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REPORT

VBA Piloting Feedback GHG & Adequate Wages

Applying the IFVI/VBA Methodology in Practice

value balancing alliance

About the Value Balancing Alliance

The Value Balancing Alliance (VBA) is a growing not-for-profit alliance with the common goal of developing a standardized methodology for impact accounting. The VBA was founded in 2019 and represents 29 global companies, including Anglo American, BASF, Bayer, BMW, BNP Paribas, Bosch, Caixa Bank, Deutsche Bank, DHL, Dräger, Effectual, GSK, Holcim, Kering, Kirchhoff, L'Oréal, Michelin, Mitsubishi Chemical, Novartis, Pure Storage, Roche, SABIC, Sana Kliniken, SAP, Schaeffler, SK, UBS, Volkswagen, and ZF. The alliance is supported by the four largest professional services networks – Deloitte, EY, KPMG, PwC. To develop a standardized Impact Accounting Methodology, the VBA partners with the International Foundation for Valuing Impacts (IFVI) and cooperates with other partners such as WEF, WBCSD, Capitals Coalition, Oxford University, WifOR, GIST, and Value Accounting Network. The VBA also engages with organizations like IFRS, EU, EFRAG, GRI, OECD, national governments, Global Value Commission, and G7 ITF.

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1. Introduction

Impact accounting is a system designed to measure and value the effects of corporate entities on people's well-being, either directly or through effects on the natural environment. The IFVI/VBA Methodology contextualizes sustainability information by assessing impacts using pathways that integrate recent empirical research and account for region-specific factors, thereby capturing the societal value generated or eroded by corporate activities. By translating various social, environmental, and economic metrics into a single unit of measure (currency), trade-offs in decision making become more transparent, and the societal value created by business models is more easily communicated.

To develop a methodology that ensures comparable results and consistency across different topics and can serve as a global baseline for impact accounting, the Value Balancing Alliance (VBA) partners with the International Foundation for Valuing Impacts (IFVI). Methodology development in the partnership between IFVI and VBA follows a clear due process to ensure rigorousness and transparency and is governed by an independent supervisory body, the Valuation Technical and Practitioner Committee (VTPC).

The four key steps of the due process include[1]:

1) **Establishing workplan and initiating projects** – proposed by technical staff of IFVI and VBA to the VTPC for approval
2) **Developing methodologies** – closely engaging with different stakeholders
3) **Public exposure and piloting of the methodology** – to inform refined methodologies and future workplans
4) **Approval and issuing of the revised methodologies by the VTPC** – incorporating feedback from public exposure and piloting

As part of step three, piloting of the methodology, VBA member companies are committed to applying the methodology developed through the partnership between IFVI and VBA. This piloting feedback complements the feedback collected from public commenting and provides insights, for instance, on feasibility, data availability, and the usefulness of results for decision making.

The VBA piloting is a large-scale testing that includes various components of impact accounting methodologies, extending beyond the jointly developed methodologies of IFVI and VBA. VBA member companies apply the methodologies across the value chain and collect feedback throughout the process in the form of submitted results, survey questionnaires, and peer exchange sessions for additional context.

This years' piloting included 14 topic methodologies, including the IFVI/VBA topic methodologies for GHG emissions and adequate wages. In total 16 companies piloted the methodology for their own operations, 9 companies included their upstream and 7 companies their downstream activities. This approach ensures the testing of applicability across the value chain and usability in business decisions. Various industries and geographies are represented in the piloting sample. The piloting was conducted from October 2023 to April 2024.

This report summarizes the feedback from the VBA member companies on both topic methodologies – GHG and adequate wages – and introduces recommendations for further development of these topic methodologies for the final version. The feedback is aggregated and does not attribute specific responses to individual member companies. More detailed information on the VBA piloting will be published in the annual VBA Pilot Study, including the results, use cases, and lessons learned.[2]

[1] The due process protocol is available via the following link: https://ifvi.org/wp-content/uploads/2023/10/Due-Process-Protocol_IFVI_VBA.pdf

[2] All piloting studies are available on the VBA website: https://www.value-balancing.com/en/downloads.html , at time of writing, the VBA Pilot Study for 2024 is forthcoming.

2. GHG Emissions Methodology

Valuation based on Social Costs of Carbon well perceived

Valuing the impacts on society due to GHG emissions based on the Social Costs of Carbon (SCC) is well perceived by piloting companies. The argumentation for choosing SCC to estimate the societal value is clearly stated in the exposure draft of the methodology. The provided transparency on the calculation logic with the description of the different modules included is positively received. Additionally, member companies appreciate regular updates of SCC based on the latest research.

Additional information on SCC calculation required

While the piloting companies do understand the valuation approach as well as the main differences to the VBA's legacy methodology for GHG emissions, they do not feel equipped to evaluate whether the SCC value provided by the public exposure GHG methodology is set at the correct level. Further context would help to increase the understanding and confidence in the SCC value. Recommendations for further improvement of the methodology from the perspective of the preparer of impact accounts include:

- A comparison to other SCC approaches and available research
- More clarity on the contributions of the two models GIVE and DSCIM to understand their differences and similarities
- More detail on the extent to which individual impacts within the impact pathway contribute to the overall SCC value

Reflection on regional differences

Even though climate change is a global phenomenon, it affects society and nature differently across regions and does not necessarily materialize in proportion to a location's emissions. A global SCC does not account for these regional differences in the impact account. Although a global approach is reasonable for assessing societal impacts due to GHG emissions, it might be beneficial to reflect on the incentives given by a global value.

Differences in applying the methodology across the value chain

For most companies, implementing the methodology for their own operations requires minimal effort due to their experience in calculating carbon emissions and impact accounting practices. However, assessing upstream and downstream impacts remains more challenging and involves numerous assumptions, primarily due to the use of input-output modeling, life cycle assessment (LCA), or hybrid approaches incorporating both primary and secondary data. Thus, differentiating between the value chain levels is considered important by piloting members to increase transparency and account for different levels of accuracy in calculations and influence on emissions in scope 1, 2, and 3. The calculation of a total GHG impact, aggregating all scope 1, 2, and 3 emissions, could incentivize a practice of reduced transparency.

Methodology paper is clear and concise

The methodology paper is perceived as a well-structured document, with a high level of clarity. In particular, the alignment with sustainability reporting standards such as ESRS and GRI is welcome and enables a straightforward application of the methodology. The provided documentation also supported discussions with internal stakeholders for most member companies.

Role of offsets and carbon credits should be considered in future research

Corporate practice in managing GHG emissions involves offsets and carbon credits, e.g., when establishing climate transition action plans. Given the relevance of these topics in day-to-day business and strategic planning, future research should clarify how offsets and carbon credits are connected to the Impact Accounting Methodology for GHG emissions. Recognizing the relevance of avoidance and conservation activities across multiple areas, it will be important that the proposed approach is consistent and transferrable to other topic methodologies, such as land use or waste.

3. Adequate Wages Methodology

Differentiating between positive and negative wage impacts is important – yet mixed views on whether remuneration impact should consider all wages paid

The majority of the piloting member companies agree on the importance of differentiating between the positive impacts of wages (remuneration impact) and the negative impacts of wages paid below a living wage (living wage impact). It must be stressed that these positive and negative impacts should not be netted but considered separately in the impact accounting system.

No strong consensus on valuation of impacts based on WUI or HUI

Among the piloting companies, there is no strong consensus regarding the valuation of impacts using a global WELLBY value in the methodology or whether impacts should be valued based on WELLBY or Health Utility of Income (HUI). While a few member companies view the proposed valuation approach critically, most piloting members do not have strong opinions on the adoption of a new valuation method. It was emphasized that the valuation approach used in the Adequate Wages Methodology needs to be consistent with valuation approaches used in future methodologies.

Generally, there are differing opinions about whether the remuneration impact should consider *all* wages paid, including those below a living wage. Similarly, the valuation approach based on WELLBY, compared to HUI, is viewed critically by some member companies. To address these varying perspectives, it is proposed that a degree of flexibility be incorporated into the methodology, allowing for different approaches based on whether wages considered are only those above a living wage threshold and whether WELLBY or HUI is used, provided the chosen approach is clearly disclosed.

Clarify relationship between remuneration impact and GVA reported by companies

Since wage payments are one component of the Gross Value Added (GVA) by companies, it is important for piloting companies not to have double-counting when displaying adequate wage impacts alongside GVA figures. Given that GVA is the most established estimate of a company's economic impacts and clearly links to GDP calculations by governments, it is a valuable metric to align corporate impacts with governmental economic targets. It is perceived positively that the remuneration impact covering all wages (including those below a living wage) could be one potential solution to avoid the risk of double counting. In that case, wage payments covered in the remuneration impact of the Adequate Wages Methodology could be subtracted from the GVA figure, e.g., via a separately disclosed correction factor.

Remuneration impacts should include a satiation level

All piloting member companies support the idea of a satiation level above which additional income does not enhance well-being. However, when applying the methodology, some companies noticed that the regional satiation thresholds might be too low for a few countries compared to other available studies. It was thus stressed that the regional satiation thresholds need to be based on latest research, transparently estimated, and well described.

In addition, piloting members see the concern that valuing very high wages with too high impacts on society could lead to impact washing. It was discussed whether category D workers should have no increase in remuneration impact. Scientific evidence supporting each step in the design of satiation levels was considered important to address this concern.

Application can be challenging, especially for workers in the value chain

Application of the methodology is generally feasible for a company's own operations but can be challenging due to the split of workers in the respective categories A, B, C, and D, which are not included in current reporting schemes. Additionally, wage data is typically confidential, which makes the application of the methodology more challenging. Moreover, such data is often unavailable for workers in the value chain. It is therefore strongly recommended that the Methodology provides guidance for a default approach or dataset in cases where data is not available.

The guidance provided for using the living wages dataset was well received. To ensure applicability and relevance for corporates, it is necessary that this guidance is aligned with reporting requirements, such as those under CSRD.

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