

## **STAKEHOLDER CONSULTATION ON THE VALUE BALANCING ALLIANCE** Launched by engageability's Integrated Value Assessment platform, hosted by Novartis

October 19, 2020

### **1. Objectives and participants of the stakeholder consultation**

The objectives of the stakeholder consultation were to update the participants on current developments of the Value Balancing Alliance (VBA), to share insights from practitioners using the VBA-model and to discuss opportunities and challenges as well as expectations from the different stakeholders.

78 participants from different sectors shown in the graph attended the online «Stakeholder Consultation on the Value Balancing Alliance». More than half were business representatives and “other” included representatives from NGOs, Chemical Industry and Healthcare Industry.



### **2. The Value Balancing Alliance introduced by Christian Heller (CEO VBA)**

The overall economy is in a huge transition phase. Today social value is not reflected by accounting. Hence, the purpose of the non-profit organization VBA is to transform business from profit maximization to value optimization.

The aim is to develop a standard that creates visibility in terms of the ecological, human, social and financial value contributed by companies as well as assessing the consequences for society and the ecosystem. Through a normalized, tested, pragmatic, scalable and transferable accounting methodology generating data and information for impact-based management accounting, VBA contributes to the transformation.

The methodology is based on a complementary extension of accounting to provide better information for decision making and disclosure. It also reflects the concept of double-materiality by assessing the value to society and the value to business. The “true” value creation of companies is assessed by valuing business impacts on well-being and the enterprise value. Enterprise value is assessed by reflecting ESG (Environmental, Social, Governance) in accounting systems.

The challenge so far has been to agree on the methodology and to identify the valuation coefficients. It is foreseen to publish the methodology in February 2021.

The VBA has 12 member companies, is consulted by the four major auditing firms on a pro-bono basis, has an advisory panel providing technical advice from academia, accounting, intergovernmental organisations, strategic partners, NGOs and voluntary standard setters.

The VBA is mandated by the EU to develop green accounting principles to support the implementation of the Green Deal, is nominated to the Platform Sustainable Finance to further develop the Taxonomy and provides its methodology to the OECD's Business 4 Inclusive Growth program.

Interested companies are encouraged to contribute FTEs as well as financial amount.

### **3. Why VBA? - insights from practitioners**

Denise Weger from Novartis, Eugenia Ceballos from LafargeHolcim, Thomas Birnmeyer from SAP, Julia Oswald from Porsche and Nikolas Kelling from Volkswagen provided insights about their motivation to work with the VBA and highlighted the benefits of this collaboration.

The VBA

- helps to measure impact as well as to make the impact relevant and material to all business contexts
- describes how data is collected. Whenever possible primary data is used (not only in own operations but also up- and downstream). If this is not possible, proxies are used, hot spots as well as primary data analysed and finally the data valued. Also, input-output modelling is a way of collecting data for the methodology framework.
- is not only backwards looking but can also be used for forecasting
- addresses the need for comparability of ESG-Data and benchmarking and
- is applicable to MNEs as well as SMEs. SME workshops will be conducted for a simplified version for SMEs

With the monetization of social and environmental value, quantitative data can be integrated in profit & loss statements and thus drive sustainability. The challenges of the valuation of impact is that for example the market value for CO<sub>2</sub> (today: 24.89 EUR per ton CO<sub>2</sub> eq.) doesn't represent the true cost for society which is estimated at 94 EUR per ton CO<sub>2</sub> eq. Internalizing the value from externalities will be key to drive business decisions that are also good for society and the planet.

The advantages for member companies are:

- a legitimacy boost as the methodology delivers better information to management through the measurability of the performance.
- being part of the development of an impact measurement standard and the though leadership of VBA as well as the peer learnings.

#### 4. Opportunities and challenges of pre-financial metrics

In five breakout sessions participants discussed the following questions and elaborated the most important opportunities and challenges.

- Why is monetization of pre-financial metrics<sup>1</sup> important?
- Why should securing/ doing investments be based on pre-financial metrics?
- Why should managerial decisions be based on monetized pre-financial metrics?

##### *Important opportunities*

- New transparency for better decision making.
- Better understanding through monetization to inform decision making internally and externally.
- Integration of sustainability / nature into decision making – looking beyond profitability!
- Managing externalities.
- Comparability across industry and inside the company.

##### *Important challenges*

- Credibility, scalability and comparability.
- Internalization of social value.
- There's a competitive, convoluted landscape and still a lack of comparable data.
- Complexity, reliability, governance structure.
- Complexity of looking at all aspects (where to start).

The plenary rated the most important opportunities and challenges for the monetization of pre-financial metrics as follows:



***The most important opportunity for the participants is:***

*Integrating sustainability into decision making – looking beyond profitability!*

***The most important challenge is:***

*Credibility, scalability and comparability!*

#### 5. Stakeholder expectations towards a global impact measurement and valuation standard (fishbowl discussion)

To close the consultation, Sonal Dalal from SASB, Angela Wiebeck from UBS, Christian Heller from VBA, Lars Müller from the EU Commission and Lukas Schneller from Seco shared their expectations towards a global measurement and valuation standard.

To achieve the European Green Deal more consistent and comparable non-financial reporting will be needed. The EU is currently revising its Non-Financial Reporting Directive (NFRD). The collaboration with VBA addresses the need for more harmonization and common rules in the area of integrated profit and loss statements.

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<sup>1</sup> Pre-financial metrics refers to monetization of non-financial information

Alignment among the various legislative proposals, including the NFRD, Sustainable Finance Disclosure Regulation and EU Taxonomy will be important.

SECO points out that a bottom-up approach is very important and that governments should move ahead to enable organizations such as VBA. SECO expects a consolidation and simplification of a valuation standard.

All sustainability information and impact data support companies in their decision making. SASB expects that metrics will be used to identify issues that are financially significant to companies and that reporting will generate comparable, consistent and reliable information.

For the financial sector a holistic approach is needed and, in this respect, integrated profit and loss statements are very valuable. They expect new disclosure regulations for asset management, reporting and the Principles for Responsible Banking.

The transition towards a sustainable economy requires collaboration and the VBA enables a coalition between business, government and science. The sector lead approach is considered by all participant as highly valuable.

The fishbowl discussion revealed two important expectations:



- *Standardization and harmonization*
- *Stay in communication with regulators to avoid duplication*

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