



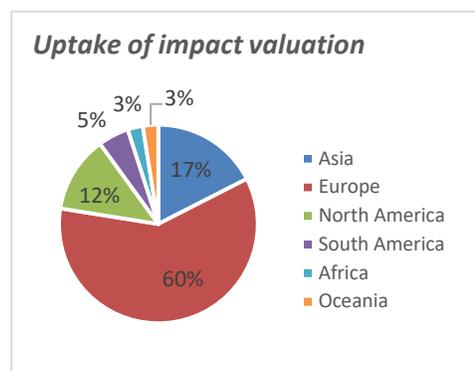
Uptake of Impact Valuation

Survey Background

In early 2022, Impact-Weighted Accounts partnered with the Value Balancing Alliance to conduct a survey to evaluate market uptake of impact valuation (also called impact monetization or impact accounting). As more organizations have adopted impact-weighted accounting the survey aimed to better understand the breadth of geographies and industries involved in the practice. The survey also asked questions regarding the scope of impact monetization and the use of monetized impact data by organizations. These survey results are not meant to provide a comprehensive summary of the use of impact valuation techniques around the world, but rather to provide a snapshot of the breadth of users and some of the common challenges and opportunities they face.

Who is participating in impact-weighted accounting?

For those who answered the question of whether or not they utilize impact-weighted accounts (N=80), 58% reported they are currently using the practice (N=46). There were 22 countries represented among these respondents, demonstrating the global reach of the practice of impact monetization. Out of 40 organizations that reported their domicile country, 47% are located in Europe, 27% are located in Asia, 16% are in North America, 6% in Africa, 4% in South America, and only 1 respondent is located in Australia. Regarding industry representation, respondents span 18 unique industries including automobiles, insurance, and pharmaceuticals. Out of the organizations that report their GICS industry the most common were Food, Beverage, and Tobacco (19%) and Materials (16%).



What is being measured?

The survey asked a number of questions regarding the implementation of impact-weighted accounting practices at organizations. A smaller subset of organizations using impact-weighted accounting (N=35) also shared the specific types of impact that they measure within their practice. 86% measure environmental impact, 74% measure employment and/or social impact, 46% measure economic impact, and 43% measure customer impact. In addition to the type of impact measured, 32 organizations disclosed the stages of the value chain that are captured by their impact-weighted accounts. 94% report that they measure their own operations, 72% measure upstream impact, and 50% measure downstream impact.



How is impact-weighted accounting being used?

Among the organizations that use impact-weighted accounts, our survey sought to understand how their analyses were used. The most common response was internal reporting (69%), followed by external reporting (56%), management control systems (49%), and investment, divestment, and procurement systems (41%). Among organizations that use impact valuation for internal reporting (N=27), there is evidence that executives and Boards are common recipients of this information. 48% provide information to their CEO, 44% to the Board of Directors, 44% to their CFO, 41% to their Chief Sustainability Officer, 30% to their Chief Operating Officer, and only 15% share impact-weighted accounting results with their Internal Audit personnel. The most common format for sharing information externally is through an integrated report, although many respondents also include impact valuation in their sustainability reports and on their corporate websites. Only 18% of respondents describe their use of impact-weighted accounting as customer communications and marketing (N=22).

Critically, many organizations are using impact-weighted accounting for management control systems. Respondents revealed that the application of impact-weighted accounts to these systems are highly varied. Target setting, future budgeting, and employee communications were the most common uses at 63%, 47%, and 42% respectively (N=19). 5 firms reported a link between executive compensation and impact-weighted accounting. The least common, but nevertheless significant, use of impact-weighted accounts is for the formation of investment, divestment, and procurement decisions. Among those who indicated this general use case (15), 60% report that impact-weighted accounts are factored into decisions about capital expenditures and new product development and 40% used impact valuation in decision-making regarding R+D expenditures. A smaller number noted procurement of goods and services, M+A due diligence, and divestment of business units as use cases for impact-weighted accounting. Further research into these applications is necessary.

Challenges and Opportunities for impact-weighted accounting

The survey also asked about the key benefits and challenges associated with the practice. While just a starting point, these insights can help to shape strategy to bolster the effectiveness of impact-weighted accounting and continue to build and maintain momentum for the practice. Among those reporting on the benefits of impact-weighted accounting (N=28):

- 75%: better management of opportunities from positive impacts
- 64%: strengthened organizational culture
- 60%: better management of risks from negative impacts
- 32%: higher employee engagement and morale
- 32%: promotion and support of standardization
- 29%: development of new products

The organizations surveyed identified the following four challenges to be most prevalent:

- 57%: lack of a standardized approach to valuing nature and people



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- 36%: lack of regulatory frameworks and government policy
- 32%: lack of understanding about the potential benefits and business case by management
- 32% lack of case studies and practical applications



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Interested in learning about impact valuation?

The Impact-Weighted Accounts project website includes research, data, and user tools:

www.hbs.edu/impact-weighted-accounts

The Value Balancing Alliance also has corporate case studies and methodological papers openly available on their website: www.value-balancing.com

The organizations in the Value Accounting Network (which is hosted by the Capitals Coalition) also have numerous resources available for those interested in learning: www.capitalscoalition.org/project/value-accounting-network

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