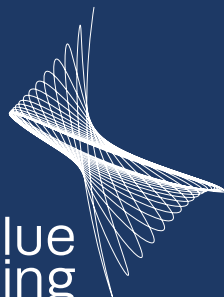


The Value Balancing Alliance pilot study

value
balancing
alliance



A leap forward towards
a standardised Impact
Valuation methodology

First Pilot Study | May 2021

What impact do companies have on society?

First Pilot Study | May 2021

What impact do companies have on society? How can their value contributions be made measurable and comparable in balance sheet terms? The Value Balancing Alliance has set out to answer these questions.

In recent months, eleven member companies from seven different industries have successfully piloted the Value Balancing Alliance's methodology v0.1. The focus was on the impact companies have on society. The first pilot is an important step towards a standardised methodology for impact analysis across all industries. Above all, it has shown that the methodology can be used successfully with reasonable effort, as well as demonstrating how the long-term value contribution of companies can be compared.

>> In the first pilot, we learned how robust and powerful the methodology can be for everyday business decisions and disclosures. We are very optimistic about the second pilot. It will take us a big step closer to developing a cohesive and applicable standard.

Christian Heller
CEO
Value Balancing Alliance



Behind
values,
there are
always
people.

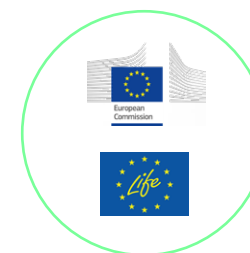
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About the Value Balancing Alliance

The Value Balancing Alliance (VBA) is a non-profit organisation of multinational companies with the common goal of developing a standardised methodology to ensure greater sustainability and transparency in business.

With our product, we enable business leaders to be changemakers for a sustainable and inclusive future. Our objective is to create a global impact measurement and valuation (IMV) standard for monetising and disclosing the positive and negative impacts of corporate activity and to provide guidance on how these impacts can be integrated into business steering. The standard, or “methodology” as we call it, translates environmental and social impacts into comparable financial data. And our member companies pilot the methodology to ensure feasibility, robustness, and relevance.

Founded in June 2019, the VBA represents more than 20 large international companies across sectors and industries. The VBA is supported by the four largest professional services firms – **Deloitte**, **EY**, **KPMG** and **PwC** – as well as by the **OECD**, the **World Economic Forum** and leading academic institutions, including the **University of Oxford** and the **Impact Weighted Accounts Initiative** at **Harvard Business School**. Furthermore, in partnership with the **Capitals Coalition** and the **WBCSD**, the VBA receives funding for the project **TRANSPARENT** from the EU through its **LIFE programme** for the Environment and Climate Action and is member of the **EU Platform Sustainable Finance**.



Public funding*
and mandates



Strategic
partnerships

* The TRANSPARENT Project has received funding from the LIFE program of the European Union.

Figure 1: About the Value Balancing Alliance



With the Value Balancing Alliance, we are creating a methodology to **measure the impact of sustainable business practices. This enables companies to manage and report their transformation – with a positive impact for all stakeholders.**



Volker Krug
CEO
Deloitte Deutschland

A global IMV standard is needed not only to foster long-term thinking, comparability and transparency of total impact and the value of corporate behaviour on nature, society and the enterprise, but also to consolidate the knowledge already available in this field. The VBA builds upon existing approaches to standardised methodology, reflecting the concept of double materiality for measuring value to society ("Impact Statement") and value to business ("Integrated Account").

While the Integrated Account methodology is currently in development, the VBA Impact Valuation (Impact Statement) methodology v0.1 has now been published and successfully applied and tested by VBA member companies. **This marks a big leap forward towards a standardised impact valuation methodology across industries and sectors.**

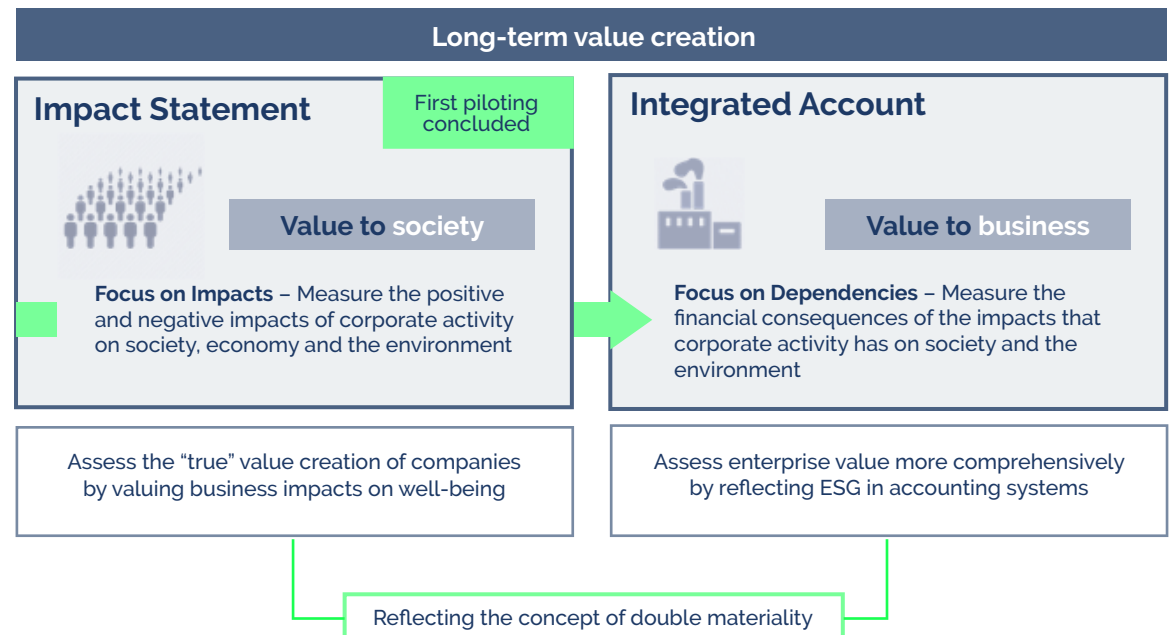


Figure 2: Methodology framework

Overview of Impact Valuation methodology v0.1

Measuring inputs, outputs and outcomes of business activities is important – but not sufficient. Measuring impacts is also essential to indicate what matters most to stakeholders and society.

VBA Impact Valuation methodology v0.1 provides an approach to measuring and valuing the impacts of business activities on society. In developing Impact Valuation methodology v0.1, the VBA has integrated the work of leading universities and well-known organisations such as the World Bank, the World Economic Forum, the OECD, Capitals Coalition, the WBCSD, the Impact Management Project, the GRI, SASB and the IIRC. It is obvious that the envisioned transformation and system change will require the cooperative power of all players in the business ecosystem.

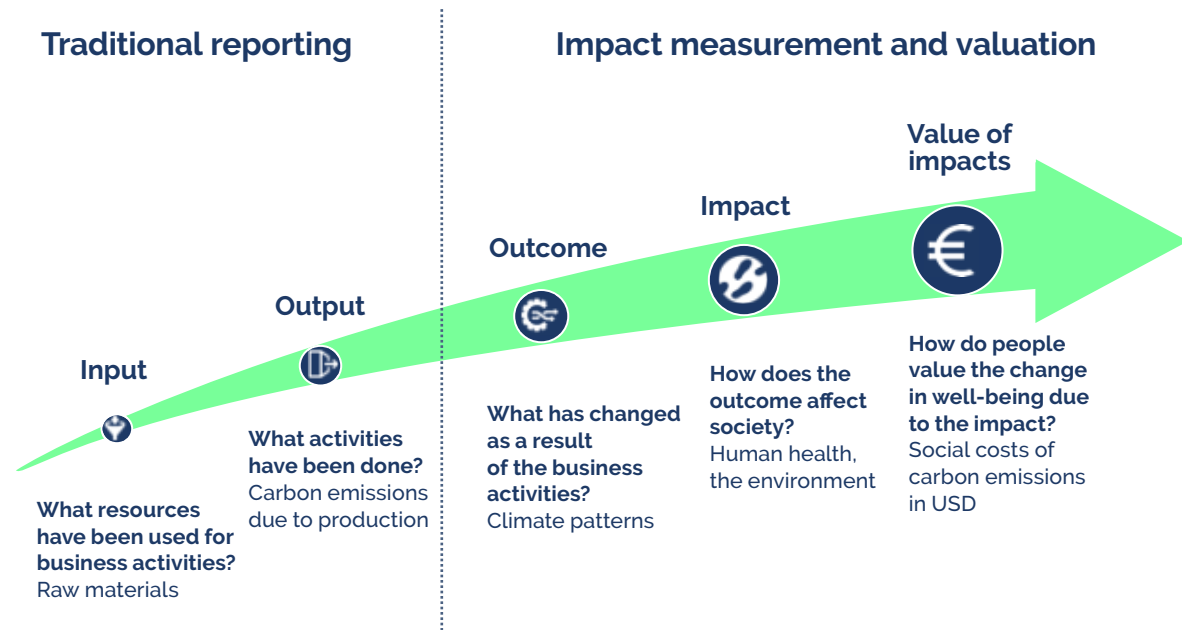


Figure 3: From inputs to valued impacts

The methodology v0.1 currently covers three impact dimensions:

- Economic
- Human and social
- Environmental

Beyond financial performance, the monetisation of impact reflects social value, taking into account benefits and costs to society in monetary terms. Furthermore, monetising impact enables people who may not be experts in economic, environmental and social fields to immediately grasp the context and engage on the subject matter. In addition, money is the levelling language that businesses and other stakeholders understand: **monetisation can inform and support decision-making processes while increasing transparency towards external stakeholders, especially in relation to an organisation's performance.**



You can download our general **Impact Statement methodology paper** as well as **our papers focusing on environmental and socio-economic impacts** from our website.

Economic	Gross Value Added (GDP contribution): taxes, wages, profits etc.
Human and social	Occupational health and safety
	Training
Environmental	GHG/climate change
	Air emissions
	Water consumption
	Water pollution
	Land use (biodiversity)
	Waste

Table 1: Scope of indicators across impact dimensions in methodology v0.1



We have been a proud supporter of the VBA since its inception. More than a decade of experience in impact evaluation allowed PwC to make a significant contribution to the development of the methodology. We are happy to drive real impact.

Robert Prengel
Head of Impact Valuation
PwC Germany



Pilot results

In 2020, the members of the Value Balancing Alliance piloted the VBA Impact Statement methodology v0.1. **A total of 11 companies representing 7 industries¹ tested the feasibility, robustness and relevance of the methodology and framework.** It should be noted that some VBA member companies are advanced in impact measurement and valuation, while others used the approach for the first time.

Regardless of their previous experience, all companies were able to successfully apply the proposed Impact Valuation methodology. The extensive peer exchange within the VBA helped accelerate adoption of the methodology by the newcomers. Although it was challenging, even the less experienced companies were able to educate and engage their stakeholders, source the necessary data and calculate their impact on society and nature within months of the start of piloting.

¹ Industries that piloted the VBA Impact Statement methodology v0.1: automotive, chemical, construction, pharmaceutical, finance, ICT, tobacco

All of the companies measured and valued the economic, social and environmental impacts arising from their own operations and their full supply chain.

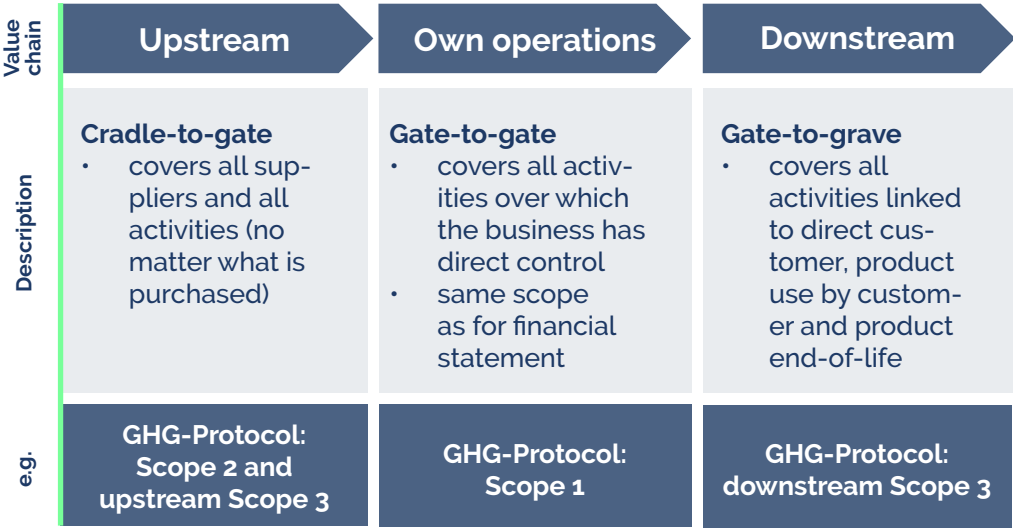


Figure 4: Simplified value chain; pilot focused on upstream and own operations

Let's change the running system

First Pilot Study | May 2021

Primary data was largely used to calculate the impacts of companies' own operations. As expected, data availability and quality for the 9 indicators varied, with better data available for topics that were relevant and material for each company. For example, the data for water pollution and land use presented the highest level of uncertainty.

Direct data was generally preferred but often not available for the supply chain. Therefore, most companies relied on macroeconomic modelling to measure their upstream impacts. Extended input-output modelling based on national statements of accounts proved useful to address data gaps in the supply chain.

The results of the piloting provide a glimpse into the holistic value contribution to society and nature along the value chain. Examples from two companies are presented in figures 5 and 6. **They show the calculated impacts of the companies for fiscal year 2019.**

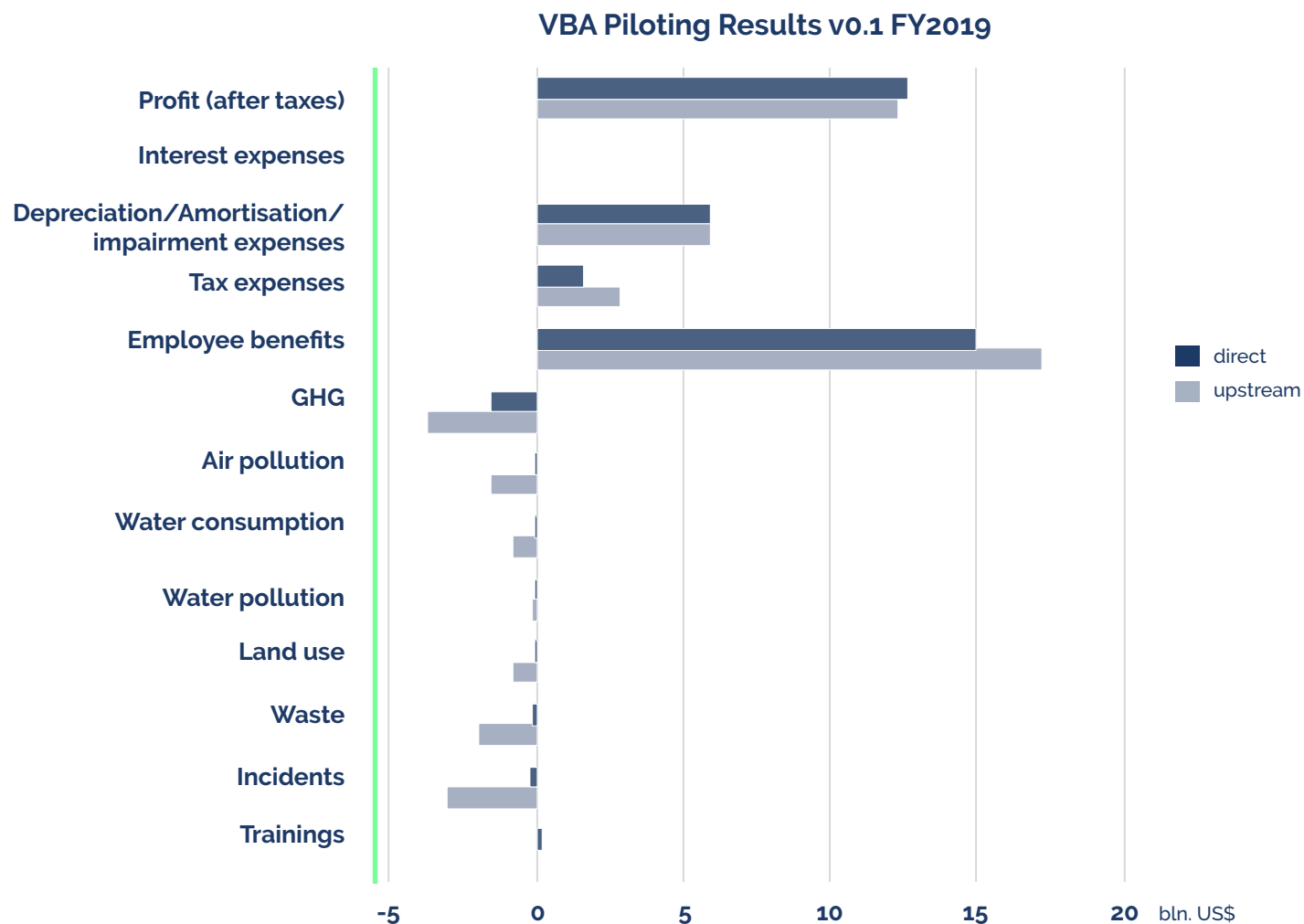


Figure 5: Calculated impacts of company A for fiscal year 2019 (own operations and upstream supply chain)

VBA Piloting Results v0.1 FY2019

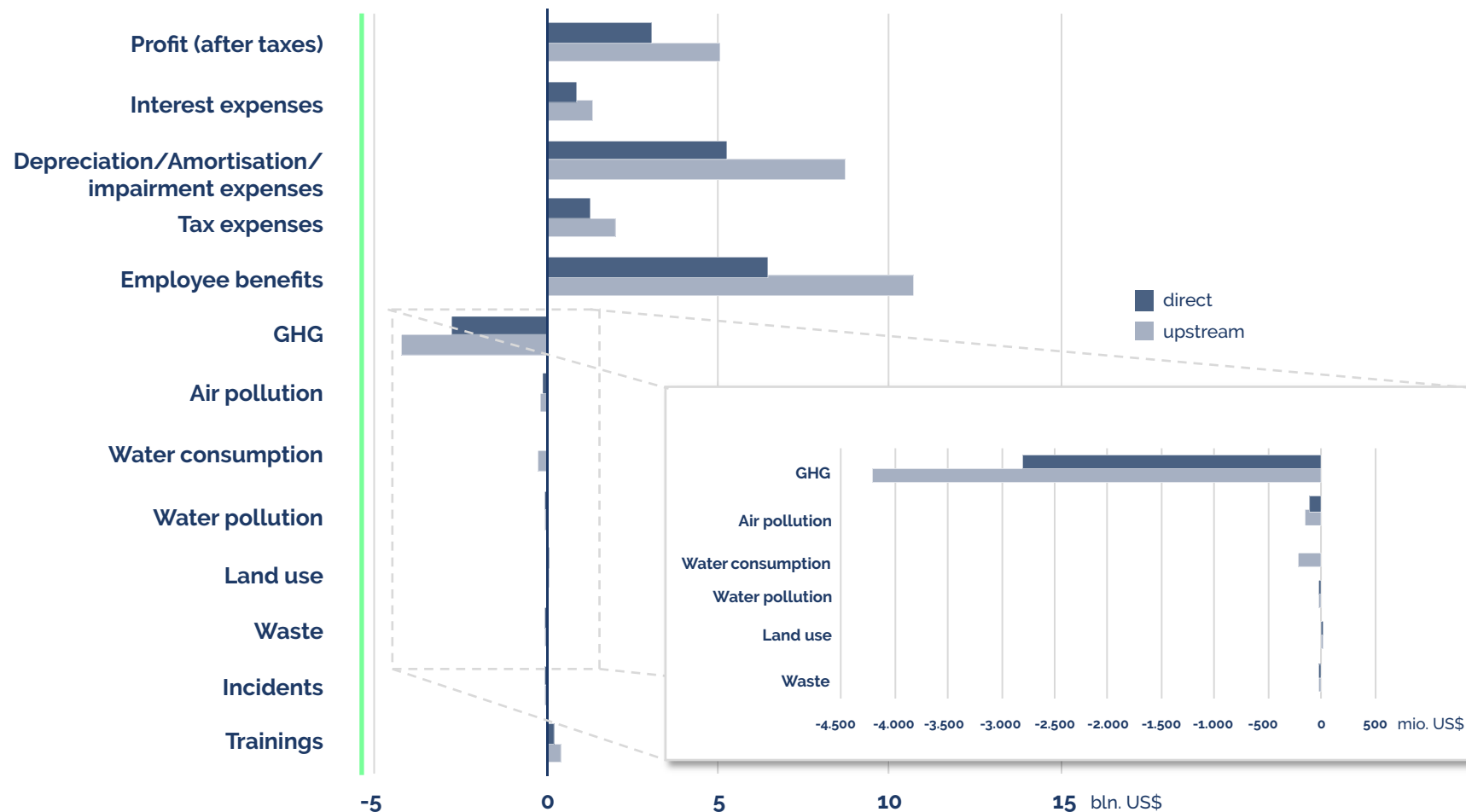


Figure 6: Calculated impacts of company B for fiscal year 2019 (own operations and upstream supply chain)

Looking at own operations and the upstream value chain, economic indicators account for the largest impacts. Companies contribute to economic welfare and increased purchasing power of individuals and government (i.e., via wages and taxes paid). Costs to society are caused by the corporate environmental footprint and by occupational illnesses and incidents.



We acknowledge that the description of the social impacts is far from complete. The first version of the methodology includes only very few social indicators. For example, the potential positive social impacts of products and the impact of living wages etc. are not considered in the methodology v0.1 but will be taken into account in future versions.

The methodology provides transparency on how and where companies create positive and negative impacts. Thus, focus areas can be identified as the VBA members strive to improve their sustainability performance.

Whether own operations or the supply chain account for larger impacts depends mainly on the position of a company in the value chain. For example, extraction and processing of raw materials are often more energy intensive than the production of intermediate or consumer goods. **Overall, the VBA members who had already used impact valuation prior to piloting found the indicators consistent with their own approaches.**



**We have never
before examined
ourselves in such
a comprehensive
light – and the
results are great!**



Dr. Sebastian Rudolph
Vice President Communications,
Sustainability and Politics
Dr. Ing. h.c. F. Porsche AG

>> At Schaeffler we are part of the VBA to develop an approach to harmonize sustainability reporting frameworks in a **joint effort**. The first VBA pilot provided further insights how the **impact of our supply chain** and own **production on society** can be measured.

Andreas Possel
Head of Sustainability Reporting
and Stakeholder Engagement
Schaeffler AG



Further insights were provided by the second part of our study, where companies applied the methodology in a decision-making context. For example, the impact of changing feedstock from conventional to renewable sources was examined (Figure 7). In this case, the positive impact of the reduced greenhouse gas emissions comes with higher societal costs for land use.

Focusing on single reduction targets is not sufficient to optimise value creation. A broader perspective is required.

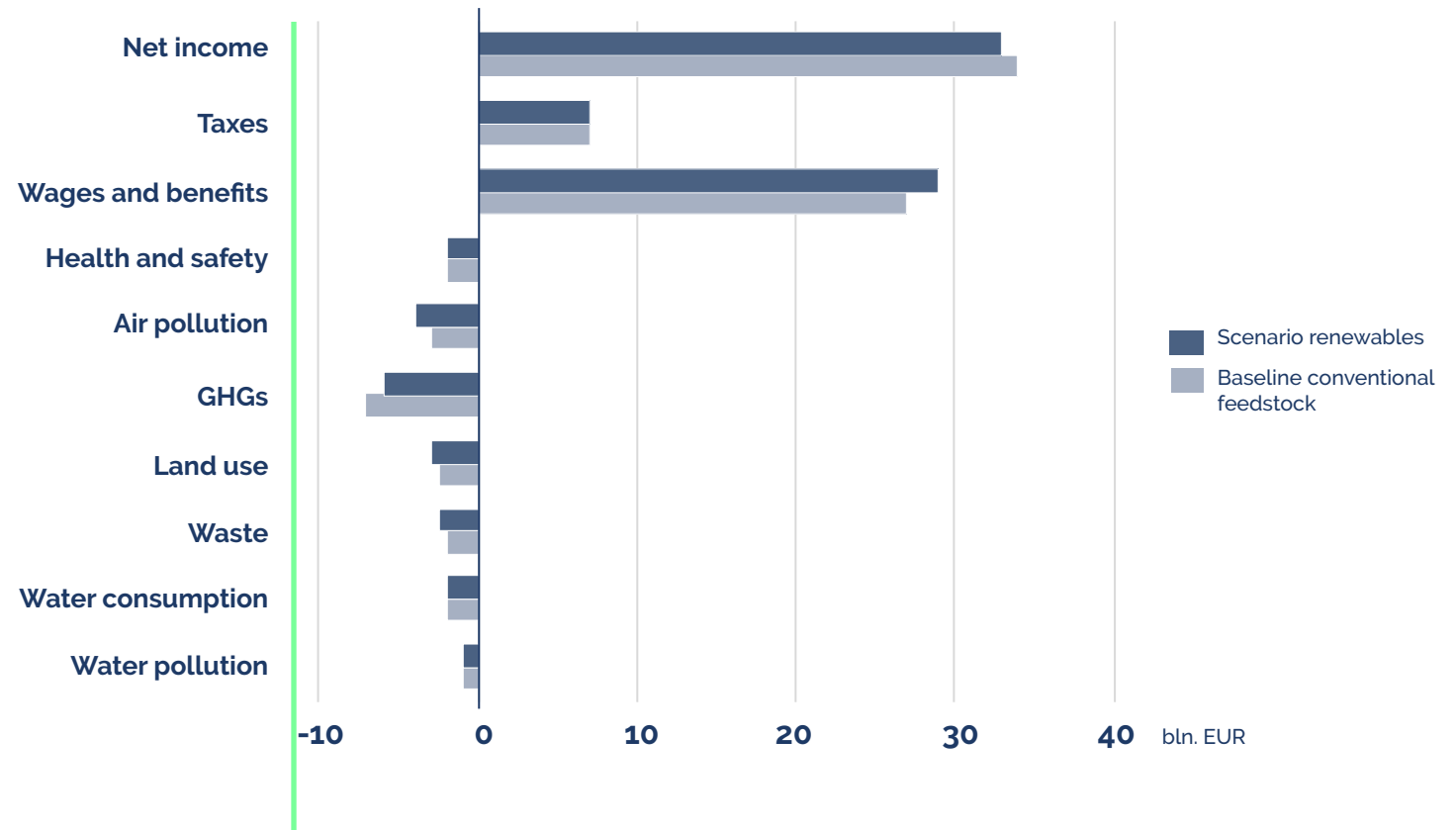
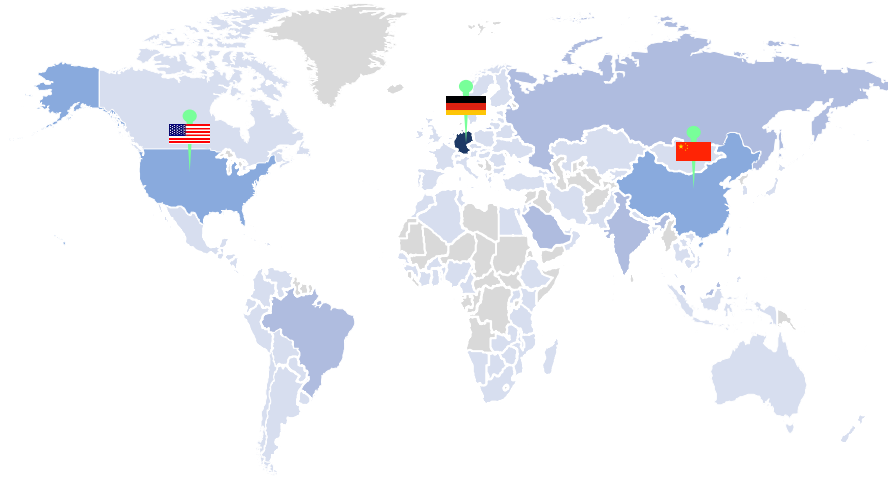


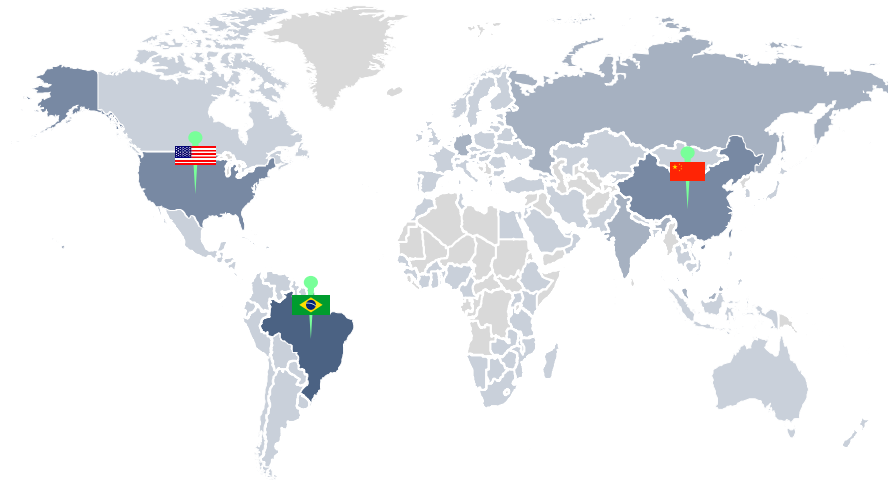
Figure 7: Scenario analysis for comparison of different feedstock types

Benefits to society



The methodology also facilitates understanding of a company's value contributions at country level (Figure 8). In a globalised world with complex supply chains, positive and negative impacts are not distributed evenly across regions. For example, the extraction of raw material may cause negative environmental or health impacts in one country, while positive economic impacts occur in other countries at later stages of the value chain. **Business leaders can use this information to adjust regional and country-specific strategies based on the impact drivers per country.**

Costs to society



Other piloted business decisions involved comparing different products or production routes, comparison of product packaging options, scenarios for site development, optimisation of resource allocation for CSR programmes and optimisation of business flight spending and offsetting programmes.

The variety of piloted cases illustrates the potential and practical applications of our methodology. **It can provide relevant information and help corporates make better decisions.**

Figure 8: Positive and negative impacts of a company at country level



The piloting of the VBA methodology allows us to directly apply it in practice. By sharing our feedback, we play our part in developing an applicable, global standard for holistic performance assessment and sustainability accounting.



Alexander Fiedler
Sustainability Reporting
Analytics & Performance Management
BASF SE

>> The VBA methodology is consistent with Novartis' approach to **impact valuation** that we have been exploring and applying since 2015. As such, piloting the VBA methodology needed only small additional effort for Novartis. In the next update to the VBA methodology, we look forward to seeing the **Social Impact** dimension strengthened.

Paul Penepent
Head Group Financial
Reporting and Accounting
Novartis AG



Moving forward

This is work in progress. Aspects not yet considered include the social, environmental and economic impacts of products in the use phase through to the end of life. Furthermore, the social dimension in the VBA methodology will be strengthened. Additional indicators like human rights and living wages will provide a more comprehensive picture of the social impact companies create. We will also contribute to further standardisation with our partners through the TRANSPARENT project.



**For further information,
please contact us.**

The learnings from the piloting will inform the further development of the methodology in 2021. Besides refining the methodology for the impact drivers already included, we will extend the list of covered topics and take downstream impacts into account. The growing number of VBA members will pilot the next version of our Impact Statement methodology after the summer of 2021.

We will also explore how value to society translates to value to business. This perspective will enable corporate decision makers to arrive at more conscious decisions for everyone while leading their businesses competitively into the future.

The results and feedback from our first pilot study represent a leap forward towards a standardised Impact Valuation methodology that can be applied across industries and sectors. Long-term corporate value creation is made comparable based on a tested foundation. Only when companies take responsibility for the impacts of their actions on people and the environment can we bring about real change toward sustainability. **We welcome more companies to join us along the way.**



Stakeholders increasingly expect companies to include **environmental and **social criteria** in addition to business indicators. This sharpens the **holistic view** of the company's performance and enables comparability. That is why we support the Value Balancing Alliance."**



Christian Hell
Partner Sustainability Services
KPMG AG

>> The concept of impact measurement plays an increasingly **important role** in the discussion of global reporting formats for sustainability. Congratulations to the VBA for developing the first practice-tested approach.

Jan-Menko Grummer
Partner
Ernst & Young GmbH



#changemaker

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