the ambition that the value that flows between Nature, people, society and the economy must be included in decision-making. The network is curated by the Capitals Coalition.



## B. General characteristics of useful impact information

IWAs are about assessing and reporting impact information. This requires that the information presented be useful. This section provides the qualitative characteristics of *useful impact information*.

### Relation to CSRD

The CSRD sustainability standards also prescribe general requirements similar to the characteristics prescribed here. Both build on the regular financial accounting principles.

### B.1. Useful impact Information

- B.1.1. Useful impact information has general qualitative characteristics, shared with financial information and various impact specific characteristics.
- B.1.2. The impact-specific characteristics have been explained throughout this document. The general characteristics ones are discussed below.

### B.2. General characteristics

Useful impact information is:

- B.2.1. **Relevant:** it can be used to influence the decisions of users.<sup>30</sup>
- B.2.2. **Faithful:** it provides an accurate representation of the economic and societal phenomena and their impacts. For this purpose, impact information needs to be complete, neutral and free from material errors, where a piece of information is material if its omission or misrepresentation would affect the decision of a relevant stakeholder group of the organisation.
- B.2.3. **Comparable:** it enables comparison of the impact between various companies.
- B.2.4. **Consistent:** it enables comparison with information provided by an organisation in previous years.<sup>34</sup>
- B.2.5. **Rigorous:** it provides users with information that is retrieved from robust data and methodology and is fit for purpose.<sup>34</sup>
- B.2.6. **Verifiable:** it enables an independent verification of the data, calculations and assumptions used to compile the information.<sup>34</sup>
- B.2.7. **Timely:** it provides users with the information they need when they are making decisions.
- B.2.8. **Understandable:** it enables users to comprehend the information sufficiently for their decision-making.

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<sup>30</sup> Adapted from [Capitals Coalition. \(2020\). Draft TEEB for Agriculture and Food: Operational Guidelines for Business. \[49\]](#)

## C. Suggested classifications of capitals and stakeholders

### C.1. Stakeholder classification

C.1.1. All impacts in IWAs can be structured according to the stakeholder whose valuables are affected.

C.1.2. There does not seem to be an internationally accepted standard for the classification of stakeholder groups. The list below can be used but should not be seen as a requirement for IWAs.

**Table C.1:** Examples of stakeholder groups

Stakeholder group	Definition
Organisation	The organisation under review
Investors <sup>31</sup>	The investors (through debt or equity) in the organisation under review
Employees	The employees of the organisation under review
Value chain partners (suppliers and B2B clients) specifically their employees (workers in the value chain)	Suppliers are the persons or organisations who provide products or services to the organisation under review. Business-to-Business clients are the persons or organisations who receive products or services from the organisation under review.
Nature and its beneficiaries <sup>32</sup>	Nature itself, to the extent it has inherent value. In addition, all persons, communities and organisations that use or enjoy natural resources
Governments, local communities and other	All governments, communities or other groups affected by the actions of the organisation or their value chain
(End-)Consumers	All persons who receive products or services from the organisation under review or a B2B client

### C.2. Capitals classification

C.2.1. Impacts in IWAs can be structured according to the capital they belong to.

C.2.2. A popular capital classification is the six-capital classification as proposed by the Value Reporting Foundation [17]. In the context of IWAs, it is suggested that some definitions be extended to make value creation for stakeholders outside the organisation itself more explicit. A suggestion is provided below.

C.2.3. **Financial Capital (*Value Reporting Foundation definition*)** is the pool of funds available for an organisation to use in the production of goods or the provision of services. Additional funds may be obtained through financing.

<sup>31</sup> Investors are residual claimholders of an organisation. Hence, all impacts have effects on the investors.

<sup>32</sup> Nature and its beneficiaries, governments, local communities and others are often grouped together and referred as “society-at-large”.



- Financial Capital is owned by a specific stakeholder in almost all instances. Only a few processes, restricted to the financial sector, lead to the creation of new money. As a result, almost all Financial Capital flows preserve the total amount of Financial Capital. These flows relate to the exchange of Financial Capital among stakeholders.
- In the context of IWAs, flows of Financial Capital from external parties towards the organisation in scope are labelled as negative impact for the external stakeholders. Flows from the organisation to external parties are labelled as positive impact for the external parties.

**Table C.2:** Examples of Financial Capital stocks and flows

<b>Financial Capital stocks</b>	<b>Financial Capital flows</b>	<b>Associated impacts</b>
<b>Money owned by the organisation in scope</b>	Salaries	Positive impact for employees
<b>Money owned by clients of the organisation in scope</b>	Payments from clients	Negative impact for clients

C.2.4. **Manufactured Capital (*Value Reporting Foundation definition*)** consists of manufactured physical objects that are available to an organisation for use in the production of goods or the provision of services.

- In the Value Reporting Foundation scope, this reflects the assets used for production (property, plant and equipment). It is often referred to as manufacturing capital.
- In the context of the IWAs, a broader inclusion is required. Manufactured Capital also includes the tangible assets of intermediate and finished products.
- Business activity critically involves the transfer of Manufactured Capital between stakeholders.

**Table C.3:** Examples of Manufactured Capital stocks and flows

<b>Manufactured Capital stocks</b>	<b>Manufactured Capital flows</b>	<b>Associated impacts</b>
<b>Property, plant and equipment</b>	Client value of products	Positive impact for clients (who receive the products)
<b>Finished products</b>	Value of the goods delivered by suppliers	Negative impact for suppliers (that deliver the products)

C.2.5. **Intellectual Capital (*Value Reporting Foundation definition*)** consists of organisational, knowledge-based intangibles, including intellectual property and “organisational capital”.

- In the context of IWAs, Intellectual Capital also includes intangible assets associated with the brand and reputation that an organisation has developed. In addition, (the value of) advisory services is included under Intellectual Capital.

**Table C.4:** Examples of Intellectual Capital stocks and flows

<b>Intellectual Capital stocks</b>	<b>Intellectual Capital flows</b>	<b>Associated impacts</b>
<b>Filed patents</b>	Development of immaterial assets and technology	Positive impact for company and investors (as it creates future earning potential)
<b>Intangible assets (e.g., knowledge and brand)</b>	Amortisation of intangible assets	Negative impact for company and investors (as it decreases the current value of the intangibles)

C.2.6. **Human Capital (*Value Reporting Foundation definition*)** consists of people’s competencies, capabilities and experience, as well as their motivations to innovate, often within the realm of the organisation’s activities.

- In addition, in the context of IWAs, elements of wellbeing are listed under Human Capital if they occur at the level of individual people. Time investment of people is a Human Capital input.

**Table C.5:** Examples of Human Capital stocks and flows

<b>Human Capital stocks</b>	<b>Human Capital flows</b>	<b>Associated impacts</b>
<b>Job competences of a trained worker</b>	Creation of Human Capital (e.g., new competences through training)	Positive impact for employees (as they have higher earning potential reflected in higher salaries) and company and investors (as the trained worker contributes more to future earnings of the company)
<b>Health of a worker</b>	Workplace health and safety incidents	Negative impact for employees

C.2.7. **Social Capital (*Value Reporting Foundation definition*)** refers to individual and collective wellbeing as a result of institutions and the relationships within and between communities, groups of stakeholders and other networks.

- In the context of IWAs, wellbeing effects are often listed under Social Capital if they occur only at the level of groups.
- In additions, violations of human rights are included under negative social outcomes (even though they also affect wellbeing at the individual level).



**Table C.6:** Examples of Social Capital stocks and flows

<b>Social Capital stocks</b>	<b>Social Capital flows</b>	<b>Associated impacts</b>
<b>Social trust in a community</b>	Child labour in the value chain (and the corresponding loss of well-being and social trust)	Negative impact for the respective employees and communities
<b>Brand value associated with a company</b>	Increase in brand value of the company	Positive impact for company and investors (as the brand value represents future earning potential)

C.2.8. **Natural Capital (*Value Reporting Foundation definition*)** consists of all renewable and non-renewable environmental resources and processes that provide an organisation’s goods or services that support the past, current or future prosperity.

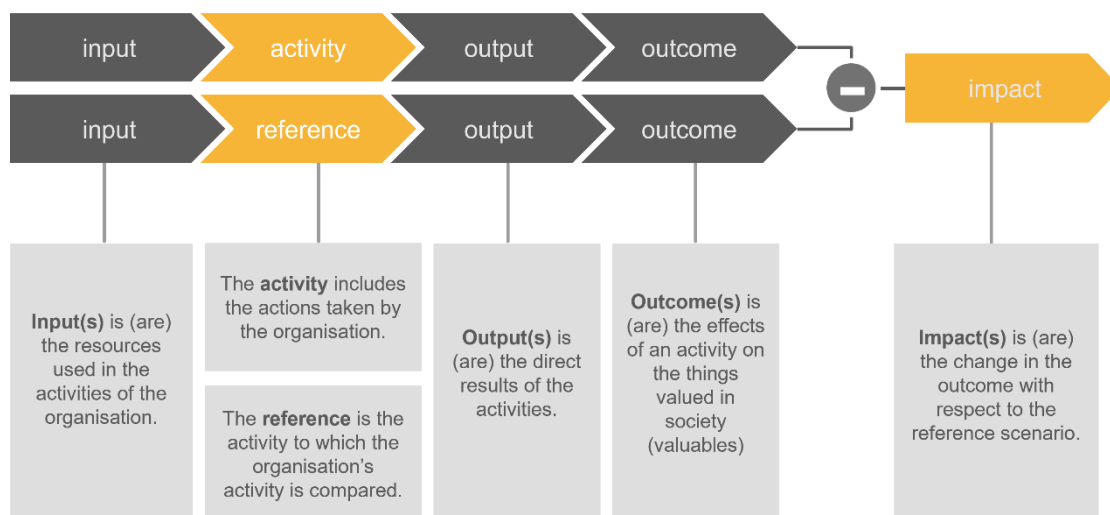
- In the context of IWAs, it contains living (biotic) and non-living (abiotic) natural resources, including scarce resources, climate and ecosystems that provide benefits to current and future generations (“ecosystem services”).

**Table C.7:** Examples of Natural Capital stocks and flows

<b>Natural Capital stocks</b>	<b>Natural Capital flows</b>	<b>Associated impacts</b>
<b>Clean air</b>	Carbon sequestration	Positive impact for society-as-a-whole (reduces the stock of CO <sub>2</sub> through planting trees)
<b>Clean water</b>	Use of scarce water	Negative impact for society as a whole (reduces the stock of available clean water)

## D. The Impact pathway

D.1.1. The building blocks of the impact pathway are shown in Figure C.1. These are (realised or projected) activity, reference activity, input, output, outcome and impact.



**Figure D.1: The impact pathway and its building blocks. This figure focusses on an impact that is associated with an output. Impact pathways that are associated with the use of inputs are also possible.**

D.1.2. A **realised activity** is an activity the organisation has realised in the reporting period, while a **projected activity** is a forecasted activity the organisation will or might realise in the future.

D.1.3. A **reference activity** is an activity that would otherwise have occurred in the chosen timeframe had the organisation not undertaken the actual activity.

- The reference activity makes explicit that some capital flows and generation of wellbeing also take place in the absence of the operations of the organisation. The reference scenario explicitly follows these flows.
- After calculating the outcomes of the realised (or projected) *and* reference activities, only the difference of the two is accounted for as an impact.

D.1.4. An **input** refers to the resources used in the organisation's activity.

- Inputs mostly reflect voluntary and positive capital changes to the organisation, while they reflect negative capital flows to stakeholders. Stakeholders that deliver input to the organisation typically get something in return.
- Examples are materials used (negative Manufactured Capital flow for suppliers—but they are compensated for it with payments), the working time the employees put in (negative Human Capital flow [value of time] for employees—but they are compensated for it with salaries and other benefits) and payments by clients (negative Financial Capital flow for Value chain partners (suppliers and B2B clients) and (End-)Consumers — but they get a product or service in return).



- As mentioned in Section 5.2, inputs can lead directly to outcomes. As an example, consider the use of the non-renewable material aluminium in manufacturing processes. A direct result of using the input material is a (slight) contribution to the depletion of the global resource. This results in lower availability for future generations.
- D.1.5. An **output** is any direct effect of the organisation’s activity that occurred during the reporting period and is not an input.
- Outputs are typically under the direct influence of the organisation. They include delivered products or services, but also include (intended and unintended) by-products that resulted from the processes of the organisation’s activities.
  - While inputs, from the stakeholders’ perspective, always appear as negative flows, outputs can either be positive impacts (if they increase capital stocks or wellbeing of a stakeholder) or negative impacts (if they reduce capital stocks or wellbeing).
  - Examples are delivered products (intended positive flow of Manufactured Capital to Value chain partners and (End-)Consumers), salaries (and other elements of comprehensive benefits) paid to employees (intended positive Financial Capital flow for employees) or greenhouse gases emitted (unintended negative Natural Capital flow for Nature and its beneficiaries).
- D.1.6. An **outcome** of an activity of the organisation reflects the direct or indirect effects on valuables of the outputs.
- These effects can arise from the use of inputs or as a result of the outputs of the organisation.
  - Unlike inputs and outputs, outcomes are usually not under the direct control of the organisation. Again, outcomes can be both intended and unintended [50].
  - For each of the examples in 5.2.7 and 5.2.9, there is an effect on valuables associated with the capital flows to and from stakeholders, which is an outcome that is directly associated with the inputs and outputs. For example, the additional effect of climate change associated with greenhouse gas emissions leads to violations of the rights of people and communities (e.g., the right to a safe, clean, healthy and sustainable environment)
- D.1.7. An **impact** of an activity is the difference of an outcome of a realised (or projected) activity with respect to the counterfactual outcome in the reference activity.
- Impact is realised when there is a difference in the realised outcome as compared to its reference during the organisation’s reporting period.
  - An example is the difference in wellbeing associated with the (actual) salary payments and those in the reference scenario (relatively positive/negative Financial Capital impact for employees).
  - An impact of the organisation’s activity can also occur after the reporting period (e.g., greenhouse gas emissions now lead to climate change in the future). This impact needs to be projected, but also quantified accordingly in the IWAs. For example, the benefits of providing

education often materialise in future years. Similarly, emissions of pollutants often lead to changes in ecosystems and biodiversity after time.



## E. Defined terms

This section seeks to provide the working academic definitions for terms that have been used in this document.

**Table E.1:** Glossary

<b>Term</b>	<b>Definition</b>	<b>Used in</b>
<b>Impact-Weighted Accounts</b>	A set of comprehensive quantitative and valued accounts containing impact information about an organisation (or organisations) that organisations and their stakeholders can use to make informed integrated decisions	Section 1.1
<b>Integrated Profit &amp; Loss Accounts</b>	IWAs that contain all material information about the impact an organisation has had during a period, organised per capital and stakeholder group.	Section 1.1; Section 8.5
<b>Integrated Balance Sheet Accounts</b>	An overview of all IBaS impacts of an organisation at the end of a given period	Section 1.1; Section 8.8
<b>Useful impact information</b>	Impact information that is used for integrated decision-making of the organisation and its stakeholders. Useful impact information enables stakeholders to compare and rank distinct options, according to their preferences, where such preferences are not only based on financial value creation for investors but also on the creation or reduction of valuables of other stakeholders.	Section 1.2
<b>Informative Reference</b>	A document that the IWAF acknowledges and that provides additional information to strengthen the understanding of this framework. The nature of this reference is descriptive.	Section 2.3
<b>Stakeholders</b>	Individuals (or entities) affected by an organisation's business activities, as well as the individuals who can affect an organisation's value creation ability. Stakeholders can include investors, employees, value chain partners (suppliers and B2B clients) specifically employees (workers in the value chain), Nature and its beneficiaries, governments and local communities, and (End-)Consumers.	Section 3.1
<b>Valuables</b>	The things which are valued in society and thus matter if they are affected through (business) activities are valuables. It is very individual what these valuables are, but common ones include human wellbeing, the state of nature, and a just society.	Section 3.2
<b>Capital Stocks</b>	The collection of resources (i.e., assets) available for future production, service provision, consumption or other use by organisations, people and ecosystems	Section 3.3
<b>Capital Flow</b>	A change in a set of capital stocks within a given timeframe in terms of the quantity or quality of any asset in the total stock, or in terms of the ownership of an asset. Capital can be increased, decreased, transformed or transferred (between different stakeholders) through an organisation's activities.	Section 3.3
<b>(Formal) Impact</b>	A difference in an outcome that affects the valuables of an organisation's stakeholder with respect to a reference scenario during a given timeframe. In the context of IWAF, impacts are those that can be measured and	Section 3.5

<b>Term</b>	<b>Definition</b>	<b>Used in</b>
	valued. Impact can be positive or negative, intended, or unintended, and can be assessed both backward-looking and forward looking; it can be direct or indirect (from the perspective of the organisation in scope) and it can be absolute or marginal (based on OECD, 2019) [42]	
<b>Reference scenario</b>	The set of activities and related outcomes that is assumed to happen in the absence of the organisation. Impacts reflect the difference in outcomes between the actual scenario (with the organisation) and the reference scenario	Section 3.5
<b>Value creation</b>	A situation in which that stakeholder is better-off after all the consequences of the activity are considered than without it	Section 3.4
<b>Value reduction</b>	A situation in which that stakeholder is worse-off after all the consequences of the activity are considered than without it	Section 3.4
<b>Net value creation</b>	The aggregate value created by that set of impacts for that stakeholder	Section 3.4
<b>Positive Impact</b>	An impact associated with a growth of capital stocks, or a creation of well-being as perceived by the stakeholder experiencing the effect	Section 3.5
<b>Negative Impact</b>	An impact associated with the decline of capital stocks or an erosion in well-being as perceived by the stakeholder experiencing the effect.	Section 3.5
<b>Absolute impact</b>	An impact generated by an organisation's activities when compared to a no-alternative reference scenario in which no activities occur	Section 3.5
<b>Marginal Impact</b>	The impact in which the organisation's activities are compared to an alternative reference scenario in which alternative activities would be expected to occur where the organisation is absent.	Section 3.5
<b>IWAF-compliant organisation</b>	An organisation that chooses to prepare and disclose annual IWAs. An IWAF-compliant organisation can be a single organisation or part thereof, or it can comprise more than one organisation. Such organisations can (but does not necessarily have to) be a legal entity	Section 3.5
<b>Direct Impact</b>	Impact caused directly by the organisation's own operations	Section 3.5
<b>Indirect Impact</b>	Impact caused indirectly by the organisation's own operations	Section 3.5
<b>Value chain impact</b>	A form of indirect impact that is generated somewhere in the organisation's value chain (either upstream or downstream)	Section 3.4
<b>The impact</b>	The set of all the organisation's impacts within all capitals on all stakeholders	Section 3.6
<b>Impact measurement</b>	The backward-looking process of quantitatively measuring impact to understand the past and current impact of an organisation's activities	Section 3.7
<b>Impact projection</b>	The forward-looking process of quantitatively estimating impact to understand the future impact of an organisation's activities	Section 3.6
<b>Impact assessment</b>	The process of measuring and projecting the impact of an organisation's activities	Section 3.6
<b>Double materiality view of an impact</b>	An impact is material if the impact materially affects (i) the future earning potential of the company, or (ii) the valuables of one or more (external) stakeholder groups	Section 4.3



<b>Term</b>	<b>Definition</b>	<b>Used in</b>
<b>Value chain responsibility</b>	The view that some impact is the responsibility of multiple organisations in a value chain, even if the impact occurs directly because of the operations of just one of them	Section 4.5
<b>The value chain of a product or service</b>	The set of organisations that supply (intermediate) goods and services to each other to produce a finished product or final service	Section 4.5
<b>The value chain of an organisation</b>	The combined total (i.e., union) of all value chains of all products and services to which an organisation contributes	Section 4.5
<b>Impact pathway</b>	A quantifiable chain of effect linking a specific activity of an organisation to its impact through a comparison of outcomes with those in the reference activity.	Section 5.2
<b>Valued impact</b>	An impact expressed in a quantitative unit that reflects the normative desirability of an impact from the perspective of a stakeholder	Section 6.2
<b>Monetarily-valued impact</b>	The valued impact where the unit used is monetary	Section 6.2
<b>Remediation costs</b>	A quantitative estimate of the cost that should be incurred to remediate the harm that is caused by unsustainable impacts	Section 6.2
<b>Impact aggregation</b>	The process of combining the values associated with multiple impacts into a single number	Section 7.2
<b>Impact Attribution</b>	The step that consistently distributes a share of the impact value to each of the stakeholders considered co-responsible for the occurrence of that impact	Section 7.3
<b>Attributed impact</b>	A weighted impact that reflects the contribution of an organisation to the impact	Section 7.3
<b>impact contribution</b>	A measure of the overall attributed impact of an organisation	Section 7.3
<b>The annual Impact-Weighted Accounts of an organisation</b>	Set of statements, including the IP&L and the IBaS, that provide an organisation and its stakeholders with the information required to evaluate the degree to which the organisation has realised its main organisational goals and societal functions during a given period and the degree to which it can continue to do so in the future	Section 8.2
<b>The Integrated Profit &amp; Loss Statement</b>	A statement that consists of an overview of all IP&L impacts of an organisation over a period. It presents all materially-valued impacts of the organisation, classified by the capitals and stakeholders that were realised during the reporting period	Section 8.5
<b>Derived statements from the IP&amp;L Statement</b>	Statements containing a subset of all IP&L impacts of an organisation over a period	Section 8.5
<b>Stakeholder Value Creation Overview</b>	A table that is derived from the IP&L that reflects the overall value creation of the organisation for each of its stakeholders through all the material impacts of the organisation's inputs and outputs	Section 8.6
<b>Sustainability Statement for External Costs</b>	A statement that provides information on the absolute social and environmental costs to which the organisation contributed and/or for which it shares value chain responsibility.	Section 8.7
<b>Sustainability Statement for SDG Contribution</b>	A statement that shows the contribution of an organisation to the UN's SDGs through its marginal impact on each of the SDGs	Section 8.7

<b>Term</b>	<b>Definition</b>	<b>Used in</b>
<b>The Integrated Balance Sheet</b>	A statement to inform the users of IWAs of assets and liabilities that affect their ability to create integrated value for all stakeholders and the IWAF-compliant organisation's responsibilities towards its stakeholders	Section 8.8
<b>Financial Capital</b> (Value Reporting Foundation definition)	The pool of funds that is available to an organisation for use in the production of goods or the provision of services, and that is obtained through financing, such as debt, equity or grants, or is generated through operations or investments	Appendix C.2
<b>Manufactured Capital</b> (Value Reporting Foundation definition)	Manufactured Capital consists of manufactured physical objects (as distinct from natural physical objects) that are available to an organisation for use in the production of goods or the provision of services, including buildings, equipment and infrastructure (such as roads, ports, bridges and waste and water treatment plants)	Appendix C.2
<b>Intellectual Capital</b> (Value Reporting Foundation definition)	Intellectual Capital consists of organisational, knowledge-based intangibles (including intellectual property, such as patents, copyrights, software, rights and licenses) and "organisational capital", such as tacit knowledge, systems, procedures and protocols.	Appendix C.2
<b>Human Capital</b> (Value Reporting Foundation definition)	Human Capital consists of people's competencies, capabilities and experience and their motivations to innovate, and includes their: alignment with and support for an organisation's governance framework, risk management approach and ethical values; ability to understand, develop and implement an organisation's strategy; loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.	Appendix C.2
<b>Social Capital</b> (Value Reporting Foundation definition)	Social Capital consists of the institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective wellbeing.	Appendix C.2
<b>Natural Capital</b> (Value Reporting Foundation definition)	Natural Capital consists of all renewable and non-renewable environmental resources and processes that provide goods or services that support an organisation's past, current or future prosperity.	Appendix C.2
<b>Realised activity</b>	An activity the organisation has realised in the reporting period	Appendix D
<b>Projected activity</b>	A forecasted activity the organisation intends to realise in the future	Appendix D
<b>Reference activity</b>	A specified counterfactual activity to the activity undertaken by the organisation that would have occurred in the chosen timeframe had the organisation not undertaken the activity	Appendix D
<b>Input</b>	The resources used in the organisation's activities. It is a voluntary and positive capital flow towards the organisation.	Appendix D

Note: from the perspective of external stakeholders, inputs are negative capital flows (reducing their stock of capital). As such, they appear as negative impacts in the IP&L Statement. They are never listed as external costs.



<b>Term</b>	<b>Definition</b>	<b>Used in</b>
<b>Output</b>	Any direct effect of the organisation's activity that occurred during the reporting period and is not an input	Appendix D
<b>Outcome</b>	A direct or indirect effect on valuables of the organisation's outputs over the reporting period	Appendix D
<b>Impact of an activity</b>	The difference of an outcome of a realised activity with respect to the counterfactual outcome in the reference activity	Appendix D

## Index – IWAF abbreviations

### Abbreviations not used in headings

CSRD	Corporate Sustainability Reporting Directive
DALYs	Disability-adjusted Life Years
ESG	Environmental, Social, and Governance
GRI	Global Reporting Initiatives
IBaS	Integrated Balance Sheet
IEF	Impact Economy Foundation
IIRC	International Integrated Reporting Council
IP&L	Integrated Profit & Loss
IR	Integrated Reporting
IWAs	Impact-Weighted Accounts
IWAF	Impact-Weighted Accounts Framework
SDG	Sustainable Development Goal
VRF	Value Reporting Foundation





## 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](https://www.impacteconomyfoundation.org)**

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