

THE NEW PROFIT IS IMPACT

One of the great opportunities of the 21st century is the realization of the impact economy: an economy that harnesses the power of markets, people and technology for the common good. Achieving this requires a global system shift that retains valuable components of the old market and embraces new economic models. This shift necessitates a common language for impact that is integrated into every aspect of our economy: impact statements.

*By Adrian de Groot Ruiz
Executive Director, Impact Institute*

The impact economy

The impact economy is not such a radical idea anymore. Organizations are increasingly replacing the traditional approach of delivering profits for shareholders with one that delivers long-term value for all stakeholders.

The share of S&P 500 companies that published sustainability or corporate responsibility reports rose from 20% in 2011 to 86% in 2018 (GAI, 2019).

In line with this trend, a large number of institutional investors in Europe and North America now apply some form of environmental, social, and governance (ESG) criteria (Inderst & Stewart, 2018; Connaker &

Madsbjerg, 2019) to their investment considerations. Finally, regulations such as the EU Directive 2014/95/EU increasingly require organizations to supplement their financial disclosures with non-financial disclosures.

The challenge of creating long-term value for all stakeholders, however, still stands despite the wealth of existing frameworks and methods.

To date, there has been no set of measurable and actionable objectives that can serve as an alternative or complement to profit maximization.

Impact statements

For organizations to deliver long-term value for all of their stakeholders, they will have to manage their impact.

This means measuring, reporting, and managing it. Impact statements provide a quantified and monetized overview of all material direct and indirect impacts of an organization. Impact statements offer the information necessary to report and manage organizational impact. Thus, they are the missing link between the current economy and the impact economy.

Measuring impact

To integrate impact into daily business, impact should be quantified and valued. This idea is gaining traction; a Harvard Business School Review report showed that 56 companies have reported on impact using impact monetization. One such tool is the Integrated Profit & Loss (IP&L) statement. The IP&L takes the traditional Profit & Loss as a starting point.

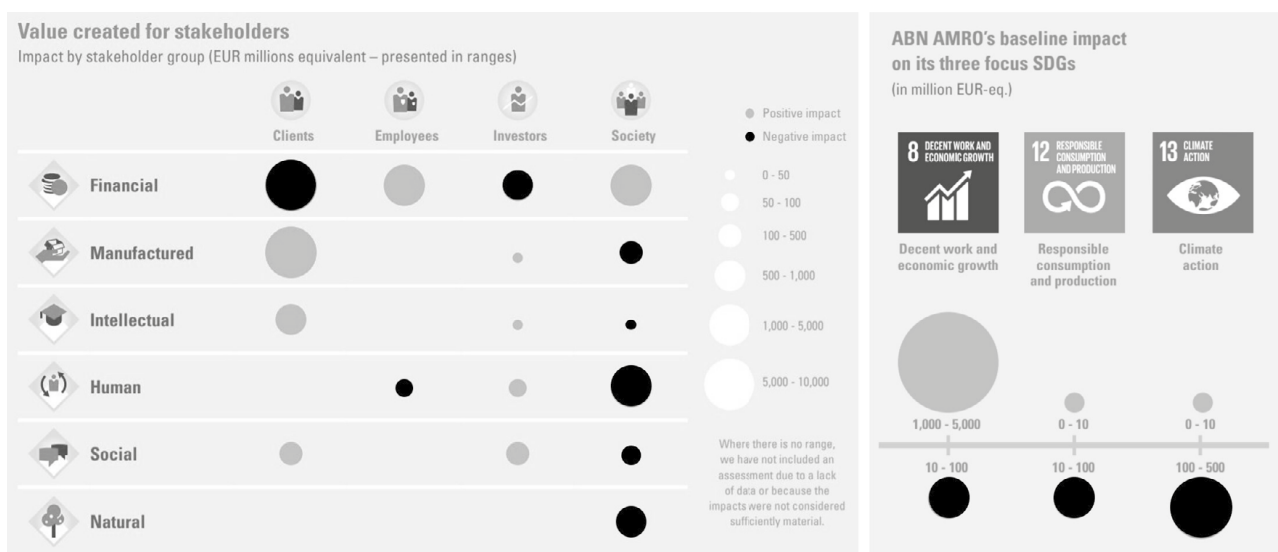
To determine the total value creation of an organization, the IP&L expands the scope from financial value creation for shareholders to value creation for all stakeholders on all six IIRC capitals (Financial, Manufactured, Intellectual, Human, Social, and Natural).

Non-financial impacts are valued by their effect on people’s current and future welfare. Good examples of companies using an IP&L are ABN AMRO, Alliander, LafargeHolcim and DBS.

PRATICAL CASE

ABN AMRO is a Dutch Bank that has gone through an impact (reporting) journey. Starting with impact measurement pilots in 2014, ABN AMRO was able to publish its first full Impact Report 2018. ABN AMRO included an impact statement, with limited assurance, in their 2019 integrated report. The illustration of their value creation model, IP&L statement and SDG Contribution Statement is depicted in figure 1.

See their 2019 impact report for more information: <https://abn.com/2UCBd8K>



Adapted from ABN AMRO Impact Report 2019.

How to use impact information to steer on value creation?

Focusing on hundreds of impacts or a single net value creation number does not work.

For example, it is unjustifiable to offset the negative impact of deforestation and child labor with the positive impact of additional profit.

Therefore, impact statements categorizes impacts according to four (interrelated but autonomous) objectives companies can have in relation to long-term value creation:

- 1** Create value for investors, short-term and long-term
- 2** Create value for each other stakeholder, including clients, employees, and communities
- 3** Do no harm by respecting the rights of its stakeholders and avoid imposing external costs
- 4** Contribute to sustainable development in line with the UN's SDGs.

Impact statements include, in addition to the Integrated Profit & Loss (IP&L) Statement, also statements addressing each of these four goals.

Thereby, they provide companies with information they need to manage impact and enable them to realize an impact economy.



ADRIAN DE GROOT RUIZ

*Executive Director,
Impact Institute*

Adrian De Groot Ruiz is executive director of the Impact Institute. He leads the development of the Integrated Profit & Loss accounting methods and has been project director for over 50 projects in impact measurement and valuation. Adrian is also co-founder and director of True Price, a social enterprise with a mission to realize that all products are sustainable and free of external costs.

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