

# Integrated profit and loss

Creating shared value with integrated thinking



# Colophon

## Integrated Profit & Loss

Creating shared value with integrated thinking

True Price, 2016

## Authors

Dr. Reinier de Adelhart Toorop

Kees Ouboter

Esmee Bergman

Michel Scholte

Dr. Adrian de Groot Ruiz



# Executive summary

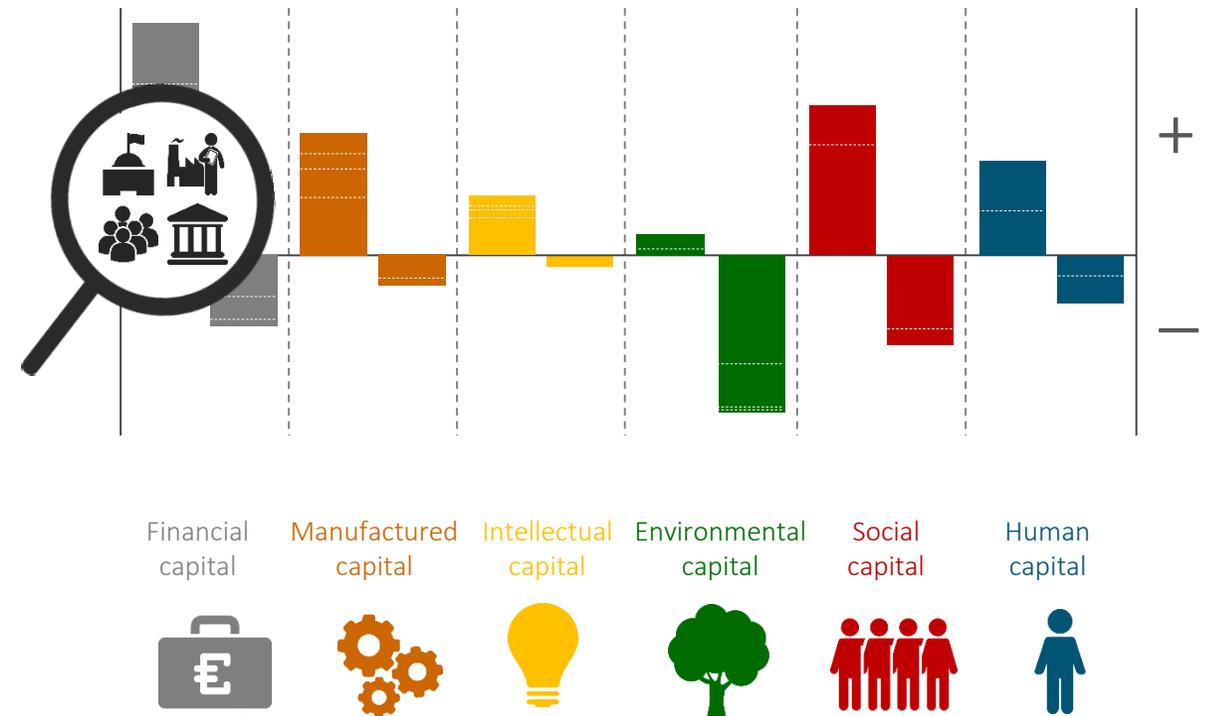
With more and more eyes on **sustainability**, businesses need to make **complex decisions**. How do you juggle the interests of several **stakeholders**? How to **compare natural, social and financial** impact? How to meet the new rules on **Integrated Reporting**? The IP&L provides a **robust and simple** solution.

Governments, customers and even financial institutions increasingly require companies to work sustainably towards **creating shared value for society**, respecting the environment and all people involved: **having positive impact**.

The **integrated profit and loss (IP&L)** is a new framework to make and communicate decisions in this age.

- For **all ways** in which a company creates value.
- For **all its stakeholders**, including employees, suppliers, the government and future generations that depend on the natural environment.
- For **societal value creation in all forms**: financial, manufactured, intellectual, natural, social and human capital.
- With everything expressed in **one language**. Money. The language of business, investors and consumers. In an **explicit framework** that enables **trade-offs**, that were previously impossible.

A positive bottom line of the IP&L shows **creating sustainable value for society**, which is becoming a **key condition for profitability itself**. This is also increasingly recognized in the **integrated reporting** movement, see e.g. IIRC (2011,2013) and GRI (2015) publications.



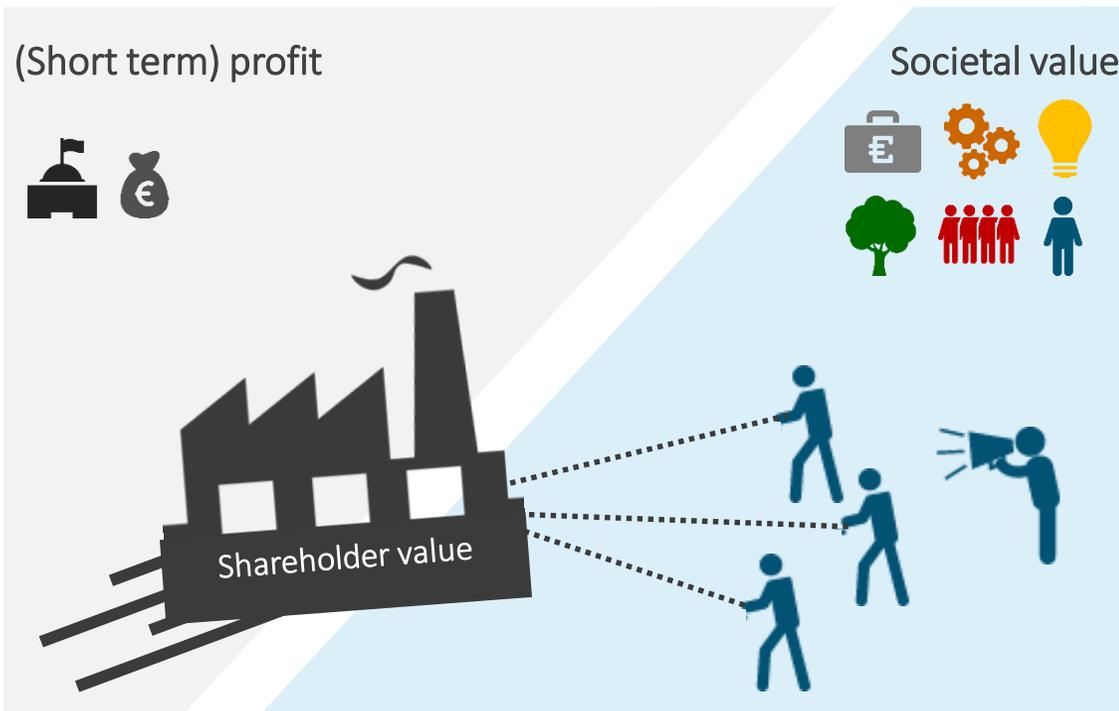
“By attaching an economic value to the positive and negative aspects of each dimension, we can gain valuable insights into how we can drive **longer-term value** not only for our shareholders, but also for the environment, people and society at large.”

Ton Büchner, AkzoNobel CEO

on the 4-dimensional P&L for their pulp and performance chemicals in Brazil  
(see p. 11)

# Why do companies need an impact strategy?

Creating **value for society** is rapidly becoming a **precondition** for making a profit at all as a company. This requires companies to understand and **manage their impact**.



Driven by more critical consumers, stricter regulators and a growing number of impact investors, companies need to make sure that they **create value for society**. And value today means **more than just financial value**. It also includes natural value and social value.

Creating value for society includes widely **different impacts**, including

- Creating **financial value** for the company, suppliers and customers alike.
- Respecting the **natural environment**.
- Respecting **workers' rights** and those of communities near production sites.

How can a company know what is the **full extent of their impacts**? Do they produce a profit or a loss to society at the final **bottom line**?

Defining an impact strategy now, contributes to **long-term profitability**. It keeps critical stakeholders involved, increases availability of and access to critical resources, improves the reputation and decreases risks when governments decide to internalize externalities.

**The new reality requires rethinking impact measurement and valuation.**

# Managing impact requires complex trade-offs

Executives and managers at companies have to make **decisions** on a daily basis. Making decisions on rationally **maximizing impact** has inherent complications.

## Yesterday: Steering on profit

Steering on profit allows for a relatively simple framework to work with. Different decisions lead to different profits (or losses). The strategy that optimizes profit, is the best one.

## Today: steering on impact

Today businesses can only be competitive if they create value to society (Kramer and Porter, 2006). Focusing on their own (short term) profit is not sustainable. Long term profits are depending more and more on societal value creation.

Optimizing the impact in a rational way is a complex issue. Impacts concern multiple stakeholders and occur in multiple dimensions. Creating maximal impact requires making trade-offs between all of these.

## Reporting on impact

*Reporting* on impact is on the rise. Some companies do so with a separate yearly sustainability report, others include it in the annual report. In any case, the recent EU Directive obliges all large companies to report on their sustainability policy in a structured way.

Yesterday	Today
<input checked="" type="checkbox"/> Increase profit	<input checked="" type="checkbox"/> Increase profit
	<input type="checkbox"/> Reduce carbon emissions
	<input type="checkbox"/> Create value for workers
	<input type="checkbox"/> Increase health consumers
	<input type="checkbox"/> Ensure living wages
	<input type="checkbox"/> .....

**What to do?**

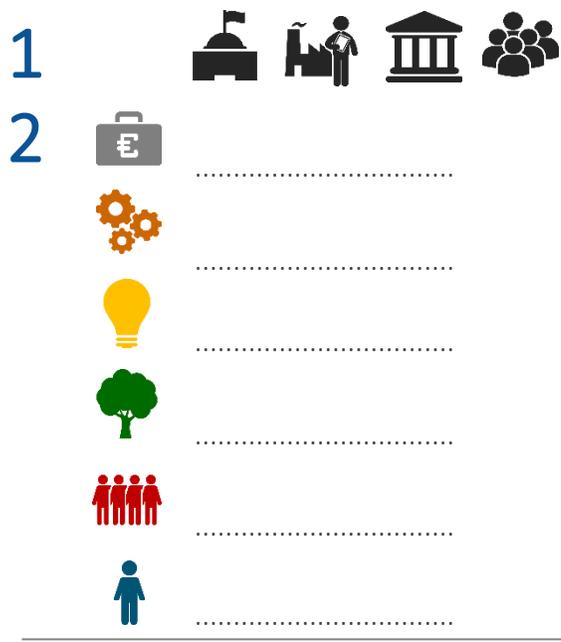


# Impact management: balancing stakeholders and capitals

Steering on impact faces **three complications**: value is created for **different stakeholders**, in **multiple forms** (“capitals”) and each is naturally expressed in a **different language**. This makes comparison difficult. The IP&L provides a solution.

**Complication 2: Impact on society comes in many form.**  
 Consider a dairy company faced with the choice between two feed suppliers, where the quality and price are similar. However, one is better for the environment (lower carbon emissions), while the other has a program to empower employees in developing countries. Which one has a better impact?

*An impact framework needs to include all forms in which value occurs. The IP&L uses the six forms of capital recommended by the International Integrated Reporting Council: financial, manufactured, intellectual, natural, social and human capital.*



3 € .....

**Complication 1: value is created or diminished for different stakeholders**  
 Consider a construction company aiming to improve their environmental footprint. Should he work together with his wood suppliers to improve impact (e.g. reducing pollution) or should measures at the own operations come first.

*To make an informed decision, you need to know the impacts among the full value chain. The IP&L does exactly this.*

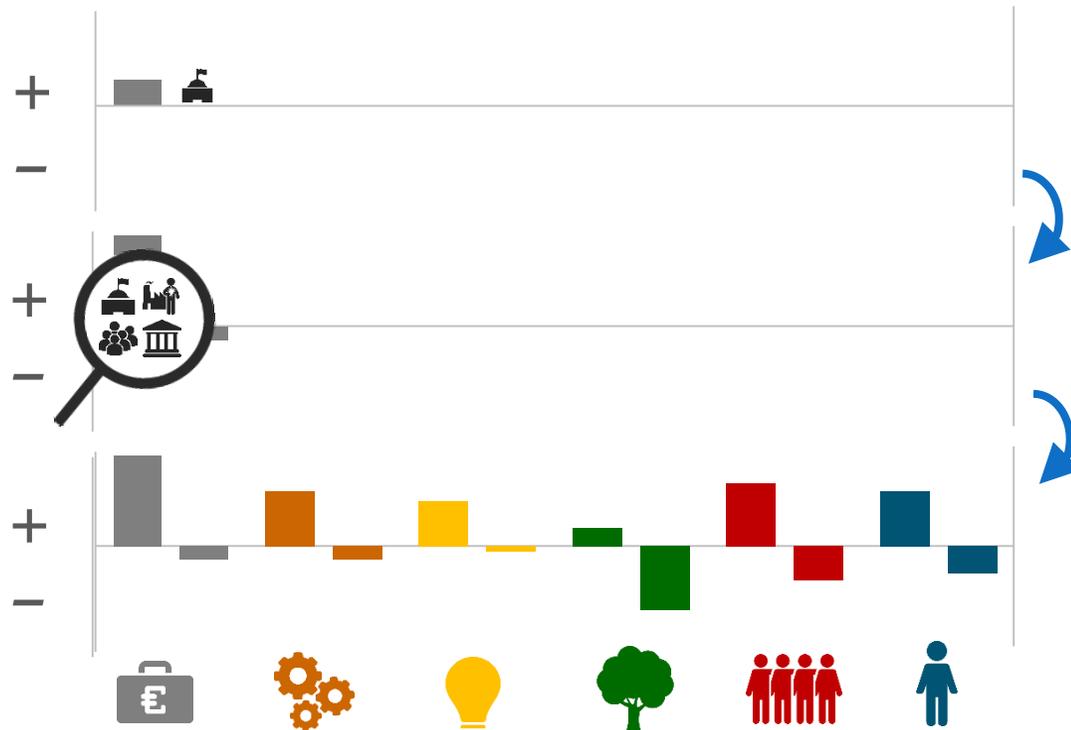
**Complication 3: Impacts are naturally expressed in different units**  
 Trade-offs require comparing different impacts (e.g. carbon emissions and water pollution) and different capitals (e.g. natural and social capital). Each is expressed in a different unit, from CO<sub>2</sub> equivalents to life satisfaction. How can you compare them?

The IP&L uses the simple language that business has used for ages: money. All impacts are *monetized*: expressed in financial value. They can be easily be summed and compared in order to enable trade-offs.



# How does the IP&L enable complex choices on impact?

The IP&L is the solution to making trade-offs in impact management. This innovative framework contains impacts on **all stakeholders** and **all forms of capital** expressed in **one language**.



## From P&L to IP&L

The IP&L takes the well-known P&L as a basis, but takes into account that companies are not alone on the world:

- Financial benefits are taken into account **for all stakeholders**. For instance, paying salaries is a cost for the company and reduces profit, but it generates a benefit to employees and is a way to creating value for society as such.
- **Non-financial impacts** are quantified and expressed in a monetary way according to the six IIRC capitals.

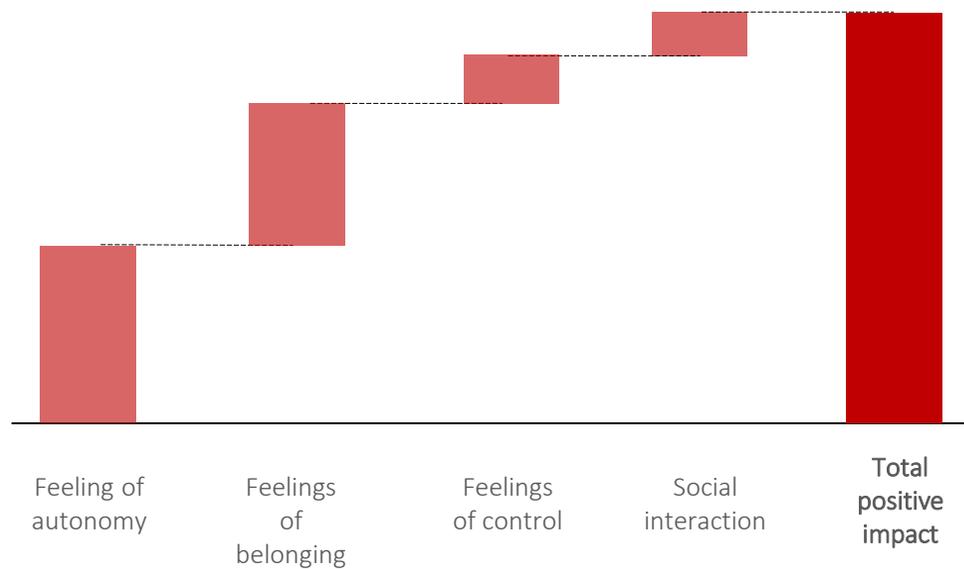
Impacts within one capital are aggregated, made possible by monetization. Positive and negative impacts are not netted out to stress the importance of reducing negative externalities.

## Guiding complicated trade-offs

The IP&L can help executives and managers to choose between alternative strategies: the one that has the highest **integrated profit** below the line, creates the most societal value. This **societal profit or loss** provides a clear guideline for making impact decisions. When prioritizing specific areas is required, all information on stakeholders and capitals is available.

# What would this look like for social capital?

Let's zoom in on one element of the IP&L: contribution to **social capital creation**. This relates to how your business increases **well-being of people in society**, e.g. by stimulating social interaction



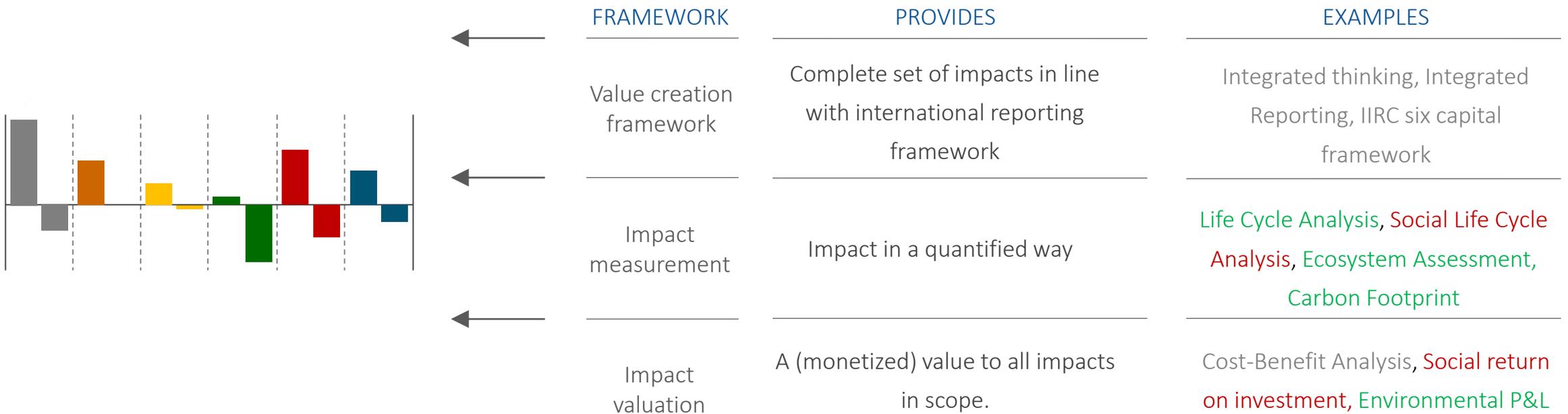
Companies often have an **intuition** of how much their activities affect society, but find it difficult to translate this into a **concrete quantifiable value**.

Effects on society relate to the social nature of consuming their products and by their investments in social projects. There can also be unintended effects on society during production. The IP&L can help put a **comparable value** on the size of all these effects and show how they create (shared) value.

*Consider a **Telecommunication company** as an example. They provides phones and connectivity to their costumers. The services allows people in society to stay in contact with each other, arrange urgent affairs immediately, navigate using GPS, etc. The IP&L quantifies their **positive impacts on society**, ranging from increased autonomy to a larger social network.*

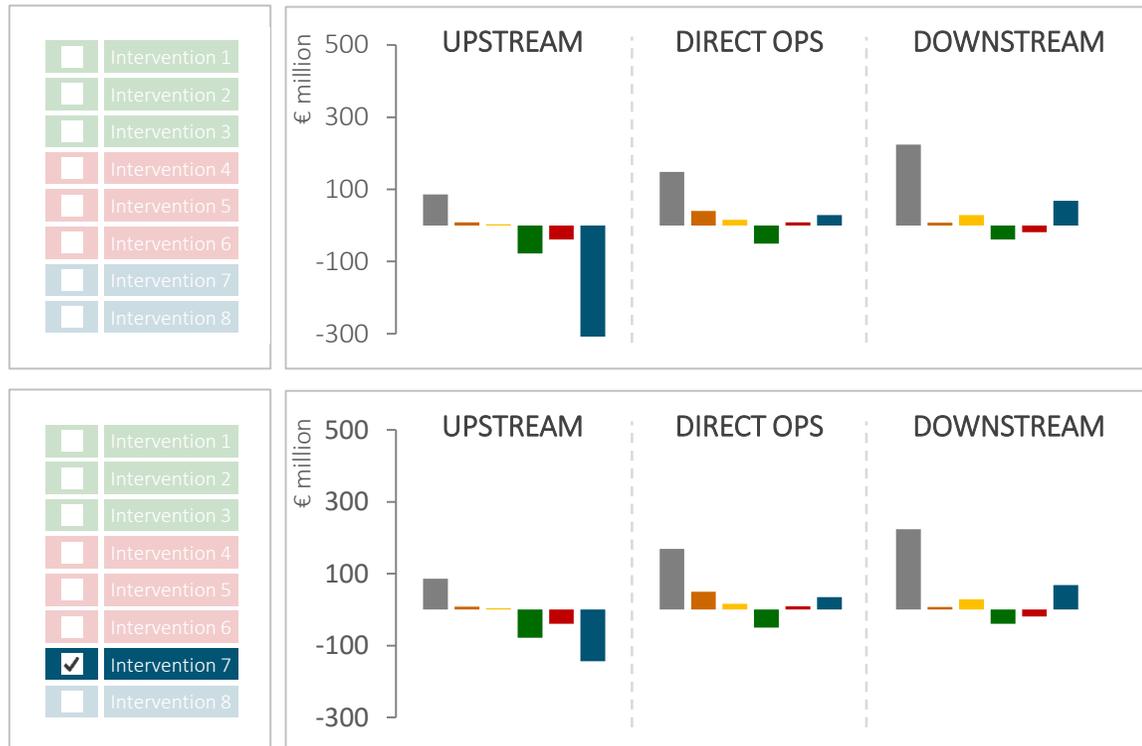
# The IP&L is build upon well-known methodologies

The IP&L is a **proven** and **robust tool** to measure, manage and communicate impact. Obviously, it is not the only tool available to assess impact. The IP&L innovates but builds on existing tools – and takes many of these to their **logical conclusion**.



# How can your company directly use the IP&L?

In the **short to medium term** the IP&L helps executives and managers in departments as diverse as sustainability, health and safety, operations, reporting and sales.



Internal

**Awareness** – Showing all impacts enables the identification of impact hotspots, uncovers unintended impacts, and allows to compare impacts between departments and capitals. The case example of Achmea shows that the IP&L led to new insights into the benefits of their services.

**Project evaluation/selection** – To maximize your impact, you can use the IP&L to identify and prioritize sustainability improvement programs – and more generally any investment and project. A simplified example of a dashboard that helps selecting interventions is shown on the left.

External

**Reporting** – With **Integrated Reporting** on the rise, the IP&L is a good way to follow the new reporting recommendations. The IP&L enables reporting on sustainability policy and progress in a more objective manner. The case example of AkzoNobel further illustrates this.

**Marketing and sales** – The IP&L can help you to credibly communicate superior impact performance. This can for instance be used in a sales pitch, as illustrated by the case example of BAM.



# Case example: Achmea

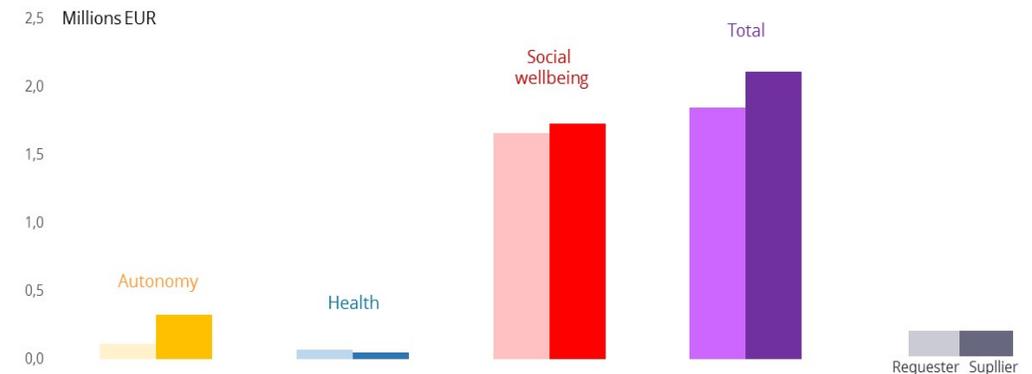
Mapping impact on society helps understand impact and the impact potential of business activities.

Achmea is a leading European insurance company. They provide insurance solutions to several **sharing economy initiatives**, which are tailor-made to the needs of these novel platforms. With the insurances Achmea intends to unburden the participants of the initiatives in terms of risk perception. This helps to remove a potential barrier for participating. Achmea likes to know to what extent the sharing initiatives **add value to society** to make a decision to (further) support their development.

Achmea used (part of) the IP&L for their analysis. They found that the sharing economy initiatives have **positive impact on society**. Apart from financial benefits, initiatives have positive impact on the both the **health** and the **well-being** of people.

Sharing initiatives help participants get into contact with neighbours and others. This increases **social well-being**, e.g. by reducing the feeling of loneliness. The potential societal value creation of these initiatives will only grow with their size. Achmea now has **better understanding of the impact** and potential value creation of the initiatives they support.

**The total social value creation of four sharing economy initiatives in 2014**



# Case example: AkzoNobel

An IP&L can help optimize investment choices, steer innovation and report on impact in an objective manner .



Monetized impact across the whole value chain (indicative\*)

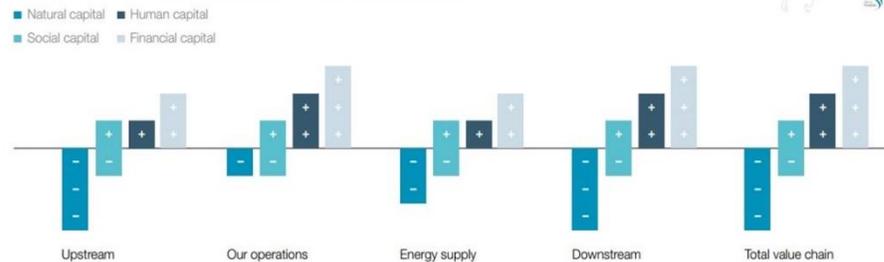


Figure from Annual Report AkzoNobel 2014

AkzoNobel is a global chemical company, working on methods to gain deeper understanding of how they **impact the environment, people and society at large**, across their value chains. True Price and AkzoNobel worked on a **4-dimensional P&L** for their pulp and performance chemicals operations in Brazil.

The projects enabled AkzoNobel to estimate the **return on investments for training** and identify **targeted interventions** to address social risks. In addition, they learned that social capital can be improved by creating awareness and continuously improving on issues on health and safety, on rights at work and with local communities. Gaining a **better understanding** of these aspects – and attaching a monetary value to them – helped AkzoNobel to identify possible improvements and **ultimately increase business value**.

AkzoNobel received the Dutch Kristal Prijs (Cristal Prize) for the **transparency** of the 2014 Annual Report. In the jury report a special mention was given for the 4-dimensional P&L project.



# Case example: BAM

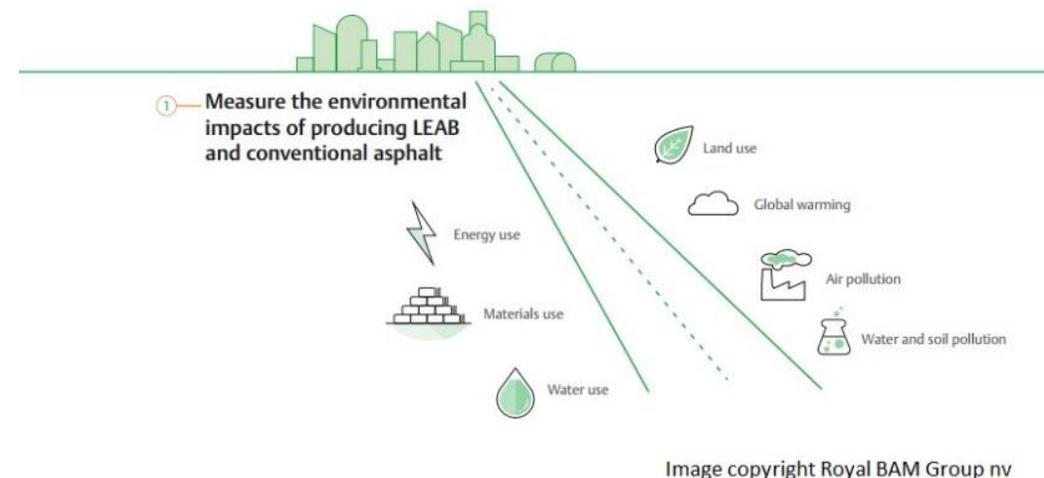
An IP&L can help optimize investment choices, steer innovation and **contribute to sales**.

BAM is a leading European construction company. BAM strives to achieve **circular mobility** by focusing its innovations on achieving lower CO<sub>2</sub> emissions and **more efficient use** of energy and materials.

BAM has developed LEAB (Low Energy Asphalt Concrete) an **innovative** type of asphalt. LEAB uses less energy, less scarce natural resources and has lower CO<sub>2</sub> emissions than conventional asphalt (STAB; Rubble Asphalt Concrete) . In order to investigate the potential of LEAB, BAM and True Price assessed the **environmental costs** of their product and compared this to conventional asphalt. Results indicated that placing LEAB instead of STAB **creates a positive impact** of €257.000 on the environment per kilometre of highway.

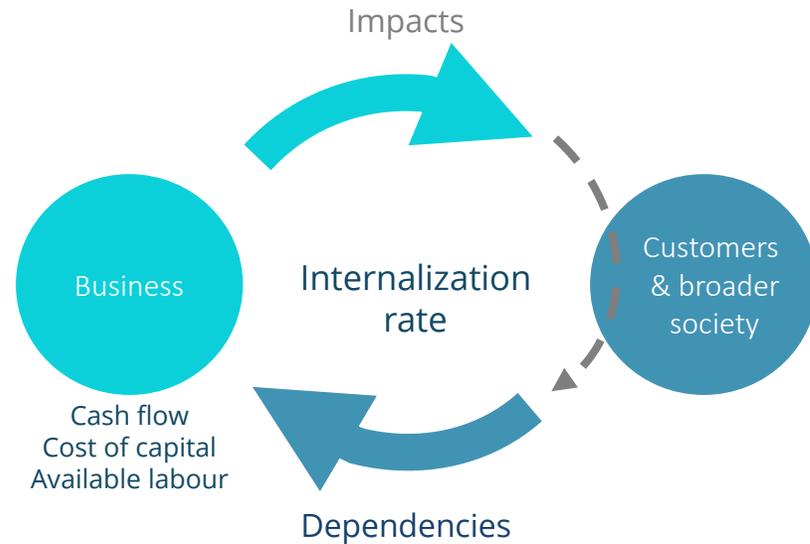
The results help BAM to express that **sustainable innovations**, such as LEAB, can **create value** to society **without being more expensive** for the buyer.

Figure from Annual Report BAM 2014



# How does the IP&L help prepare for the future?

In the longer term, the IP&L project helps to lay the foundation to pursue an integrated value strategy. The IP&L clearly has relevance beyond just sustainability and becomes a tool for your strategy department and full executive team.



*The central premise of shared value creation is that businesses and society are co-dependent (Kramer and Porter, 2011). If governments choose to internalize negative externalities (e.g. via a carbon tax), externalities become an even more direct business risk. The degree to which societal and business value are correlated is called the internalization rate.*

Internal

**Growth strategy and innovation** – Your company can use the IP&L as a tool to integrate impact in long term business strategy and to work towards an integrated value strategy. The IP&L can be used for optimization of the investment portfolio and assessment of different growth strategies.

**Risk management** – Negative impacts mean that companies transfer negative effects of their activities to others. Governments can choose to internalize externalities, pricing them directly, so that they eat into the profits. The IP&L aids in identifying business risks of externalities and enables you to reduce them.

External

**Reputation management** – Similarly, the IP&L helps identifying negative impacts that can harm your company’s reputation. Furthermore, the IP&L can show the sector and policy makers how they can have better policies and rules, stressing your role as a frontrunner.

**Investor relations** – More and more investors take sustainability and transparency into account in their investment decisions. The IP&L is a perfect tool to show them how your company adds sustainable value to society.



# About True Price

True Price is a **social enterprise** with a mission to contribute to an economy that creates **value for all**. We do that by providing leading companies and institutions with the tools they need to **measure, value and improve their impact**.



Advice



Agriculture



Apparel



Building &  
Construction



Chemicals



Financial  
services



Food  
production



Horticulture



Livestock



Online media



Retail



Transportation

*Sectors in which True Price is active*

## Tools and clients

Our tools consist of protocols, strategies, training, reports, data and (VBA) software to measure and steer on impact. Customers include leading multinationals, but also SMEs, governments and organizations, such as the United Nations.

## The true price

We developed the concept of the true price. Our work is based on a unique method – the first in the world to monetize both environmental and social impacts, at product-, company- and investment level. A true price is a measure of the sustainability of products and services, as it accounts for all negative environmental and social externalities across its value chain.

## The IP&L

With the development of the integrated profit and loss (IP&L), we have now taken the concept of externalities one step further. On a company level, the IP&L does not only give insight in the negative externalities associated with production, but it also shows the positive external effects, leading to a complete picture of how your company contributes to societal value creation.

# Get in touch

Attn. Michel Scholte, Director of External Affairs  
michel@trueprice.org

Site: [www.trueprice.org](http://www.trueprice.org)

Facebook: [/trueprice.org](https://www.facebook.com/trueprice.org)

Twitter: [true\\_price](https://twitter.com/true_price)

Tel.: +31 202 403 440

