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CEOs Need To Put This Sustainability Trend On Their Radar

By **Thomas Singer** - July 2, 2018

What if America's CEOs could understand the full financial impact their company has on society?

It could make them rethink their game plan for how they prevent workplace accidents, lessen air pollution, manage waste – the list goes on. With companies making a greater commitment to societal value these days, any approach that helps achieve it deserves a fair hearing in the corner office.

The approach – total impact valuation – entails putting an actual price on a company's environmental, economic, and social impacts. Doing so sheds light on the extent to which their actions have a positive or negative influence beyond company walls.

The CEOs of several large multinationals have their companies engage in this practice and publish the results. Take Argos, the multi-billion-dollar cement company. It found that its net value to society totaled to almost three times the company's retained benefit. That calculation accounts for positive impacts such as talent development and community investment, as well as negative impacts including the company's greenhouse gas emissions and water consumption.

And then there's BASF, one of the world's largest chemical companies. It monetizes more than 20 different types of environmental, social, and economic impacts. Moreover, BASF stands out as one of the few that monetizes impacts associated with its value chain, including direct and indirect suppliers and customer industries.

Why has the practice yet to gain much momentum with U.S. executives?

"TOTAL IMPACT VALUATION ENTAILS PUTTING AN ACTUAL PRICE ON A COMPANY'S ENVIRONMENTAL, ECONOMIC, AND SOCIAL IMPACTS."

In part, progress has come at a snail's pace due to America's slow adoption of nonfinancial reporting, driven somewhat by legal concerns arising from increased levels of disclosure. Moreover, total impact valuation stills lacks a standard benchmark. Too many approaches and methodologies can make it difficult to generate any useful comparisons between companies. Also, ethical concerns can arise when monetizing certain environmental and social impacts.

Despite the challenges, CEOs here in the U.S. should get their feet wet in this domain. Especially considering they now face unprecedented pressure from investors and other stakeholders to disclose data about their environmental and social impacts. In 2017, for example, shareholders at Russell 3000 companies received over 200 voted proposals related to environmental and social issues. That marks a nearly 25 percent increase compared to 2013.

First, they should start by seeing what others are doing. About a dozen companies – see here – have released their total impact valuation results and the methodologies behind their analyses. Through these examples, curious executives can gain insight on the impacts companies are measuring, along with how they are measuring and monetizing them.

Second, executives should seize the opportunity before them to shape the conversation. Still in its evolution, total impact valuation can enable proactive companies to help influence how this practice matures. For example, they could provide input on how sector differences should influence the types of impacts that companies measure, or how best to handle the monetization of ethically sensitive impacts such as fatalities and human rights issues. CEOs can enlist their companies to participate in roundtables and other initiatives aimed at developing this practice. The Impact Valuation Roundtable, for example, convenes over a dozen international companies that aim to develop and operationalize this approach.

Finally, those at the helm should take action. Even starting small by running pilot programs would make for a good start. Monetizing several dozen impacts may simply appear too daunting at first. As such, executives may want to give the go-ahead for their teams to examine just their company's most significant and relevant impact areas. For example, Samsung limits its analysis to only a few indicators the company can confidently quantify. Businesses can even piggyback on some existing methodologies developed by the likes of PwC, KPMG, and others.

As this practice develops, total impact valuation has the potential to become a powerful strategy tool for companies. And for CEOs looking for a way to convey their commitment to societal value, now is the right time to engage.

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