

Connecting narrative and numbers

How to reach a milestone for recoupling business to society and the environment

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The Value Balancing Alliance's objectives are to create a global impact measurement and valuation (IMV) standard for monetizing and disclosing positive and negative impacts of corporate activity. The alliance represents large international companies, including Anglo American, BASF, BMW, Bosch, Deutsche Bank, DPDHL, Kering, LafargeHolcim, Mitsubishi Chemical, Otto, Porsche, Novartis, SAP, Schaeffler, Shinhan Financial Group and SK. The VBA is supported by Deloitte, EY, KPMG, PwC, the OECD as a policy advisor and leading academic institutions, such as the University of Oxford.



The Global Solutions Initiative (GSI) is a global collaborative enterprise to envision, propose and evaluate policy responses to major global problems, addressed by the G20, through ongoing exchange and dialogue with the Think20 (T20) engagement group. The GSI is a stepping stone to the T20 Summits and supports various other G20 groups. The policy recommendations and strategic visions are generated through a disciplined research program by leading research organizations, elaborated in policy dialogues between researchers, policymakers, business leaders and civil society representatives.

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ABSTRACT

Our article presents three shifts in narrative, valuation, and standardization that converge to an important milestone. We demonstrate what these shifts mean for the post-pandemic “Great Realignment” and why standardizing impact measurement and valuation is key to the G20’s policy agenda. Recoupling business performance to society and the environment requires us to connect narrative and numbers. Finally, we propose to the global policy community how the G20 governments can facilitate global convergence.

»Standardizing impact measurement and valuation is key to the G20’s policy agenda.«

INTRODUCTION

Climate change, biodiversity loss and fractured societies are among the multiple and interconnected crises at the beginning of the 21st century. Simultaneously, both the COVID-19 pandemic and the digital revolution upend the way we live, work and communicate. And it dawns on us that we would need to organize ourselves differently if we were to address those multiple challenges while recovering from this global public health crisis. We need a systemic “recoupling”: the sustainable balancing and measurement of wealth as the core element of the “Great Realignment” –

the “new normal” after the recovery from the pandemic.

The Global Solutions Summit in 2021 focuses on new measurements at the macro and micro levels. Historically, fundamental economic changes in modern times are reflected in and shaped by accounting systems.¹ For example, double-entry bookkeeping accompanied the development of the mercantile and industrial capitalist system. The US Generally Accepted Accounting Principles emerged after the 1929 stock market crash, followed by a national system of accounts and Gross Domestic Product (GDP) in the wake of the Great Depression and World War II.² Today, the current global sustainability reporting landscape is changing rapidly in three concurrent shifts of narrative, valuation, and standardization. The need for new performance measurement is well-documented and widely shared among academics and practitioners.³ Cross-sector partnerships⁴ to establish impact valuation standards contribute directly to the G20’s priorities around “people, planet and prosperity.”⁵

THE NARRATIVE SHIFT

It has become increasingly clear that the power of unity among societies is the only path towards global problem-solving, irrespective of political preferences. Mega-crises require all relevant stakeholders to work together. While the pandemic proved the fragility and the interconnectivity of our world, the research community successfully developed effective vaccines in a dizzyingly short time. Cross-sector collaboration must become the new narrative for policy-making. “Me first” strategies have proven ineffective in the fight against glob-

al crises such as pandemics or climate change. The demand for a new narrative focusing on recoupling has been put to the G20 and other international institutions in recent years. It has underpinned all Global Solutions Summits in Berlin.⁶

»Systems change is about moving from profit maximization to value optimization.«

The Recoupling Dashboard

This narrative shift matches a vision for the continent of Africa described by Felwine Sarr, Senegalese author and professor at Duke University. He demands radical new thinking about wealth, progress and development. He reminds us of society’s purpose, such as solidarity and the quality of social relations. A myth of Western wealth ideology has displaced these values, Sarr argues.⁷ The Recoupling Dashboard proposed by Dennis Snower and Katharina Lima de Miranda takes a similar approach and offers an alternative to GDP for measuring societal well-being. The dashboard illustrates the interrelation between economic prosperity, social prosperity and environmental sustainability.⁸

The trend towards a more holistic approach, which considers our actions’ long-lasting effects, can increasingly be seen in politics and social movements. The last three years were replete with extraordinary

statements in many business networks: The Business Roundtable, represented by 181 CEOs, moved away from shareholder primacy⁹; the World Business Council for Sustainable Development (WBCSD), with a membership of over 200 global companies, demanded “systems transformation” to realize the Sustainable Development Goals¹⁰; and Larry Fink, Chairman and CEO of Blackrock, the world’s largest asset management firm, proclaimed in an open letter to CEOs a commitment to “supporting the goal of net zero greenhouse gas emissions by 2050 or sooner.”¹¹

In 2019, the Value Balancing Alliance (VBA) embarked on a cross-industry and business-driven journey to measure impacts and improve business steering. For decades, businesses have focused on profit as the standard metric for success. Today, the focus on long-term value creation requires additional and different types of key performance indicators, for example, to understand the climate footprint of a company. New measurement standards will enable decision-makers to deal with complexity, trade-offs, and potentially conflicting targets across social, environmental, and economic dimensions.

The narrative shift influences corporate incentive structures, as systems change is about moving from profit maximization to value optimization. Businesses operate within social and economic systems and depend on collaboration and stable frameworks that cannot be built by corporate leaders alone: a healthy environment, public infrastructure, education, public health, political stability, legal certainty, and an enabling public administration. Building such a resilient political and economic framework is the task of the en-

tire society in which the business community plays a critical role in establishing and protecting public goods.

THE VALUATION SHIFT

Recent publications and initiatives such as the Natural Capital Protocol and ISO 14008, Harvard’s Impact Weighted Accounts, and Oxford’s Rethinking Performance indicate the broader movement towards new valuation approaches. A shift in valuation enables businesses to turn their policies into sustainable decisions. As an alliance of global companies, the VBA’s purpose is to develop a feasible and comparable system for assessing and evaluating the impact of their activities on society, nature, and the economy. Monetization of social and environmental impacts is at the heart of this approach to develop a standardized methodology that translates sustainability into the language of businesses, investors, and policymakers. The VBA methodology expresses the different impacts on society across various dimensions and topics (e.g., carbon emissions, water, waste, training) in conventional financial units (e.g., USD). With this methodology, companies can compare apples to apples and better align their activities with public policies.

The VBA Impact Statement: Decision-focused and science-based

The VBA recently published the first version of its methodology papers on the VBA Impact Statement after a year-long engagement and piloting by its member companies.¹² Rather than starting from scratch, the methodology builds on existing and tested ESG frameworks, peer-reviewed scientific studies, and widely accepted methods for impact measurement and

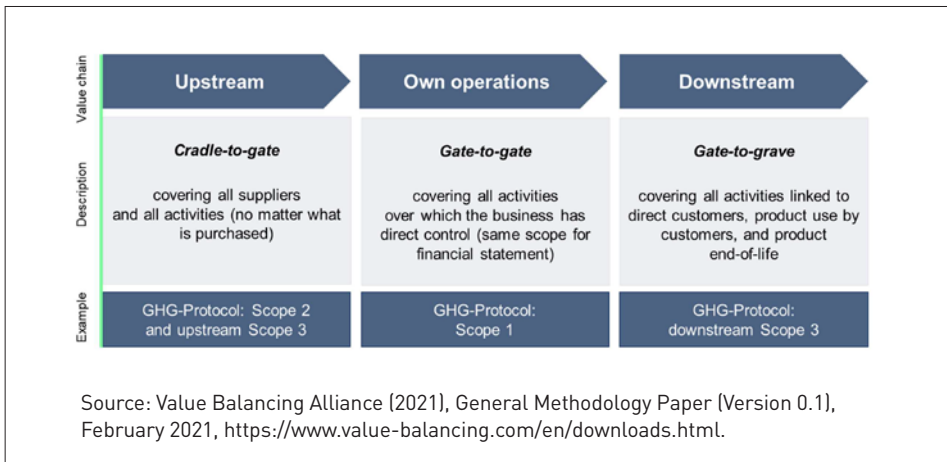
valuation. The VBA Impact Statement consists of nine indicators and 183 sub-indicators in the environmental, societal, and economic dimensions to assess the impacts of business activities as comprehensively as possible. As shown in Figure 1, each indicator is logically derived from the impact pathways and mapped onto the value chain.

In a hyper-connected society, companies' activities and performance need to be considered in the bigger picture. By covering the impact across the boundaries of the value chain, the VBA supports companies to develop a new framework that includes a more accurate account of the positive and negative impacts of their business models. In turn, the VBA methodology enables companies to obtain a clearer picture of their strengths, weaknesses, business opportunities, and risk exposures.

Impact valuation: Pilot testing and continuous learning

In 2020, the Value Balancing Alliance conducted the world's first pilot testing of its kind. A global standard for impact measurement and valuation needs to be widely accepted across various industries, geographies and firm sizes. The VBA methodology is tested against several criteria: feasibility, scalability, robustness, comparability, connectivity, and relevance. It needs to be continuously adjusted according to the member companies' feedback. Eleven member companies from seven industries ran an extensive pilot testing program across nine regions globally, ultimately linking impact valuation to corporate decisions (Figure 2). The VBA builds a unique knowledge base through continuous feedback from various industries and business units (e.g., finance, strategy, sustainability, HR, EHS) to inform

Figure 1: The VBA Impact Valuation Methodology across the boundaries of the value chain



subsequent methodology versions over the next years.

The development of the methodology is an ongoing process and will be made available to the public. The first pilot test result provided a picture of where and how the companies stand and showed their financial and non-financial performance. After several further iterations, the VBA will cease to exist as an organization when it has fulfilled its mission.

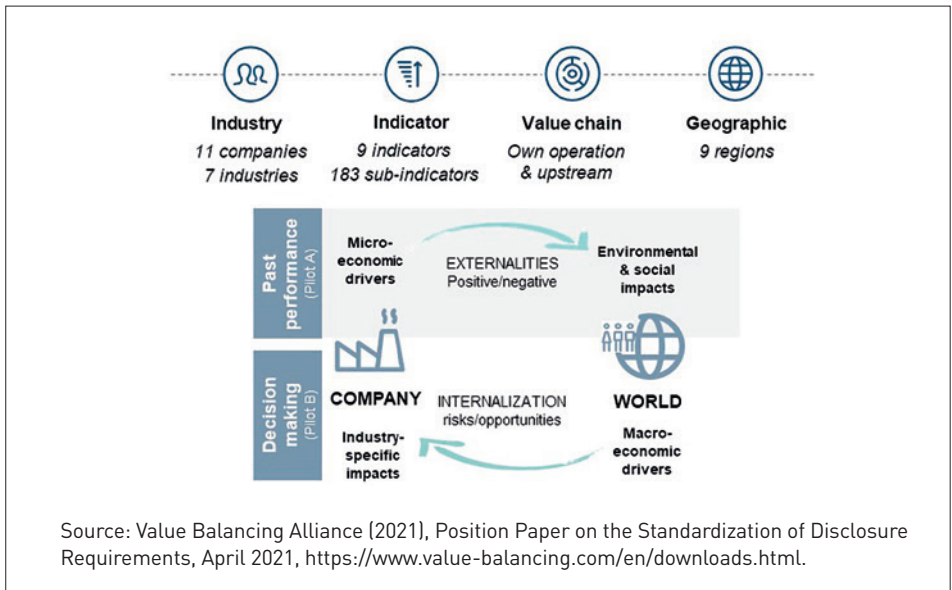
THE STANDARDIZATION SHIFT

The shifts in narrative and valuation are mutually reinforcing. However, this does not mean that standardizing new forms of measurement and accounting has become more comfortable. As the VBA's ini-

tial pilot testing has shown, the development and application of valuation models are complex due to different definitions, scopes, and uncertainties in designing and applying indicators and calculating coefficients.

As shown in Figure 3, the current convergence of global reporting standard-setters and initiatives is a promising sign towards clarification and harmonization.¹³ In the past decades, organizations engaged in sustainability reporting – the GRI, the CDSB, the CDP, the IIRC, and SASB – have been essential in pushing businesses to operationalize high-level commitments. In 2020, the IIRC and SASB announced that they would join forces in the new Value Reporting Foundation.¹⁴ Policymakers and

Figure 2: Overview of the piloting of the VBA General Methodology Version 0.1 in the year 2020



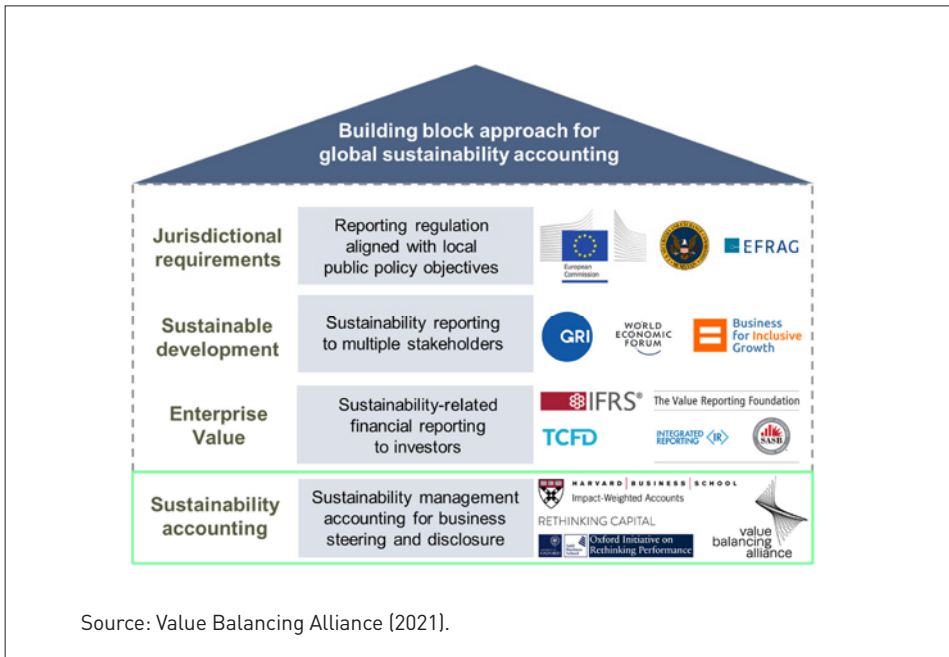
Source: Value Balancing Alliance [2021], Position Paper on the Standardization of Disclosure Requirements, April 2021, <https://www.value-balancing.com/en/downloads.html>.

regulators have stepped up as well: The European Union plays a vital role, with legislative projects such as the revision of the Non-Financial Reporting Directive (NFRD), the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy for Sustainable Activities, and Sustainable Corporate Governance. Global initiatives such as the UNPRI or the Impact Management Project are essential to facilitate this convergence by building a common language, keeping up investor pressure, and engaging financial market players to transform their practices.

Those developments have led to a pivotal moment that could represent a fundamental shift in standardization. In early

2019, the IFRS set in motion and has since re-enforced a process that eventually leads to creating a Sustainability Standards Board mandated to develop global standards for sustainability reporting.¹⁵ The Value Reporting Foundation will play an essential part in this process. If this development proves successful and durable, we will have reached a necessary milestone of recoupling business performance to society and the environment.¹⁶ Undoubtedly, reaching this milestone will open a set of further challenges in the future. Global standards may be incompatible with local institutional and social contexts. Differences in governance systems and

Figure 3: Organizations and initiatives involved in the standardization of sustainability reporting and impact valuation in the year 2021



Source: Value Balancing Alliance (2021).

diverging economic and political interests may resurface in the technical implementation. Those potential stumbling blocks demonstrate the critical role of the G20 in this global convergence.

»A shift in valuation enables businesses to turn their policies into sustainable decisions.«

Even if new standard-setters emerge from the current standardization shift, they will likely focus on disclosure, not business steering. Policymakers need to match sustainability reporting standards with another critical but hitherto missing component: managerial accounting and the standardization of measuring performance for decision-making. Unlike other organizations, the VBA focuses on the monetization of impacts to combine the current business language with the future kind of business steering. We can only create a pragmatic solution based on pilot testing, continuous learning, and scientific and professional expertise. Ultimately, the standardization of impact valuation and sustainability reporting are mutually reinforcing.

CONCLUSION: A KEY MOMENT FOR THE G20 POLICYMAKERS

While the three shifts in narrative, valuation, and standardization are approaching at full speed, the G20 can underpin those changes with a robust institutional framework. As we demonstrated above, it is evident that businesses and policymakers are moving in this direction. The Recoupling Dashboard and the VBA's Impact Valuation Methodology can be indispensable tools on this journey. While those projects build on existing frameworks and complement each other in their macro-economic and company-level perspective, they also aim to be science-based and decision-focused.

Following several attempts since the Rio+20 conference in 2012,¹⁷ we have arrived at a pivotal moment for the G20 to put sustainability reporting and impact valuation on the global policy agenda. This approach of recoupling makes it far more likely to achieve tangible and timely change. The new thinking – beyond profit maximization and towards value optimization – opens the door to alternative concepts based on community and solidarity. Consequently, recoupling can inspire a new vision for the G20, international institutions, and societies worldwide. Humans cannot negotiate with either climate change or a pandemic. Yet, we can connect narratives and numbers to overcome those grand challenges with a global solution.

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