



## Impact-Weighted Accounts

### Uses and Applications of Impact-Weighted Accounts

By Katie Panella and T. Robert Zochowski\*

#### **Abstract:**

In this brief, we describe a number of methods being used to apply impact-weighted accounts (IWAs) within organizations. This is not a comprehensive review of the potential uses and benefits of IWAs nor of pilots currently underway. It is intended as a case study describing some implementations of IWAs that can be used to guide organizations considering implementing IWAs.

#### **Introduction:**

In September 2019, Impact-Weighted Accounts proposed several potential benefits to companies, investors, and civil society more broadly in its first research article, “Impact-Weighted Financial Accounts: The Missing Piece for an Impact Economy.” In the almost two years since then, the team has produced seventeen additional papers that document the methodology for producing monetized impact accounts across environmental, employment and product impacts. Additionally, more than a dozen companies have begun implementing pilots of different scale and focus with the assistance of the Impact-Weighted Accounts team at Harvard. This paper will document implementations of impact-weighted accounts methodology across investors, corporates, public sector, and educators.

In guiding organizations on their pilots, we have urged them to start small while thinking big. At Impact-Weighted Accounts, our ultimate goal is organization-wide reporting of impact and comprehensive integration of impact into investor and managerial decision-making. However, we understand that initially scoping a project too big before the organization itself sees the benefits of this methodology can increase organizational inertia or require too large of a commitment. It is our belief that a small-scale pilot of impact-weighted accounting on an important organizational focus area is enough to highlight the benefits of the methodology for risk reduction, opportunity identification, and stakeholder value creation.

#### **Investors:**

Two uses of impact-weighted accounts have emerged within the investor community: investment analysis and post-investment management and evaluation. Among organizations using impact-weighted accounts are the Blackrock Global Impact and Investment Stewardship Teams and the Calvert Research Management Shareholder Advocacy Team.

#### *Investment Analysis*

Impact-weighted accounts analyses are useful for ex-ante investment analysis, even without the prospective investee company formally providing IWA's. Research by the Impact-Weighted Accounts Team at Harvard has demonstrated the possibility of using publicly available data along with imputations to estimate magnitude and direction of impact across all three pillars of research. This has been supported by the pilots at investment management firms. The Blackrock Global Impact Team found the following

\*Katie Panella is the Program Manager for Impact-Weighted Accounts at Harvard Business School. T. Robert Zochowski is the Program Director and Senior Researcher for Impact Investing and Sustainability Multi-Faculty Special Projects, including Impact-Weighted Accounts, at Harvard Business School.

key findings when applying the product impact templates to the Consumer Finance and Telecommunications Industries: For companies within the same industry and market, the product templates helped to generate several key findings including the amount of impact generated as well as the drivers of that impact. An additional important finding of the product impact workstream was on comparability between companies and the scalability of the IWAI approach across different markets, industries and impacts.

- Different inputs: Companies within the same industry & market can be readily compared using the data from the respective companies with the same industry assumptions as is the case with American Express and Discover
- Different assumptions: Companies within different markets and or tangentially related industries within the same sector (i.e. credit card lending can be similar to auto loans or student loans) can be compared but require not only the company inputs but also modifications to the impact template assumptions to match the context. This is the case with American Express and JCB as well as with AT&T, Verizon, and Safaricom.
- Different impacts: Companies with different business models within the same sector (i.e. payments, lending, and banking operate with different business models and require different templates). However, the previously developed industry templates and guidance paper can provide a problem-solving approach to constructing the new industry template. This is the case with calculating the impacts for PayPal, a payments services company, by modifying the consumer finance template.

### *Investment Management*

The Calvert team has used the product impact frameworks for consumer packaged goods to highlight potential underperformance by portfolio companies. The product impact frameworks were helpful in highlighting where the organization could improve (in this case, it was in the nutritional deficiency in the portfolio company's food offerings), as well as simplifying the conversation with senior leaders through the comparability of monetized impacts. The Blackrock Investment Stewardship team has leveraged the organizational employment impact evaluation framework to evaluate companies with different sets of compensation and benefits and workforce composition. The differences in culture, benefits, salaries, opportunity for advancement, and diversity, among others, can be challenging to compare using different metrics; monetization based on the impact generated for the employee is a clear way of comparing organizations. Further, monetization can illustrate to corporate leadership the critical impact drivers for employees, which could help boards of directors and management better identify material business risks and opportunities (e.g. reducing turnover). It may also clarify concerns raised during engagement conversations by turning abstract concepts like location impact and wellbeing into more tangible terms.

The Blackrock Investment Stewardship team announced its 2021 priority areas in March 2021. In addition to company impacts on people, the team is focused on Climate and Natural Capital Risks, Impact, and Management. The team will begin piloting the environmental methodology in the upcoming months as a tool for evaluating and communicating impact needs.

### **Companies:**

Within corporations, we currently see both small-scale pilots to evaluate potential projects or priority areas from an impact perspective, and large-scale organization-wide impact weighted accounts. Acciona, an infrastructure and renewable energy company, published its first impact-weighted accounts in

its 2020 Sustainability Report covering the entire organization. On a recent call with the Global Steering Group for Impact Investing (GSG), Acciona management announced that this exercise was so useful at illustrating both the magnitude and source of its impacts that the company will be incorporating impact-weighted accounts into all future CAPEX decisions to both pro-actively manage risks as well as to identify opportunities for better stakeholder alignment.

Other companies started their impact accounting journey by focusing on one specific impact pillar. For example, Eisai Co, a Tokyo-based pharmaceutical company, adopted impact-weighted accounting as the first case in Japan to demonstrate the company's employment performance. Under the leadership of Ryohei Yanagi, Chief Financial Officer, Eisai calculated an employment impact-weighted accounting statement for its 2019 operations. The analysis determined that Eisai created JPY 26.8 billion in positive impact, equating to 44% of EBITDA and 11% of revenue. Eisai plans to continue impact-weighted accounting, including expanding analysis to environmental and product impact, and is also taking a strong leadership position to promote IWA in Japan.<sup>1</sup>

SK Group, a South Korea based conglomerate, worked closely with the IWA team to conduct product impact-weighted accounting statements to analyze their operations in the telecom industry. This partnership has been highly collaborative and provided insights for IWA to explore application to additional product and service areas, as well as for SK to analyze the product impact across the breadth of its business lines. SK has plans to pilot the IWA employment and environmental methodology, as well as expand the scope of product and service application, in future performance analyses.

### **Public Sector:**

Within the public sector, impact-weighted accounts have the potential to change the way development incentivizes economic growth within markets or regions. Traditionally, development organizations, including governments, have offered huge incentive packages to organizations looking at moving into or expanding in the region, with the goal of promoting jobs and economic growth. However, it was challenging to compare whether the quality and impact of those jobs was worth the cost to the public sector. The Fresno Economic Development Corporation, working with numerous partners, is hoping to change this paradigm with an innovative corporate scorecard, upon which tax rates or other incentives may be based. For example, rather than offering lower taxes up front, organizations would be evaluated annually based on their impact, and incentives adjusted accordingly. One of the critical inputs to the scorecard is the impact-weighted accounts employment framework, which has numerous action pathways for organizations to increase their impact by investing in an area such as Fresno with higher unemployment (location impact), diversity challenges (diversity and opportunity), and increasing wages and benefits for workers (wage quality and health/wellbeing).

### **Education:**

We continue to develop pedagogical materials for use with students and professionals to help illuminate the methodology and potential benefits of impact-weighted accounts. This currently includes an employment simulation that asks students to put themselves in the shoes of the decision maker for awarding a major infrastructure bid. The decision maker wants to award the contract to the company with the highest employment impact due to the importance of job creation to society. Students are given information on both companies and guided through several considerations in evaluating the quality and

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<sup>1</sup> Additional information regarding Ryohei Yanagi's research, the "Yanagi Model", and the relationship between social and environmental performance and corporate value, can be found [here](#).

impact of those jobs before being asked to assess monetized employment impact for each. This simulation is available on Harvard Business Publishing.