



## Value Balancing Alliance – a journey to build a new language for corporate impact

**Jun Suk Lee**  
COO, Value Balancing Alliance

In today’s ever-changing world, businesses are facing new, non-financial challenges related to the environment, society and upholding human rights. Changing weather patterns increasingly damage business properties. Exogenic shocks like COVID and the Ukraine war are jeopardizing global value chains and have significant economic and social impacts.

Global transformations like these have shaken the principles that businesses have long believed in. Businesses are now required to answer fundamental questions, such as: How do we measure the various non-financial impacts of our business on society? How do we reflect these externalities in business decisions? How do we redefine corporate success?

To answer these questions, a new language is needed. A common language that can describe diverse non-financial topics such as climate change, biodiversity, training, health and safety. Now more than ever we need a language that integrates financial value with these topics. How should this new language look?

Approximately 150 years ago, the “periodic table” appeared as a new language in the areas of chemistry and physics. It described diverse chemical elements based on their chemical building blocks – ‘atomic numbers’ and presented them in one picture. It is useful to compare different elements, easily understand relations among them, and to predict chemical reactions of elements. This new language not only changed the way we think about the world, but also functioned as the ultimate canvas for innovation. It contributed significantly to shaping modern industries from chemical, energy, semiconductor, pharmaceuticals, and battery.

Now the business world also needs a customized language. A solution that explains diverse non-financial topics and connects them with financial discussions. This is required for businesses to better understand and manage their impacts and dependencies on society and nature, deal with changing ecosystems and contribute to solving pressing issues. Disclosing information in this new language would enable investors to move from the traditional risk-return perspective of investments to a risk-return-impact perspective. With a new language, governments would be able to better facilitate partnerships with the private sector to fulfill public goals such as the Sustainable Development Goals (SDGs) and the Paris Agreement.

### Impact Measurement and Valuation as a new language

Impact measurement and valuation (IMV) fits the needs of this new language. IMV is an approach that places a monetary value on the impact of companies in non-financial areas across the whole value chain. Many leading companies already apply this approach to transparently evaluate their sustainability performance, embed ESG considerations in their business steering, and make better decisions.

By applying IMV, company decision makers have the following benefits:

## **Integrate sustainability into core business**

Sustainability performance can be translated into a language which is readily understood by business leaders and investors – USD, Euro, or Yen. This enables easy integration of sustainability with financial decisions. Placing sustainability topics into business language via valuations enables companies to better understand their sustainability performance in line with financial performances.

For example, in the IMV language a business steering discussion about water consumption might include this statement, “water consumption for this course of action would result in social costs of 1 million USD.” In a traditional context, without IMV the statement would be, “this course of action requires 1,000 liters of water consumption.” It is more likely that companies will include sustainability topics in their business steering discussions and decision-making processes regarding product development, sourcing, supplier management and so on when sustainability valuations are implemented.

## **Promote decisions on trade-offs among varied impacts**

A monetized unit makes it easy to facilitate difficult decisions and discussion on the trade-offs between impact indicators. Different units such as m<sup>3</sup> (water usage), tons (CO<sub>2</sub> emissions), hours (training) and the number of accidents (health & safety) can be translated into a common unit (“\$”).

Sometimes tensions arise between sustainability indicators and different options. For example, building a factory for electric vehicles enables reduced carbon emissions, but at a particular site also increases the risk of endangering sand lizards. As more sustainability topics enter the discussion it becomes more difficult for companies to understand and compare their relevance. In these instances, IMV enables comparison and comprehension from decision makers that are not environmental experts by providing information in a language all business decision makers and stakeholders understand.

Importantly, IMV must not be used to net negative and positive impacts. For example, a large positive tax value cannot balance a negative air pollution value. In contrast, monetary valuation can help demonstrate the magnitude of negative impacts that a company should address, as well as the positive impacts a company should aim to further increase.

## **Identify material topics**

Monetized impacts provide a clear picture of material topics for corporates. For instance, quantifying and monetizing identifies which impacts (e.g., air pollution, water consumption) are relatively more material to the business and thus pose a higher risk to the business model and society. Based on IMV, the whole value chain of a company can be assessed, which allows stakeholders to see where material impacts occur throughout the value chain in a consistent and objective manner.

## **Contextualize information**

The real impact of corporate activities depends on the environmental, social, and economic contexts of the locations where the company operates. For example, impacts from the same amount of water consumption can create more negative values in a water-stressed region compared to a water-abundant one. To reflect this, IMV uses different valuation coefficients for different countries and contexts.

Risks and opportunities often vary depending on the region, market and industry where companies operate. By monetizing business impacts with differentiated valuation, IMV provides a new tool for enterprise risk management, investors, and other stakeholders who assesses the company’s ESG performance.

## The VBA – a global network to build a new business language

For IMV to be widely accepted, one common methodology is needed to ensure credibility and comparability. In 2019, a group of global companies formed the Value Balancing Alliance (VBA) to start a discussion on building this new business language – a harmonized methodology for IMV.

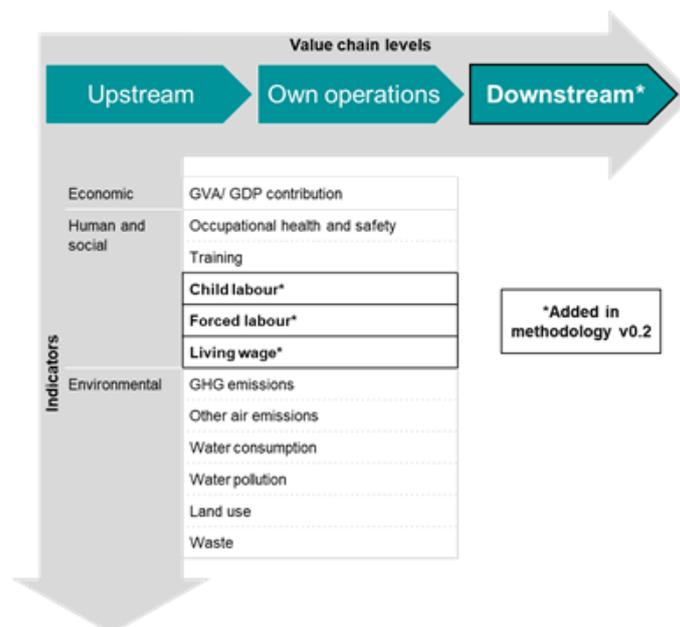
The VBA is a non-profit organization with the ambition to change how company performances are measured and valued. At this moment, 25 global companies are participating in the Alliance and cover many industries and geographies. Trailblazing companies in Asia, such as Mitsubishi Chemical, are among those that have joined this journey to provide insights from Asian perspectives.

The VBA methodology includes two perspectives – Value to Society and Value to Business. Value to Society (inside-out perspective) assesses how a company impacts external society and the environment. Value to Business (outside-in perspective) assesses how external sustainability elements, such as climate change, impact a company’s enterprise value.

With support from global accounting firms Deloitte, EY, KPMG, and PwC, the VBA developed a draft methodology which all member companies pilot annually to prove its applicability and relevance in day-to-day business operations. Following each piloting round, member feedback is collected to further improve the methodology.

Beginning in 2023, to combine forces developing a common, standardized methodology, the VBA partners closely with the International Foundation for Valuing Impacts (IFVI), a newly formed spinoff from the Impact-Weighted Accounts project at Harvard Business School. The partnership enables complementary perspectives for well-rounded methodology development. IFVI focuses on the investor perspective of methodology development with academic rigor and the VBA provides practitioner perspectives to ensure that the methodology is useful in a management accounting and corporate disclosures.

The current methodology covers economic, environmental, and social impacts and the entire value chain (Upstream – Own Operations – Downstream) which enable calculation of the total positive and negative value that a company creates.



Our most recent piloting round showed that the methodology is practical, useful, and relevant for businesses. VBA’s methodology enables decision-makers to take a bird’s eye view and see the whole picture by escaping from a narrow view on profit, and thus enable a sustainable economic transformation.

## Applying IMV in business decision making

More and more companies are adopting IMV approaches in operational decision making.

For example, Holcim, a Switzerland-based cement production company, applied IMV to a 3D printing project for affordable housing in Malawi, Africa. The technology helped optimize material use, increased the speed of construction, and reduced CO<sub>2</sub> emissions in the construction process. Using the technology requires a higher level of education, therefore, local Malawian people were trained to operate the 3D concrete printers. To fully evaluate this project and determine the next steps for rollout it was important for Holcim to identify the impact it created.

Using IMV, Holcim calculated that the project had created positive economic impact of CHF 5.8 million, avoided environmental impact of CHF 230k and delivered positive social impacts of CHF 43k via training. Holcim discovered that the total impact of the project in social, economic, and environmental aspects was 6 times higher than the financial cost.

Holcim decided to continue investing in the affordable housing project to create even greater social value in the future. Due to the IMV results of this pilot project, further plans were developed to scale-up 3D printing solutions in other regions of Africa, and the 3D printing solution is expected to increase to cover 30,000 classrooms in ten years. IMV enabled Holcim to transparently show the costs and benefits of environmental and social impacts generated by the project.

SK, a South Korea-based conglomerate, applied IMV to assess options for handling waste heat. SK Group's petrochemical company (SK Incheon petrochem) generates 280,000 GCal of waste heat per year. At the same time, the local community where the factory is located faces increasing prices for cooling and heating. SK started to ask questions, such as "How can SK treat the waste heat in a smart way?"

Two options were discussed internally. The first option was to build new facilities at the SK factories to reuse the waste heat. This option was expected to cost 2.5 million USD to build the facility over two years. This option would enable energy costs at the factory to be reduced, but it would not create any social values.

The second option was to provide waste heat to the nearby residential complexes at a low price in collaboration with the local energy provider. Costs of about 10 million USD were expected to build a new energy distribution system, however, SK would be able to create sales of 2.9 million USD per year by selling the heat. For the nearby residential complex, the costs of cooling and heating would be reduced by 70% compared to the existing price. If the community were to use the waste heat, there would be no need for energy generation based on fossil fuels. Approximately 6 million USD of environmental cost would be avoided.

Even though the second option is expected to cost more in just financial terms, SK decided to proceed with this option since it creates positive economic and environmental values beyond SK's operation.

## Conclusion

In the 17th century Japanese merchants in the Omi area developed their own business philosophy called 'Sanpo Yoshi', which means 'Three-Way Satisfaction.' This was long before the emergence of CSR, ESG, triple bottom line, or sustainability as business topics. According to this Japanese principle, business transaction should provide benefits to all stakeholders – the buyer, the seller, and society at large. By demonstrating this philosophy in day-to-day business life, many companies were able to achieve great success at the same as doing good for their communities and stakeholders.

In modern day business transaction and activities, how can we measure or monitor activities that create positive and negative impact on these stakeholders? What would be the ideal tool to realize the Sanpo Yoshi principle in today's world?

Currently, there is an alphabet soup of corporate reporting frameworks and performance metrics which create barriers to effective company steering and comparable disclosures on business performance. VBA's methodology on IMV can provide a common language that can contribute to harmonizing impact and optimizing values to the buyer, the seller and society at large.

IMV is a relatively new approach and a multitude of views from companies operating in diverse environments and industries are needed to further develop the methodology that is practical and useful. At the Value Balancing Alliance we welcome Japanese companies from diverse industries and of various sizes, to join and contribute to this journey.

## Jun Suk LEE

COO, Value Balancing Alliance  
Project Leader, SK Group

Jun Suk Lee, as the COO of the Value Balancing Alliance, he is actively engaging with global leading companies, big 4 auditing firms, financial market actors and various regulatory organizations to develop and promote methodologies for sustainability accounting. The methodologies enable companies to assess impacts on nature, society, and the economy in monetary terms along the value chain and the impact of ESG performance on the enterprise value.

Seconded from SK group, Jun Suk LEE is in charge of methodology development and piloting activities in the VBA.

In SK group, Jun Suk LEE has led many sustainability projects in areas of social value measurement, social enterprise ecosystem, etc. Before joining SK, he served as team leader of the Global Compact Korea Network leading projects like global CSR conference and China-Japan-Korea roundtable.

## Value Balancing Alliance

The Value Balancing Alliance e.V. (VBA) is a non-profit organization with the ambition to change the way how company performance is measured and valued. The alliance's objective is to create a global impact measurement and valuation (IMV) standard for monetizing and disclosing positive and negative impacts of corporate activity and to provide guidance on how these impacts can be integrated into business steering. VBA was founded in June 2019 and represents several large international companies, including Anglo American, BASF, Bayer, BMW, Bosch, Deutsche Bank, DPDHL, Dräger, Holcim, Kering, Kirchhoff, L'Oreal, Michelin, Mitsubishi Chemical, Novartis, Otto, Porsche, Posco, Roche, SABIC, Sana Kliniken, SAP, Schaeffler, Shinhan Financial Group, SK, ZF.

The alliance is supported by the four largest professional services networks – Deloitte, EY, KPMG and PwC – as well as by the OECD and leading academic institutions. Furthermore, in partnership with the Capitals Coalition, the alliance receives funding from the EU through its LIFE programme for the Environment and Climate Action.